

Audit Committee

Agenda

This meeting will be held as an informal remote meeting

You can watch live on YouTube: https://youtu.be/xa0f_y2IE9w

MEMBERSHIP

Administration	Opposition
Councillor Iain Cassidy (Chair) Councillor Jonathan Caleb-Landy Councillor Rowan Ree Councillor Alexandra Sanderson	Councillor Alex Karmel Councillor Matt Thorley

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Date Issued: 06 September 2021
Updated: 13 September 2021

Audit Committee

Agenda

<u>Item</u>	<u>Pages</u>
1. APOLOGIES FOR ABSENCE	
2. 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 Standards Committee.</p>	
3. MINUTES OF THE PREVIOUS MEETING	4 - 9
<p>To note the minutes of the previous meeting and any outstanding actions.</p>	
4. FINAL AUDIT REPORT - CAMBRIDGE SPECIAL SCHOOL	10 - 22
<p>This item presents the final audit report on Cambridge Special School from March 2021 for comment and noting.</p>	
5. EXTERNAL AUDIT PROGRESS UPDATE	23 - 73
<p>The following are presented for discussion and noting:</p> <ul style="list-style-type: none">• LBHF Audit Committee progress report• Audit Scope and additional work 2020/21 letter• Annual Audit Letter 2019/20	

- | | | |
|-----------|---|---------|
| 6. | TREASURY MANAGEMENT OUTTURN REPORT 2020/21 | 74 - 81 |
| | <p>This report presents the Council's annual Treasury Management outturn for 2020/21, in accordance with the Council's treasury management practices.</p> | |
| 7. | RISK MANAGEMENT HIGHLIGHT REPORT | 82 - 90 |
| | <p>This report provides an update on risk management across the Council.</p> | |
| 8. | INTERNAL AUDIT PROGRESS REPORT | 91 - 97 |
| | <p>This report summarises the work of Internal Audit in the period April to August 2021.</p> | |
| 9. | DATE OF THE NEXT MEETING | |
| | <p>Date of next scheduled meeting: 14 December 2021</p> | |

Agenda Item 3

London Borough of Hammersmith & Fulham

Audit Committee Minutes



Tuesday 22 June 2021

NOTE: This was held as an informal remote meeting

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Alex Karmel, Matt Thorley, Rowan Ree and Alexandra Sanderson

Officers

Kim Smith, Chief Executive
Emily Hill, Director of Finance
Rhian Davies, Director of Resources
Lisa Redfern, Strategic Director of Social Care
Jacqui McShannon, Director of Children's Services
David Hughes, Director of Audit, Fraud, Risk and Insurance
Paul Barton, Head of Corporate Safety
Matthew Hooper, Chief Officer - Safer Neighbourhoods & Regulatory Services
Mark Dalton, Fraud Manager
Moir Mackie, Head of Internal Audit
Veronica Barella, Chief Digital Officer
Adrian Dewey, IT Security Manager
David Abbott, Head of Governance

1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Jonathan Caleb-Landy.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

REMEMBERING MIKE SLONIOWSKI

With great sadness, the Chair informed the Committee of the death of Mike Sloniowski. The Chair and Councillor Alex Karmel paid tribute to him and offered the Committee's condolences to his family and friends. Members then observed a minute of silence in his memory.

Councillor Karmel suggested writing to Mike Sloniowski's family, thanking him for his invaluable contribution over many years.

3. MINUTES

The minutes of the previous meeting were noted.

4. ANNUAL HEALTH AND SAFETY AT WORK REPORT 2020/21

Paul Barton, Head of Corporate Safety, presented the report which highlighted the Council's activities and performance in health and safety at work for the financial year 2020/2021.

The report also recommended the following priorities for the forthcoming financial year:

- Fire safety management
- Coronavirus
- Training
- Driver safety management
- Risk profiling
- Work-related stress
- Training and assessment for working in the home environment

The Chair asked what equipment support was available for staff working from home. Paul Barton said staff carried out a self-assessment which was then approved by the Health and Safety team and if equipment is required it is delivered through Digital Services.

The Chair noted the section on staff using their own cars and asked if similar policies were in place for staff who walked, biked, or used scooters at work. Paul Barton said all modes of travel while at work were subject to risk assessment.

The Chair asked if there was a requirement to do Bikeability, the national cycling proficiency scheme. Paul Barton said it wasn't a requirement, but there hadn't been any cycling injuries recorded at work.

Councillor Alex Karmel said he would like to place on record the way the Council had managed risk during the pandemic and successfully reduced the risk of infection for staff and residents.

Councillor Rowan Ree noted the review of libraries risk assessments and asked if there were any updates. Paul Barton said there were no major updates. Libraries had been closed for most of the pandemic and only recently opened with a reduced level of service. The reviews in libraries were mostly around covid safety. Libraries would be audited in usual way during the current financial year.

Councillor Alexandra Sanderson asked how the pandemic and working from home had affected onboarding and offboarding staff and the logistics of getting equipment back. Paul Barton said staff onboarding during pandemic was mostly done online but if they had to go into the office or to a frontline position, it would be managed through Technical Assurance Group and the Health and Safety Board. Equipment collection

was done through Shortlands, a covid-secure building. Individual risk assessments had to be completed and the service had to be authorised. In some cases, equipment was delivered. It was a similar process for off-boarding.

RESOLVED

The Committee noted the performance for 2020/21 and the priorities for 2021/22.

5. RISK MANAGEMENT HIGHLIGHT REPORT

David Hughes, Director of Audit, Fraud, Risk and Insurance, presented the report which provided an update on risk management across the Council.

The Chair asked if there should be a travel risk if people continue to avoid public transport and congestion on roads increases. Matthew Hooper, Matthew Hooper, Chief Officer - Safer Neighbourhoods & Regulatory Services, said he would look into it and circulate an answer.

ACTION: Matthew Hooper

Kim Smith, Chief Executive, noted that H&F Council currently had around 1700 people working from home. Officers were looking at staggering the return to office and staggering start times. The Council was also consulting with other large employers in the borough to manage congestion issues.

Councillor Alex Karmel requested an update on the current situation with Hammersmith Bridge and when it could be opened to pedestrians and bicycle traffic. Kim Smith noted that there were several reviews ongoing and when they were concluded officers would provide an update to the Committee through the Risk Highlight report.

ACTION: David Hughes

Councillor Ree asked if there should be a risk around public events like farmers markets in parks and the risk of increased covid infections. David Hughes said he would look into it and provide detail by email.

ACTION: David Hughes

RESOLVED

The report was noted.

6. ANNUAL FRAUD REPORT 2020/21

David Hughes, Director of Audit, Fraud, Risk and Insurance, presented the report which provided an account of fraud-related activity undertaken by the Corporate Anti-Fraud Service (CAFS) from 1 April 2020 to 31 March 2021 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.

Officers noted that performance in 2021 was broadly similar to previous years, despite the pandemic. A significant amount of work had also been undertaken with the business grants team and assisting local businesses.

The Chair asked how much time has been spent on business grants, and if it had taken resources away from other areas of investigation. David Hughes said the pandemic had made carrying out tenancy fraud visits difficult, so the team switched that resource to business grants.

The Chair asked what the grant figure in the report of £460k was as a percentage of the full amount paid out. Emily Hill said she would provide an answer by email.

ACTION: Emily Hill

Councillor Alexandra Sanderson commented that it would be useful to have some comparisons with other similar boroughs, a London-wide average, and a national figure to provide context.

Councillor Sanderson also asked if referrals to CAFS mostly came from neighbours or other sources – and if the Council could encourage more people to come forward. David Hughes said the Council encouraged residents to come forward. Officers also received useful intelligence from Councillors.

Regarding comparisons, benchmarking data was available. Local authorities didn't all use the same notional values for fraud, but it would provide some useful comparisons.

Councillor Matt Thorley asked what the lag in convictions was caused by. David Hughes said the team were keen to restart tenancy visits but there were significant delays of around 12 to 18 months for court cases.

Councillor Alex Karmel asked why there was such a large reduction in tenancy fraud totals (75%). David Hughes said the reduction was in visits from officers due to the pandemic.

Councillor Karmel asked what the total value of business rates grants were. He also asked if officers could provide the total fraud recovered over the period, assuming the Council was to win all its pending court cases. Emily Hill said there were several different schemes, but the total was £87m for the 2020/21 financial year. There were continuing grants for 2021/22 of £20.7m that had to be paid out by the end of July. Emily Hill said she could provide a written summary after the meeting with headline numbers.

ACTION: Emily Hill

The Chair asked how proactive the Council was then carrying out major works on housing estates. Did officers take the opportunity to check tenancies if there were issues getting in touch with tenants. David Hughes said similar checks had been made in the past with gas safety checks. He said he would discuss the issue with housing colleagues.

ACTION: David Hughes

In response to a question from Councillor Karmel, David Hughes confirmed officers did carry out unannounced tenancy inspection visits.

RESOLVED

The report was noted.

7. ANTI-FRAUD POLICY REVIEW 2021

David Hughes, Director of Audit, Fraud, Risk and Insurance, presented the report which contained the following three revised anti-fraud policies for review and comment:

- Anti-Bribery Policy
- Anti-Money Laundering Policy
- Fraud Response Plan

Councillor Rowan Ree asked if it was correct that in the bribery policy, employees could receive gifts but had to disclose them. David Hughes said employees could receive items of a notional value but were required to disclose any offers they received, whether they were accepted or declined.

Councillor Ree asked for an example of when someone might want to offer a gift to an officer. David Hughes said it could range from a small gift from a grateful service user to a large company inviting someone to a sporting event.

Councillor Ree noted the cash payment limit of £5k to the Council due to the risk of money laundering and tax avoidance, and asked why a legitimate customer would want to pay £5k in cash. David Hughes said there were a number of areas including funerals and burials, property payments, and business rate bills. Councillor Ree asked, given the potential for illicit activity, what the impact of cutting the limit from £5k to £1k would be. David Hughes said there would be a significant increase in internal reporting. The previous limit was £10k which was reduced to £5k following guidance from the National Crime Agency. Staff were also encouraged to report lower levels if they think it is suspicious. Councillor Ree said fewer people were using cash now and encouraged reductions in the limits where possible. Councillor Alex Karmel suggested the Council should think carefully before reducing the cash limit on paying for funerals as older people were more likely to use cash.

RESOLVED

The report was noted.

8. ANNUAL AUDIT REPORT 2020/21

The Chair noted that Appendix 5, the limited assurance report on Cambridge Special School would be considered at the following meeting.

David Hughes, Director of Audit, Fraud, Risk and Insurance, presented the report with Moira Mackie, Head of Internal Audit. The report summarised the work of Internal Audit in 2020/21 and provided the opinion of the Director of Audit, Fraud, Risk and Insurance on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

RESOLVED

The report was noted.

9. CYBER SECURITY – SIX MONTHLY UPDATE

Veronica Barella, Chief Digital Officer, presented the report which provided an update on the Council's cyber-security readiness. She noted that Digital Services had reviewed its defences against, and readiness for, a ransomware incident in light of the learning of the successful breaches that have happened in other authorities.

NOTE: The remainder of this item was confidential in nature and was discussed in private session (Item 11).

RESOLVED

The report was noted.

10. DATES OF NEXT MEETING

The Committee noted the date of the next meeting: 14 September 2021

11. EXEMPT DISCUSSION (IF REQUIRED)

RESOLVED

Under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

Meeting started: 6.30 pm

Meeting ended: 8.19 pm

Chair

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London Borough of Hammersmith & Fulham

Final Internal Audit Report

Cambridge Special School

Audit Job Ref: 2020 - 29

March 2021



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This report ("Report") was prepared by Mazars LLP at the request of the London Borough of Hammersmith and Fulham (LBHF) and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit the LBHF and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpreted, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpreted, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.


1 Introduction

This audit was undertaken as part of the 2020/21 audit plan. The programme is designed to audit the main areas of governance and financial control. The programme's standards are based on legislation, the Scheme for Financing Schools and accepted best practice. The purpose of the audit was to help schools establish and maintain robust financial systems.

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

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

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

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

Please refer to Appendix 1 for recommendations and Appendix 2 for a definition of the audit opinions and recommendation priorities.

3 Summary of Findings

In Internal Audit's opinion, **Limited Assurance** can be given to the Governing Body that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application.

The limited assurance opinion is based on inappropriate loans being made to staff which has resulted in a high priority recommendation being raised.

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

Governance and Leadership

- The Governing Body and the Finance and Premises Committee meet at least three times a year, as per the Terms of Reference.
- All governors and staff with financial responsibilities had completed a declaration of interests form within the last 12 months.
- A Governor Skills Audit has been completed for current governors, there is no overall skills matrix in place identifying areas that could be strengthened (**Recommendation 1**).
- A Whistleblowing Policy in place, which is made available to all staff via the staff handbook and the school intranet page. A copy is also held in the staff room.
- A School Development Plan (SDP) is in place for 2020/21. Our review confirmed that the School had considered longer term objectives when putting together the plan. We confirmed that the SDP included estimated costs and resources required for each objective.
- Examination of the Governing Body and Finance and Premises Committee meeting minutes found that an annual review of School expenditure including staff expense claims and overtime claims had been undertaken.

Financial Management

- A budget plan for the 2020/21 is in place and was approved by the Governing body on 3rd June 2020 meeting. The budget is monitored on a monthly basis by the School Business Manager (SBM) and is signed off by the Head Teacher (HT). This was confirmed for a sample of three budget monitoring reports for October, November and December 2020. One of the key findings was that the majority of overspend has been on agency staff due to the pandemic.
- Bank reconciliations are completed by the SBM. Testing of October, November and December 2020 bank reconciliations identified that these were reviewed and signed off by the HT.
- The School Financial Value Standards (SFVS) was approved by Governing Body on 4th March 2020 and submitted to the Council on 31st March 2020 within the deadline.

Procurement

- A sample 15 payments made to suppliers were selected from the Schools bank history covering a 12 month period to check that orders were authorised in line with the Scheme of Delegation, and that payments had been made within 30 days of receipt of the invoice. Testing found in one case the invoice had not been paid within 30 days of the invoice date. (**Recommendation 2**).
- As at January 2021 the School has in place a total of 39 contracts with an annual value of spend totalling £199,113.50. There have been no contracts that had gone to tender for the financial period 2020/21, however review of the ICT contract that is in place confirmed that three quotes had been obtained and that the cheapest was selected. Another contract (Firefly) for the provision of Online Platform was procured by the Local Authority.

- We confirmed through discussion with the SBM there are no procurement cards in use.

Staff Expenses and Petty Cash

- Sample of five staff expenses from the past 12 months was chosen for testing, and the following was noted:
 - All five claims were submitted within one month of being incurred;
 - Four claims were authorised and supported by a receipt. The remaining one claim had not been authorised; and
 - All five claims were reasonable.**(Recommendation 3).**
- Sample testing of five petty cash claims from the past 12 months found that all had been authorised with a clear segregation of duties; signed by the claimant to acknowledge receipt of funds; supported by proof of purchase and was deemed reasonable.
- We obtained copies of petty cash reconciliations for November, December 2020 and January 2021 and confirmed that these are prepared by the SBM and authorised by the HT.

Income

- Testing a sample of three sources of income confirmed that there was an adequate audit trail in place from receipt of income to banking.
- Testing of free school meal provision confirmed that supporting documentation was obtained in all cases to evidence eligibility.

Payroll

- Payroll reports were obtained from the SBM for November, December 2020 and January 2021. We confirmed that they had been checked and signed off by the Head Teacher.
- A sample of 5 new starters were selected. We confirmed for all starters a copy of the letter of appointment, an authorised new starter form and evidence of their right to work in the UK was retained and the DBS check number recorded.
- A sample of 5 leavers were selected. We confirmed for all leavers a notification had been sent to payroll in a timely manner and that no payments had been after their leaving date.
- For a sample of 5 overtime claims, we confirmed in all cases a claim form was submitted which was signed by the claimant and had been authorised by the Head Teacher.
- It was noted that the school had been providing loans to staff, initially in the form of the Cycle to Work scheme. The Cycle to Work scheme is only applicable to Council staff as a staff incentive and is not applicable to school staff. It is understood that there was some misunderstanding by the School in relation to the eligibility of this scheme for school staff and was thus made available to school staff without checking the legitimacy of doing so. Our review of the scheme identified that a total of 13 loans had been issued between January 2017 and July 2020 totalling £10,354.66 with terms of the loan(s) ranging from 12-18 months. Six of the loans were for Cycle to Work scheme and the remaining seven were classed as personal loans unrelated to the Cycle to Work scheme. Loan repayments are done through payroll as monthly deductions, these were seen on the individual's payslips for all those members of staff who had taken a loan. We confirmed that there is one loan that is still yet to be repaid.
- These loans were not accounted for in the school budget report under a separate budget code but rather were included within the salary expenditure code. It was further noted that this loan scheme had not been discussed at the School's Finance Committee nor had the governors been made aware of it. Due to these loans not being separately identified in the

budget reports, the governors were unable to identify and challenge them. There was no evidence from the Finance Committee minutes about the scheme being discussed or queried. The scheme had been suspended, and no further loans administered when it was recognised by the Headteacher in September 2020 that it was not appropriate to provide such loans with eligibility to even the original Cycle to Work scheme being questioned by the Local Authority. (**Recommendation 4**).

Head Teacher Pay

- Observation of the staffing structure confirmed that the school currently has two members of staff on the leadership scale, the Headteacher and the Deputy. The School provided evidence of the Head Teacher's pay and this was found to be within the provision of the School Teacher Pay and Condition Document (STPCD).

Assets and Inventory

- The school has one asset register which records both IT and non-IT equipment. We were informed that the register would go to governors. However, for the period 20/21 an audit has not yet been done, but assurance was given that a review is due during February half term.
- The school backs up data daily and has a recovery plan in place as per their disaster recovery plan.

Unofficial Funds

- The school does not operate any unofficial funds.

4 Acknowledgement

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

- Alan Campbell – Head Teacher
- Rebecca Moore – School Business Manager

Appendix 1: Management Action Plan

1. Governance and Leadership– Governance Skills Audit

Priority	Issue	Risk	Recommendation
Low	Whilst there are comprehensive and current risk matrices for the governors, there was no overall matrix review to show areas that may need strengthening.	Where Governor competencies are not reviewed on a regular basis, there is an increased risk that skills gaps or a lack of balance within the Governing Body may not be identified and addressed.	A review of Governor skills should be undertaken on periodically to identify any potential skills gaps or imbalances in the composition of the Governing Body.
Management Response			
<p>Agreed.</p> <p>The next full Governing body meeting is in June. We will ensure that a training matrix has been completed and is ratified at that meeting. There are current vacancies on the Governing body, we will use this tool to ensure that our recruitment process is targeted to address any deficits in skills and training.</p>			
Responsible Officer			Deadline
Alan Campbell – Head Teacher			30 June 2021

2. Procurement – Compliance with Procurement Procedures

Priority	Issue	Risk	Recommendation
Low	From a sample of 15 purchases tested, we found that one invoice had not been paid within 30 days of the invoice date.	Where payments are not made within 30 days, there is a risk that the School may damage relationships with suppliers. Furthermore, late payment charges may be applied.	All invoices should be paid in a timely manner (within 30 days) and any queries or disputes preventing the invoice being paid in this time should be recorded on the relevant invoice.
Management Response			
<p>Agreed.</p> <p>The audit found most internal processes to be robust, however there have been some issues around efficiency due to key members of staff working remotely. We will ensure regular keep in touch meetings to monitor work load and compliance with financial procedures.</p>			
Responsible Officer			Deadline
Rebecca Moore – Senior Business Manager			30 March 2021

3. Staff Expenses – Authorisation of Claims

Priority	Issue	Risk	Recommendation
Medium	For a sample of five staff expenses, one claim form was not authorised.	Where staff expense claims are not authorised, there is an increased risk of inappropriate expenses being claimed.	All staff expense claims should be authorised. Payments should not be made where claim forms are not appropriately authorised.
Management Response			
<p>Agreed.</p> <p>The audit found most internal processes to be robust, however there have been some issues around efficiency due to key members of staff working remotely. We will ensure regular keep in touch meetings to monitor work load and compliance with financial procedures.</p>			
Responsible Officer			Deadline
Rebecca Moore – Senior Business Manager			30 March 2021

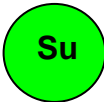


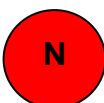
4. Payroll – Loan

Priority	Issue	Risk	Recommendation
High	<p>Prior to this review, we were made aware that the school had been administering Cycle to Work and other personal loans to staff. Upon further investigation and enquiries by the School Business Manager, it transpired that the provision of loans had not been reviewed or approved by the Governing Body.</p> <p>Our review of the scheme identified that a total of 13 loans had been issued totalling £10,354.66 with terms of the loan(s) ranging from 12-18 months.</p> <p>Staff would complete a loan pro-forma detailing need for loan, this would be authorised by the Headteacher including the terms of the loan. In one instance it was found that the proforma with a value of £750 for a bike had not been authorised by the Headteacher.</p> <p>From the 13 loans only six were for the intended Cycle to Work scheme, the others were classed as personal loans unrelated to the Cycle to Work scheme.</p> <p>One loan repayment is still outstanding. In addition, in one other case, the paperwork had not been authorised.</p> <p>It was noted that these loans were not accounted for in the school budget report under a separate budget code but rather were included within the salary expenditure code.</p> <p>Furthermore, there are tax implications with loans to employees. For loans of £10,000 or more per employee, which are either interest free or at an interest rate below the official rate used by HMRC (currently 2.5%), must be declared on a form P11D and will result in tax payable by the employee and class 1A national insurance payable by the employer. Whilst none of the loans made exceeded this threshold for declaration, the threshold for tax implications should be born in mind for any future schemes considered by the School.</p>	<p>Providing unauthorised loans is an improper use of school funds, which can result in loss of future funding, and negative reputation to the School.</p>	<p>The School should monitor the outstanding loan to ensure that it is repaid in full.</p> <p>The School should report to the Governing Body explaining the circumstances of how the scheme came about, that it had not been approved by the Governors, and provide an update on the current situation. This will allow Governors to make decision on actions required and monitor this.</p> <p>Going forward, the School should verify the appropriateness of any future 'schemes' with the Council prior to implementing it. Any decision made to administer such schemes should be discussed and approved by the Governing Body and be accounted for within the budget report under a separate budget code.</p>

Management Response	
<p>Agreed.</p> <p>We will comply with the recommendations of the audit and produce a written report for the governors finance committee explaining the circumstances of how the scheme came about and who the recipients of the loans were, explaining the current situation. Once the report has been discussed at this committee it will go forward to the full governing board on 30th June.</p> <p>The Headteacher will monitor the outstanding loan to ensure that it is repaid in full and report this to Governors.</p> <p>The school will not run any further schemes of this type.</p> <p>The school will ask for a further working party to be created to discuss all payroll functions and to develop a bespoke school pay policy for support staff.</p>	
Responsible Officer	Deadline
Alan Campbell – Head Teacher, Rebecca Moore – Senior Business Manager	30 June 2021

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

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

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

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

Appendix 3: Timetable and Distribution List

Stage	Date
End of Fieldwork	01/02/2021
Draft Report Issued	18/03/2021
Responses Received	25/03/2021
Final Report Issued	30/03/2021

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

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

London Borough of Hammersmith and Fulham Audit Progress Report and Sector Update

Year ending 31 March 2021

September 2021

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Agenda Item 5

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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This paper provides the Audit and Pensions Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Pensions Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at September 2021

Financial Statements Audit

We concluded the audit of the 2019/20 financial statements in July 2021, issuing our audit opinion and the final Audit Findings Report to the Audit and Pensions Committee on 30 July.

Our initial planning for the 2020/21 audit is now underway. We will begin our work on your draft financial statements in October.

During the planning process we will issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2020/21 financial statements.

One of the key changes in approach for 2020/21 relates to the revisions to the auditing standard for auditing accounting estimates (ISA 540). Further information is given on pages 11 and 12. The Audit and Pensions Committee will need to review and approve management's approach to forming material accounting estimates, in accordance with the revised standard.

We will report our work in the Audit Findings Report and aim to give our opinion on the financial statements by December 2021.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline is now no more than three months after the date of the opinion on the financial statements.

Please see page 8-10 for further details.

Progress at September 2021 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2019/20 claim was completed in March 2021. The certification work for the 2020/21 claim is due to begin later in the year.

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2019/20 return was completed in March 2021. The certification work for the 2020/21 is due to begin in October.

We also certify the Authority's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government. (MHCLG). The certification work for the 2019/20 return was completed in June 2021. The certification work for the 2020/21 return is due to begin in December.

Meetings

We met with Finance Officers in August as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in March to discuss the Authority's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2020/21 is the third year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit and Pensions Committee alongside this report.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Following the closure of their 2019/20 accounts, PSAA have recently allocated an additional £24,900 to the Council and £3,190 to the Pension Fund. In the government's response to the Redmond Review (further detailed on page 20), an additional £15m of funding from MHCLG was also announced to support local authorities with the additional audit costs arising from new regulatory requirements. The consultation as to the distribution methodology for these funds has recently closed.

Audit Deliverables

2019/20 Deliverables		Planned Date	Status
Audit Findings Report The Audit Findings Report will be reported to the December Audit Committee.		Finalised in July 2021	
Auditors Report This is the opinion on your financial statements.		Finalised in July 2021	
Annual Audit Letter		To be finalised in September 2021	
2020/21 Deliverables		Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.		October 2021	Not due yet
Audit Findings Report The Audit Findings Report will be reported to the December Audit Committee.		December 2021	Not yet due
Auditors Report This is the opinion on your financial statements.		December 2021	Not yet due
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.		March 2022	Not yet due

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

The new approach to Value for Money

The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”. The auditor’s work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor’s Annual Report. It is therefore not a VFM arrangements ‘conclusion’ or an ‘opinion’ in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place ‘proper arrangements’ for securing VFM. The arrangements that fall within the scope of ‘proper arrangements’ are set out in ‘AGN 03 Auditors’ work on VFM arrangements’, which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

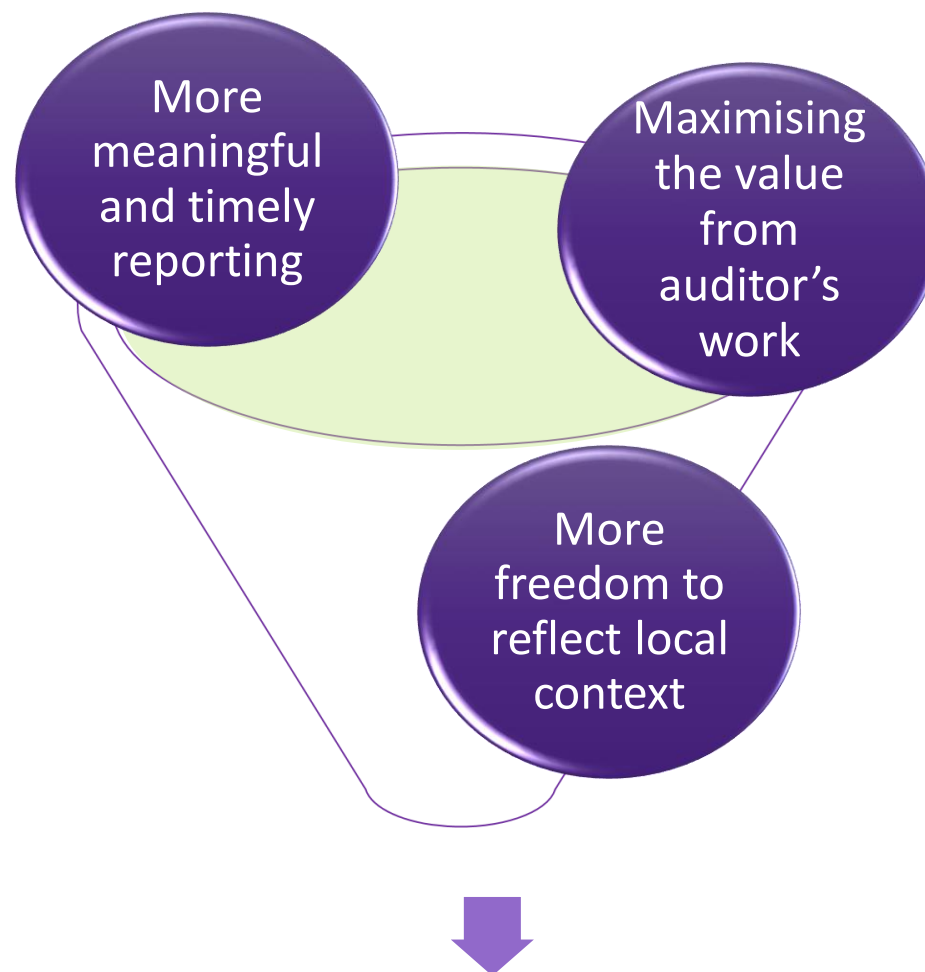
- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The new approach to Value for Money

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the body evaluates the services it provides to assess performance and identify areas for improvement;
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.



VFM arrangements commentary and recommendations

The new approach to Value for Money

The table below details what will be reported in the Auditor's Annual Report:

Section of report	Content
Commentary on arrangements	An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.
Recommendations	Where an auditor concludes that there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.
Progress in implementing recommendations	Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily.
Use of additional powers	Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this should be reported in the auditor's annual report.
Opinion on the financial statements	The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements.

The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.

Type of recommendation	Definition
Statutory recommendation	Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report.
Key recommendation	Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them
Improvement recommendation	Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Pensions Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Authority we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 financial instruments, including those held by the Pension Fund

The Authority's Information systems

In respect of the Authority's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Authority uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Authority (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management addresses this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to include:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

How can you help?

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit and Pensions Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above). We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Insight into accounting for grants in local government financial statements – Grant Thornton

The government has provided a range of financial support packages throughout the COVID-19 pandemic.

We have issued a brief bulletin aimed at helping local government bodies identify the key things they should consider when determining the accounting treatment for these grants in their financial statements for 2020/21.

There are no changes to the accounting treatment for grants as required by the CIPFA Code of Practice on Local Authority Accounting. What has changed, is the extent of additional funding to support the cost of services, to offset other income losses along with grant packages to be paid out to support local business. Local authorities need to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement in 2020/21.

The report highlights the factors to consider, including:

- Where the funding is to be transferred to other parties, is the authority acting as principal or as agent?
- Are there grant conditions outstanding?
- Is the grant a specific or non-specific grant?

Our bulletin provides you with links to further information on the various support packages and summarises features that may be relevant to your judgements as you determine the appropriate accounting treatment.

Local authorities need to demonstrate their judgements on the accounting treatment to be reasonable and soundly based and, where these have a significant effect on the accounts, to ensure they include sufficient disclosures to meet the requirements of IAS 1:122.

Please ask your audit manager for the full report:



What can be learned from Public Interest Reports?– Grant Thornton

2020 will be remembered as a tumultuous year in local government, with the pandemic creating unprecedented pressure on the sector. It also saw the appearance of two Public Interest Reports (PIRs), followed by another in January this year – the first to be issued in the sector since 2016. PIR's can be issued by local auditors if there are significant concerns around council activity, such as major failings in finance and governance.

The recent PIRs have made headlines because, up to this point, very few have ever been issued. But, as our latest report “Lessons from recent Public Interest Reports” explores, all three illustrate some of the fundamental issues facing the wider sector and provide a lesson for all local authorities around: weaknesses in financial management; governance and scrutiny practices; and council culture and leadership; which, when combined, can provide fertile ground for the kind of significant issues we might see in a PIR.

The COVID-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

- 1) Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.
- 2) Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.

- 3) Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.
- 4) Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The PIRs at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) are clear illustrations of some of the local government issues identified above. The audit reports are comprehensive and wide-ranging and a lesson for all local authorities. Local authorities have a variety of different governance models. These range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other local authorities, it's less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

- 1) The context of local government in a COVID-19 world
- 2) Governance, scrutiny, and culture
- 3) Local authority leadership.

The full report is available here:

[Lessons from recent Public Interest Reports | Grant Thornton](#)

Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.



The full report is available here:

[Transparency report 2020 \[grantthornton.co.uk\]](https://www.grantthornton.co.uk/transparency-report-2020)

Local government finance in the pandemic – National Audit Office

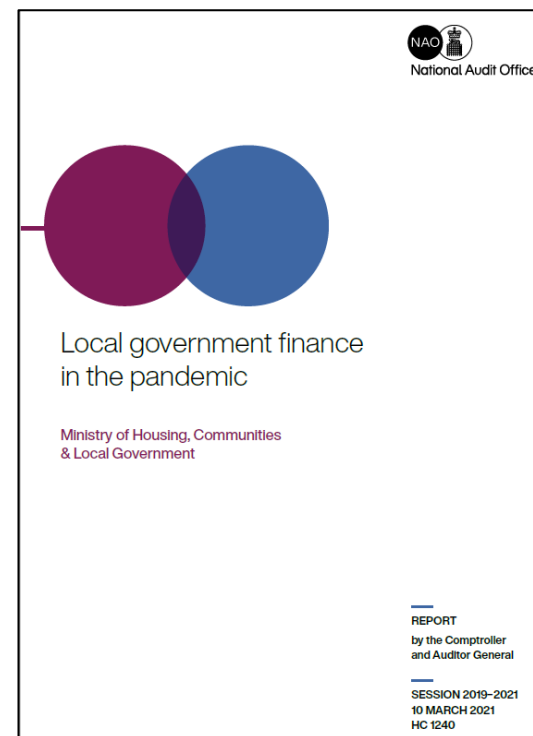
The National Audit Office (NAO) report, published in March, notes “The COVID-19 pandemic has been an unprecedented public health and economic emergency. Local authorities in England have made a major contribution to the national response to the pandemic, working to protect local communities and businesses, while continuing to deliver existing services. The pandemic has in turn placed significant pressure on local authorities’ finances, which in many cases were already under strain going into the pandemic.”

The NAO report examines if the Department’s approach to local government finance in the COVID-19 pandemic enabled it to assess and fund the costs of new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector.

The NAO report concludes “Steps taken by the government, led by the Department, have supported local authorities in the COVID-19 pandemic response. The Department’s successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector has averted system-wide financial failure at a very challenging time and means that the Department has managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22 the outlook for next year is uncertain. Many authorities are setting budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.”

The NAO report found that “the combined impact on spending and non-tax income in 2020-21 is £9.7bn – equivalent to 17.6% of revenue expenditure. So far the government has announced £9.1bn of financial support, leaving a deficit of £605m.”



The full report can be obtained from the NAO website:

[Local government finance in the pandemic - National Audit Office \(NAO\) Report](#)

Local authority Covid-19 pressures – MHCLG

Outturn figures from the Ministry for Housing, Communities and Local Government (MHCLG) show that local authorities in England reported additional cost pressures of £12.8bn relating to Covid-19 in 2020-21. Overall, local authorities spent £7.2bn responding to the pandemic last year, with the largest share of additional expenditure going on adult social care services at £3.2bn.

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Additional expenditure due to COVID-19 by class and service area (£ millions) (2020-21)

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Adult Social Care – total	0.473	1,254.880	848.656	663.404	413.842	3,181.254
Children's social care - total (excluding SEND)	0.000	94.933	131.127	89.799	62.987	378.846
Housing - total (including homelessness services) excluding HRA	63.129	5.254	74.949	42.281	112.971	298.584
Environmental and regulatory services - total	33.564	68.097	67.512	66.704	63.556	299.433
Finance & corporate services - total	48.222	53.445	83.984	76.923	78.284	340.858
All other service areas not listed in rows above	184.550	634.578	584.924	564.737	395.137	2,363.926
Total	329.937	2,111.187	1,791.153	1,503.848	1,126.777	6,862.902



The figures are available in full here:
<https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information>

Income losses due to COVID-19 by class and source of income (£ millions) (2020-21)

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Business rates	276.498	0.000	194.192	207.351	537.667	1,215.708
Council tax	399.037	0.000	217.633	191.219	232.727	1,040.616
Sales fees and charges	516.426	194.923	553.907	396.745	475.728	2,137.728
Commercial income	82.448	24.159	120.629	204.211	52.154	483.600
Other	33.494	39.947	27.163	53.664	45.166	199.435
Total	1,307.903	259.029	1,113.524	1,053.190	1,343.441	5,077.087

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position.

The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past five seven years, public consultation and technical stakeholder engagement.

Section 151 officers may also use the index in their annual report to the council setting out the proposed budget for the year and medium-term financial strategy.

While the impact of COVID-19 resulted in a delay to the publication of the index, it is still able to provide a comprehensive pre-COVID baseline, illustrating the financial resilience of authorities as they entered the pandemic."

CIPFA found that "there was a real-terms reduction of £800m in the level of reserves in 2020 compared with the previous year. At the end of March 2020 council reserves levels stood at £24.6bn, around 3% lower than £25.4bn recorded at the same period in 2019."

CIPFA note "The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index-2021?crdm=0>

Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, “Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide “provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.”

However, The NAO observe “Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation’s strategy and the risks it faces, how much taxpayers’ money has been spent and on what, and what has been achieved as a result.”

Further, the NAO note “The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation’s strategy, plans and operational and financial performance.”



The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>

Government response to Redmond review – MHCLG

Government has published an update on the Ministry of Housing, Communities & Local Government response to Sir Tony Redmond's independent review into the effectiveness of external audit and transparency of financial reporting in local authorities.

The MHCLG press release states "The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers.

The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.

The government has confirmed that the Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

In the immediate term, MHCLG will set up and chair a Liaison Committee, which will comprise senior stakeholders across the sector that will oversee the governance of the new audit arrangements and ensure they are operating effectively."

The press release goes on to state the "measures finalise the government's response to Sir Tony Redmond's independent review into local audit, carried out last year.

The government has already announced £15 million to support councils with additional costs in audit fees, and recently consulted on the distribution of this funding. Government is also consulting on improving flexibility on audit fee setting and has extended the deadline for when councils must publish their audited accounts.



The press release can be found here:

<https://www.gov.uk/government/news/government-publishes-update-to-audit-review-response>

2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.”

By 30 November, Grant Thornton had signed 113/208 audits (a 55% completion rate), meaning that only 45% of audit opinions were not signed by 30 November, compared to the 55% all firms average.

PSAA go on to note “This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)

Consultation on 2023-24 audit appointments – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) is consulting on the Draft prospectus for 2023 and beyond.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.”

The plans include proposals to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20, as well as trying to bring new suppliers in to the market.

The consultation on the PSAA’s proposals closes on 8 July.



The news article can be found here:

<https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>

Councils given power to build more homes for first time buyers and for social rent – MHCLG

The Ministry of Housing, Communities & Local Government (MHCLG) has announced that councils in England will have more freedom on how they spend the money from homes sold through Right to Buy to help them build the homes needed in their communities.

The MHCLG press release states the “package will make it easier for councils to fund homes using Right to Buy receipts, including homes for social rent, and give them greater flexibility over the types of homes they provide to reflect the needs of their communities.

It will also give councils more time to use receipts and to develop ambitious building programmes. The government wants homes supplied using Right to Buy receipts to be the best value for money, and to add to overall housing supply, to help towards delivering 300,000 new homes a year across England by the mid-2020s.”

The press release goes on to note “New measures include:

- extending the time councils have to spend Right to Buy receipts from 3 years to 5 years
- increased cap on the percentage cost of new homes councils can fund from Right to Buy receipts raised from 30% to 40% per home, making it easier to build replacement homes
- allowing receipts to be used for shared ownership, First Homes, as well as affordable and social housing, to help councils build the homes their communities need
- introducing a cap on the use of Right to Buy receipts for acquisitions to help drive new supply.”



The press release can be found here:

<https://www.gov.uk/government/news/councils-given-power-to-build-more-homes-for-first-time-buyers-and-for-social-rent>



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September 2021

Dear Emily

Audit Scope and additional work 2020/21

Introduction

As you are aware, local audit has gone through major changes in the last couple of years. More and more councils are getting involved in complex and innovative financial arrangements, increased regulatory pressures, the expectations of stakeholders and enhancements to Codes and Standards have fundamentally changed the landscape in which we work. COVID - 19 and lockdown have added further unanticipated pressures on both auditors and audited bodies. In this letter, I set out my expectations of the increased audit work which will be required in 2020/21. I also set out the expected fee impact, the need for which has recently been acknowledged by both the Redmond Review and MHCLG's subsequent response. I hope this is helpful in setting out the context in which we will work with you, as well as a sign of Grant Thornton's continued commitment to the highest audit quality.

Looking back to 2019/20

In January 2020, I wrote to you regarding the increased regulatory focus facing all audit suppliers and the impact this would have on the scope of our work for 2019/20 and beyond. I referred to this as 'raising the bar', reflecting the expectation from the FRC that all audit work should now be of level 2a (limited improvement only) or better. I set out my expectation that there would be an additional fee requirement for the 2019/20 audit, compared to the scale fee published by PSAA, of £26,000 for the Council and £8,830 for the Pension Fund. This was reflected in our Audit Plan dated March 2020.

The subsequent COVID 19 pandemic had a further significant impact on the cost of us as auditors discharging our responsibilities. As a result of the additional work a further uplift to the fee was proposed resulting in a final fee for 2019/20 of £175,078 for the Council and £28,750 for the Pension Fund.

Subsequently, we concluded the audit on 30 July 2021 and I reported a total fee of £191,000 for the Council and a total fee of £36,000 for the Pension Fund.

The main reasons for the further variation were as follows:

- The disruption caused by COVID - 19, impacting both on your closedown procedures and our ability to audit remotely; as well as the additional audit considerations including in respect of asset valuations. These meant that like you, we incurred considerable extra costs. Across all firms, only 45% of local government audits were signed off by the target date of 30 November, which indicates the scale of the challenge involved.
- Additional input required for consideration of specific issues arising during the audit process, in particular:
 - o The impact of a qualified audit opinion on the financial statements of an investment fund in with the Pension Fund held a material investment, on both the Council and Pension Fund accounts
 - o An additional provision which was required as a result of a court ruling relating to the Council's liability to refund historic water charges
 - o An adjustment which was required to the financial statements in respect of the valuation of Council Dwellings, including use of an auditor's expert
 - o The overpayment of lump sum retirement benefits in the Pension Fund
- The additional input required as a result of the delays to concluding the audit due to the factors outlined above.

In the sections below, I set out the main factors which will impact on the audit fee for 2020/21. These include the introduction of the new NAO Code of Audit Practice, with consequent implications for Value for Money work; the revision to major auditing standards, including those covering estimates and fraud, and the update of Practice Note 10 (the adaptation of auditing standards to public sector audits).

Due to the ongoing trajectory of the pandemic, COVID-19 will also continue to impact in a large way on the audit, and I have also commented on this below.

We note that the Government [response](#) to the Redmond Review, published on 17 December 2020, promised that MHCLG will provide relevant local authorities with £15 million in additional funding in 2021/22 to be used to support the additional costs of reporting and audit anticipated related to the 2020/21 financial year.

In addition, following the closure of their 2019/20 financial statements, PSAA have announced that the Council will be allocated an additional £24,900 and the Pension Fund £3,190 as a rebate to offset additional audit fees.

New audit requirements for 2020/21 – the new NAO Code

On 1 April 2020, the National Audit Office introduced a new [Code of Audit Practice](#) which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money. These changes are set out in more detailed in the NAO's [Auditor Guidance Note 03](#) which was published in October 2020.

We plan to issue our Audit Plan for 2020/21 in October 2021. I have set out below the main changes in respect of Value for Money, and the implications for the timing and resourcing of our work, as well as for the audit fee.

There are three main changes arising from the NAO's new approach.

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach

- The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as recommendations on any significant weaknesses in arrangements identified during the audit.

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- We are aiming to publish our work on the Auditor's Annual Report within three months of the Auditor's Report on the Financial Statements, in accordance with the NAO's revised deadline. To ensure we are able to complete the necessary work by the due date, we propose to undertake our initial planning during October 2021 and to share the results of our risk assessment with you by November. We will aim to complete the fieldwork by early 2022. We will allow sufficient time for you to comment on our risk assessment and audit findings at each key stage before we present the results to Audit Committee.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £26,000 (21%) for 2020/21. This in line with increases we are proposing at all our local audits.
- PSAA recognise that the additional work required as a result of the new Code will continue in future years and are consulting on how best to reflect this in any revision to scale fees with effect from 2021/22. For 2020/21 the fee variation will be approved by PSAA via the fee variations process in the usual manner.
- There will be increased documentation and reporting requirements on the audit team. The value for money work will now cover a much wider scope, as set out above. Each year we will need to assess the arrangements in place across these areas and explore the arrangements in more detail than previously. We envisage that across the country, auditors will be identifying more significant risk areas and will be reporting more extensively than in previous years. The financial and governance aspects of the COVID-19 pandemic are likely to feature heavily in our work.

Enhanced auditing standards for 2020/21: ISA 540 - Estimates

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. The single most significant of these for this year's audit is ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures which includes a number of enhancements in respect of the audit risk assessment process for accounting estimates.

In summary, the revised Standard reflects increasing focus from regulators and other stakeholders on all key estimates, especially those which are complex, require significant judgements. ISA 540 has been enhanced to place increasing demands on auditors to understand and assess an entity's internal controls over accounting estimates.

In practice, you will see an increased focus during our audit on key internal controls including:

- How management identifies the need for and applies specialised skills
- The information system as relates to estimates
- How management reviews the outcomes of previous accounting estimates
- The role of those charged with governance: to what extent does the Audit Committee understand and oversee the estimation process?

We will also look for you to articulate clearly:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

The following are examples of where this could apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year-end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

As the audit progresses, we will discuss the practical ways in which you can support us in meeting our obligations through the audit.

Enhanced auditing standards for 2020/21: ISA 240 - Risks in respect of fraud

The auditor's responsibilities in relation to fraud in an audit of the financial statements are set out in ISA 240. This was most recently updated in January 2020, with effect for audit year 2020/21. Note that the FRC is currently [consulting](#) on further enhancements to the Standard, reflecting concerns expressed amongst others by Sir Donald Brydon that that auditors are not doing enough work to detect material fraud.

In response to the new Standard, and to the increased expectations of regulators, we are heightening our focus on fraud risks. The following are examples of where this could apply:

- Increased scope and coverage of journals testing
- Increased cut off testing
- Increased testing of income and expenditure
- Automated/data interrogation techniques
- Keeping materiality under review throughout the audit.
- More robust reporting (including the use of Statutory Recommendations where appropriate).

As with estimates, our work in this area may look and feel different to you, and you will notice an increased audit presence. We will discuss emerging findings with you, and ensure you have an early opportunity to comment on findings.

Revised ISA (UK) 700 Forming an opinion and reporting on financial statements (Updated January 2020):

This revised Standard is effective for engagements relating to financial periods commencing on or after 15 December 2019. The key change is that all auditor's reports will be required to include an explanation as to what extent the audit was considered capable of detecting irregularities including fraud. This explanation may include:

- how the engagement team obtained an understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework
- which laws and regulations the engagement team identified as being of significance in the context of the entity
- the engagement team's assessment of the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur
- the engagement partner's assessment of whether the engagement team collectively had the appropriate competence and capabilities to identify or recognize non-compliance with laws and regulations
- the engagement team's understanding of the entity's current activities, the scope of its authorization and the effectiveness of its control environment where the entity is a regulated entity
- in the case of a group audit, how the engagement team addressed these matters at both at the group and component levels and relevant communications with component auditors.

Practice Note 10 (PN 10): The application of auditing standards for public sector audits

Reflecting the differences between public sector and commercial audits, Practice Note 10 provides guidance for auditors on the application to relevant standards in the public sector. An updated version of PN 10 was published in November 2020. This updated version reinforces the enhancements described above in respect of estimates and risk of fraud.

In addition, there is one other major change in PN 10 and this is in respect of the auditor's responsibilities in respect of going concern. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The revisions to PN 10 are helpful in that they allow auditors to apply a 'continued provision of service approach' to auditing going concern where appropriate. Applying such an approach enables auditors to change focus somewhat. Whilst we will still undertake relevant work in respect of management's disclosure around going concern, the concept of the 'material uncertainty' disclosure is far less likely to apply. The NAO's guidance to auditors makes clear that auditor's focus should instead be based on the financial resilience of the authority. As such, there is no reduction in respect of work on going concern and financial resilience, but rather a shift in emphasis.

Other revised Auditing Standards

In November 2019, the FRC issued an update to ISA 220, covering Quality Control of Financial Statements. This revised standard highlights the increased importance for the engagement lead auditor in planning, supervising and reviewing the work of the local audit team.

Impact of COVID - 19

As last year, we expect that our detailed work programme will need to take account of a number of risks arising from COVID-19 related issues, including lockdown. These include potential uncertainties around the valuation of property and pension liabilities, as well as the accounting for government income received in respect of COVID - 19 pressures. Whilst

lockdown continues, there are also complications arising from the remote preparation of accounts and working papers, as well as challenges for us in providing support for our junior team members working remotely. Please note, the proposed fees for 2020/21 set out in the letter do not include any additional fees to reflect potential additional work necessary in 2020/21 due to Covid-19. We continue to monitor developments in this area and will update you accordingly as clarity emerges on its impact in the current year.

Overall impact

MHCLG have acknowledge, via their response to Redmond, that audit fees need to increase due to the additional work being undertaken by auditors and the pressure on the audit market. Funding of £15m is being provided to local government to cover these additional costs in 2020/21.

Our estimate is that, for your audit, this will result in an increased fee of £195,242 for the Council audit and £33,000 for the Pension Fund audit. This in line with increases we are proposing at all our local audits. I set out below the core strategic constituents of this fee.

	Council (£)	Pension Fund (£)
Scale fee published by PSAA	126,242	16,170
Plus:		
Ongoing increases to scale first identified in 2019/20		
Raising the bar/ regulatory factors, including focus on PPE and Pensions	26,000	8,830
New issues for 2020/21		
Increase in respect of additional work on Value for Money under new NAO Code	26,000	0
Impact of new auditing standards – ISA 540 (Auditing accounting estimates)	10,000	6,000
Impact of new auditing standards – ISA 240 (Fraud) and ISA 700 (Forming an opinion)	7,000	2,000
Increase to scale	69,000	16,830
Fee proposed for 2020/21	195,242	33,000

All variations to the scale fee will need to be approved by PSAA.

This compares to the 2019/20 final audit fees as follows:

Audit fees	2019/20 final fee	2020/21 proposed fee
Council audit	£191,000	£195,242
Pension Fund audit	£36,000	£33,000
Total	£227,000	£228,242

Next steps

I hope this is helpful in explaining how the audit world is changing, as well as the practical implications in terms of the Audit Plan, and the benefits to audited bodies from an even more rigorous and robust audit. I look forward to discussing this in more detail at our next meeting. If you have any questions in the meantime, please don't hesitate to contact me.

Yours sincerely

Paul Dossett

Engagement Lead, Public Sector Assurance

For and on behalf of Grant Thornton UK LLP

The Annual Audit Letter for the London Borough of Hammersmith and Fulham

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the London Borough of Hammersmith and Fulham ('the Council') and Hammersmith and Fulham Pension Fund ('the Pension Fund') for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and Pension Fund 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 and Pensions Committee as those charged with governance in our Audit Findings Report on 29 July 2021.

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 and Pension Fund'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 and Pension Fund's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality

We determined materiality for the audit of the Council's financial statements to be £10,000,000, which was approximately 1.4% of the Council's gross cost of services.

We determined materiality for the audit of the Pension Fund's financial statements to be £10,000,000, which was approximately 1% of the Pension Fund's net assets.

Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 30 July 2021. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties, and the pooled property, infrastructure and private debt investment assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

We gave an unqualified opinion on the Pension Fund's financial statements on 30 July 2021. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Pension Fund's pooled property, infrastructure and private debt investment assets given the Coronavirus pandemic. We also included an emphasis of matter paragraph relating to the legal challenge facing the Aviva infrastructure investment manager. This does not affect our opinion that the financial statements give a true and fair view of the Pension Fund's financial position and its income and expenditure for the year.

Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

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 30 July 2021.
Certificate	We certified that we have completed the audit of the financial statements of the London Borough of Hammersmith and Fulham in accordance with the requirements of the Code of Audit Practice on 30 July 2021.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council.

The Council has faced extensive front-line challenges as a result of the pandemic, such as administration of grants to businesses and closure of schools, with additional complexities of reopening services under new government guidelines. The Council has responded well to the challenges caused by the pandemic.

Throughout the closedown period we held regular meetings with the Council's key finance staff to discuss the impact of Covid-19. We also discussed the financial implications in terms of asset valuations, going concern and provision for credit losses in advance of the submission of the financial statements.

There have not been any changes in key financial processes that impacted on our audit approach. Restrictions for non-essential travel have meant both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch the finance team run the required reports to gain assurance over the completeness and accuracy of information produced by the Council.

We made more use of conference calls and emails to resolve audit queries. Both teams utilised a query log to track and resolve outstanding items. Weekly meetings were held with senior finance staff to highlight key outstanding issues and findings to date, ensuring that the audit process was as smooth as possible.

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
September 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council and Pension Fund'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 £10,000,000, which was approximately 1.4% of the group's gross cost of services.

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 determined materiality for the audit of the Pension Fund's financial statements to be £10,000,000, which was approximately 1% of the Pension Fund's net assets..

We also set a lower level of specific materiality of £100,000 for disclosures relating to officer remuneration and key management personnel disclosures.

We set a lower threshold of £500,000, above which we reported errors to the Audit and Pensions 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 Statement of Accounts to check it is consistent with our understanding of the Council and Pension Fund and with the financial statements included in the Statement of Accounts 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 and Pension Fund'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

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
<p>Covid-19 (Council and Pension Fund)</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. 	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on 24 August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples included the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we were unable to obtain sufficient audit evidence. 	<p>The Council's property valuation specialists reported that valuations of land and buildings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.</p> <p>In addition, the fund managers for the Pension Fund's pooled property investments declared material valuation uncertainties around the valuation of these investments on the same basis. This impacted upon both the valuation of investments in the Pension Fund net assets statement and the valuation of the net defined benefit liability in the Council's balance sheet.</p> <p>Management disclosed these uncertainties in Note 36 to the Council's financial statements and Note 4 to the Pension Fund financial statements. These disclosures were referred to in our auditor's reports for the Council and Pension Fund respectively in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings (Council only)</p> <p>The Council revalues its land and buildings on a rolling four-yearly basis. Council dwellings and investment properties are revalued annually. This valuation represented a significant estimate by management in the financial statements due to the size of the numbers involved (£1.6 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management needed to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>Management engaged the services of a valuer, Wilks Head and Eve, to estimate the current value as at 31 March 2020.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated of the competence, capabilities and objectivity of the valuation expert wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met engaged our own valuer, Gerald Eve, to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. tested revaluations made during the year to see if they had been input correctly into the Council's asset register assessed the value of a sample of assets in relation to market rates for comparable properties. tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions were appropriate and whether they were truly representative of the other properties within that beacon group. 	<p>During our testing of the valuation of Council Dwellings, we identified that management's valuation expert had made use of outdated Land Registry House Price indices in undertaking their valuation calculations. When forming a point estimate based on updated data, the results were indicative that this could potentially lead to a material misstatement in the recorded values as at 31 March 2020, as well as in valuation movements for the year ended at this date. As such, management commissioned their valuation specialist to re-perform the valuations relating to Council Dwellings incorporating more recent information. This led to a downward adjustment in the valuation of Council Dwellings of £11.8m in the final draft of the financial statements, of which £8.0m impacted the deficit on provision of services and £3.8m impacted other comprehensive expenditure and the revaluation reserve. This adjustment was processed in the final draft of the financial statements.</p> <p>We made a recommendation that management should ensure that instructions to their valuation specialist stipulate that the most recent valuation indices at the date of reporting should be used as part of valuation calculations, and that changes in market conditions resulting in changes in indices are kept under frequent review.</p> <p>During our testing of the valuation of the Council's investment properties, we identified three properties which had errors in the rental income which formed a key input into the calculation of the valuation of these properties as at 31 March 2020, performed by management's valuation specialists. These errors led to a likely overstatement of the valuation of these properties as at 31 March 2020, and a corresponding overstatement of the valuation movements (part of financing and investment income and expenditure in the CIES) during the year. This was due to errors in extracting the data from the Council's systems before this was sent to the valuation specialist.</p> <p>As the impact of this issue was not material to the Council's financial statements, the financial statements were not amended this was reported as an unadjusted misstatement in our Audit Findings Report to those charged with governance. However, we made a control recommendation around this process that management should implement a more rigorous review and reconciliation process of data such as rental income provided to valuation specialists to inform their year-end valuation calculations, to ensure that data provided is complete and accurate.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings (continued)		In addition, as discussed under 'Covid-19' above, the Council's property valuation specialists reported that valuations of land and buildings, including investment properties and council dwellings, were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. We agreed additional disclosures with management relating to Note 36 in financial statements. This disclosure was referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability (Council only)</p> <p>The Council's pension fund net liability, as reflected in its 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 (£498.4m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>As part of our audit work we :</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 evaluate the design of the associated controls evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation assessed of the reasonableness of the actuary's assumptions and calculations in-line with relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases. assessed the accuracy and completeness of information to the actuary to estimate the liability 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 undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional procedures suggested within the report obtained assurances from our audit of the Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements 	<p>Our testing identified that an infrastructure investment fund (Level 3 investment) held with Aviva that the Council's Pension Fund had a material investment in, had received a qualified audit opinion for their financial statements as at the 31 December 2019. The investment fund's auditors qualified their audit opinion because they concluded they were unable to obtain sufficient appropriate audit evidence regarding claims made against a Limited Partnership, 100% owned by the Fund. This affects the Council's accounts because 88% of the Pension Fund's assets are attributable to the Council as the administering authority and this impacts the valuation of the net defined benefit liability in the Council's balance sheet. Additional evaluation was undertaken and management were satisfied that this issue did not lead to a material misstatement of the financial statements as a result in an erroneous valuation of the investment in the infrastructure fund.</p> <p>However additional disclosures were added to Note 4 to the Pension Fund financial statements to set out management's judgement in this regard and the residual uncertainty, which were highlighted in an emphasis of matter paragraph in the Pension Fund's audit opinion. Due to statutory accounting requirements in place for pensions items, we noted that were the valuation of the investment held by the Pension Fund to change, there would be no direct financial impact on the Council's General Fund position.</p> <p>Additionally, the fund managers for the Pension Fund's pooled property and infrastructure investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. As 88% of the Pension Fund's assets are attributable to the Council as the administering authority, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet.</p> <p>Management disclosed this uncertainty in Note 36 to the financial statements. This disclosure was referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls (Council and Pension Fund)</p> <p>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.</p> <p>In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determine the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>No issues were identified in respect of this risk which required reporting to those charged with governance in the Audit Findings Report.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of level 3 investments (Pension Fund only)</p> <p>The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£73.8 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 utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> evaluated management's processes for valuing Level 3 investments 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; to ensure that the requirements of the Code are met independently requested year-end confirmations from investment managers and/or custodian(s) for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period and in the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register where available, reviewed investment manager service auditor report on design effectiveness of internal controls. 	<p>Our testing found an issue in relation to a material Level 3 investment held by the Council Pension Fund in an Aviva Infrastructure investment fund. The Investment Fund, in which the Council Pension Fund had a share, had their financial statements as at the 31 December 2019 qualified by their auditors. The Investment Fund's auditors qualified their audit opinion because they concluded there were unable to obtain sufficient appropriate audit evidence regarding claims made against a Limited Partnership 100% owned by the Fund. Additional evaluation was undertaken and management were satisfied that this issue did not lead to a material misstatement of the financial statements as a result in an erroneous valuation of the investment in the infrastructure fund. However additional disclosures were added to Note 4 to the Pension Fund financial statements to set out management's judgement in this regard and the residual uncertainty, which were highlighted in an emphasis of matter paragraph in the Pension Fund's audit opinion. This does not constitute a qualification of the audit opinion.</p> <p>Additionally, the fund managers for the Pension Fund's pooled property and infrastructure investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management disclosed this uncertainty in Note 4 to the Fund's financial statements. This disclosure was referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion</p>

Audit of the Financial Statements

Audit opinion

We gave unqualified opinions on the Council and Pension Fund's financial statements on 30 July 2021.

Preparation of the financial statements

The Council and Pension Fund presented us with draft financial statements in August 2020 in accordance with the amended timeframe, and provided a set of working papers to support them. Two adjustments were made to the financial statements which resulted in an adjustment of £17.8m to the Council's Comprehensive Income and Expenditure Statement, of which £14.0m represented an increase to the deficit on provision of services and £3.8m increased other comprehensive expenditure.

These related to the recognition of a provision in respect of refunds due to HRA tenants as a result of historic water charges, and an adjustment to the valuation of Council Dwellings as a result of outdated indices being used in the valuations forming the draft financial statements.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Pensions Committee on 24 November 2020, and updated our Audit Findings Report in July 2021 in advance of concluding the audits.

In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked the Council's management to address for the next financial year:

- Ensuring that adequate year-end reconciliation processes are in place to gain assurance over the completeness of schools data in the financial statements, following the erroneous omission of data relating to one school in the draft financial statements
- Strengthening closedown processes in relation to the Collection Fund following an accumulation of minor issues which were identified during the audit.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in August 2020, with the final version being published in July 2021.

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 Hammersmith and Fulham Pension Fund on 30 July 2021. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Pensions Committee on 24 November 2020, with an update being provided on 29 July 2021.

In addition to the key audit risks reported above, we identified the following issues during our audit that we asked management to address for the next financial year:

- Implementing the recommendations of internal audit in respect of strengthening the controls in the payment process for lump sum payments, following a significant overpayment being made during the year.
- Retaining correspondence with Pension Fund members on the pensions administration system, in accordance with documented procedures.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. We issued an assurance statement on 30 July 2021 with no issues being reported.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of the London Borough of Hammersmith and Fulham in accordance with the requirements of the Code of Audit Practice on 30 July 2021.

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 April 2020 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 November 2020, we agreed recommendations to address our findings.

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 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium Term Financial Planning</p> <p>As outlined in our Audit Plan, issued prior to the outbreak of the Covid-19 pandemic but reported to members in September 2020, the Council faced a number of financial challenges over the both the short and medium term, including managing the impact of reductions in government funding, increasing demand for services, the impact of changes to business rates retention and the outcome of the Government's fairer funding review. At the risk assessment stage, the Council was forecasting a budget shortfall of £7.7 million for the year and although mitigating actions were being developed, any shortfall would need to be met from reserves. Part of the Council's response to these challenges related to increasing capital development and regeneration in the Borough, as well as internally considering issues such as work space for employees and refining recruitment practices to enable better management of staffing costs.</p> <p>Overspends predicted in the high needs and early years block of the Dedicated Schools Grant, which remained the key area of pressure, were also planned to be funded through reserves. The Council had begun to make use of business information and data to aim to better understand the drivers of increasing costs.</p> <p>A balanced budget had been set for 2020/21 although the four-year medium term financial forecast showed increasing budget gaps in future years, with a range of growth and savings proposals being proposed.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> reviewed the arrangements in place to monitor and report performance against budget and savings plans considered arrangements for setting the Medium Term Financial Forecast and examine underlying assumptions and dependencies for robustness. 	<p>The financial outlook for the Council remains extremely challenging and ongoing financial resilience is dependent on a number of factors with as-yet uncertain outcomes. During 2019/20 and in the period since the year-end, officers have put in place robust arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled to the best of their ability, drawing on external support where knowledge gaps or wider unknowns are identified.</p> <p>The Council's response to the outturn position for 2019/20 in terms of pre-Covid forward planning for 2020/21 and beyond is broadly indicative that management's understanding of the key drivers for income and expenditure relating to core services and ability to understand impact of decisions taken is strong, and plans have been put in place for improvement to processes where significant variances were identified.</p> <p>As a result of Government Funding and initiatives, prior year accumulated reserves and prudent financial planning including setting aside contingencies in the budget-setting process, the Council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic and is not facing the kinds of challenging decisions in the immediate term around service cuts or Section 114 notices which comparable local authorities could be subject to.</p> <p>In the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remain significant unknowns. Management are conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer term strategic goals which underpin future investment decisions from use of reserves or other sources.</p>

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium Term Financial Planning</p>		<p>Management should ensure that prudent decisions continue to be made and that the implications of spending or budget-setting decisions are thoroughly communicated to members.</p> <p>In overall terms the Council has a strong record of driving efficiencies from a council tax base that reflects political decisions over many years about the importance of keeping council tax levels down. This strategy, coupled with both housing and business growth in the borough and a commitment to sound financial management has meant the Council has maintained sound finance. However, the many challenges that the Council faces, as outlined in our summary report, suggest some very hard decisions ahead. The Council fully recognises the macro-economic impact of Covid-19 and Brexit but measuring it is difficult at this stage. As outlined on the earlier graphics, the Council's reserve position is reasonable but allows no room for complacency or further diminution of those reserves. We would urge that members fully digest the lessons from recent Public Interest Reports and other commentary from sector financial experts as they approach the 2021/22 budget setting round.</p> <p>The Council reacted quickly to the Covid-19 pandemic and has spent significant time focusing on measures to achieve financial sustainability. We believe members are fully aware of the risks that have impacted other councils and the dangers of running down reserves. The Council has a lower level of reserves than some other London Boroughs. Covid-19 represents an existential threat to the financial sustainability of many councils. Members should be aware at all times, not to choose the pathways taken by those Councils who have recently subject to public interest reports. Members have a fiduciary duty to maintain sound finance and not to take steps that would mortgage the future. Investment is certainly required to drive the Council, its residents and business forward. This must be done in considered and balanced way.</p>

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	September 2020
Audit Findings Report	July 2021
Annual Audit Letter	September 2021

Fees

	Planned fees £	Actual fees £
Council audit	152,242	191,000
Pension Fund audit	25,000	33,000
Total fees	177,242	227,000

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £126,242 for the Council and £16,170 for the Pension Fund 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.

We have been discussing the issue of the 'cost of Covid' with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

Fee variations have been agreed with management but are subject to PSAA approval.

A. Reports issued and fees

The fee variation for the Council audit is set out below.

Area	Reason	Fee proposed
Raising the bar increased challenge	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	£12,500
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.	£4,000
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.	£9,500
Additional Covid-19 costs 15%	The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: <ul style="list-style-type: none"> Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan. Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. 	£22,758
Specific issues arising during the audit	<ul style="list-style-type: none"> Qualified Aviva investment fund financial statements Error in Council Dwellings valuation Additional provision relating to refunds of water charges Error in omission of schools data Additional procedures arising from delay to the conclusion of the audit as a result of these matters 	£4,000 £4,000 £3,000 £2,000 £3,000
Total		£64,758

A. Reports issued and fees

The fee variation for the Pension Fund audit is set out below.

Area	Reason	Fee proposed
Raising the bar increased challenge	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	£5,000
Valuation of level 3 investments	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.	£3,830
Additional Covid-19 costs 15%	<p>The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:</p> <ul style="list-style-type: none"> Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values. Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. 	3,000
Specific issues arising during the audit	<ul style="list-style-type: none"> Qualified Aviva investment fund financial statements Lump sum overpayment Additional procedures arising from delay to the conclusion of the audit as a result of these matters 	6,000 1,000 1,000
Total		19,830

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefits subsidy claim	19,500
- Teachers' Pension return	7,700
- Pooling of Housing Capital Receipts	5,000
Non-Audit related services	
- CFO Insights subscription	12,500

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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 and Pension Fund. The table 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 and Pension Fund's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council and Pension Fund's policy on the allotment of non-audit work to the external auditor.



Agenda Item 6

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Audit Committee

Date: 14 September 2021

Subject: Treasury Management Outturn Report 2020/21

Report of: Emily Hill, Director of Finance

Report author: Phil Triggs, Director of Treasury and Pensions

Responsible Director: Emily Hill, Director of Finance

SUMMARY

The purpose of this report is to present the Council's annual Treasury Management outturn for 2020/21, in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Council by the 30 September of each year.

During the year the Council operated within the Treasury Limits and Prudential Indicators set out in the Treasury Management Strategy Statement approved by Council on 26 February 2020.

RECOMMENDATIONS

1. That the Committee note the annual Treasury Management Outturn Report for 2020/21.

Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	Ensuring an optimum borrowing and investment strategy in line with the Council's Treasury Management Strategy Statement

Financial Impact

This report is wholly of a financial nature.

Legal Implications

There are no legal implications in respect of this report.

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Background Papers Used in Preparing This Report

- Treasury Management Strategy Statement 2020/21 (approved by Council on 26 February 2020)

DETAILED ANALYSIS

Proposals and Analysis of Options

Background and Treasury Position

1. Treasury management in this context is defined as:

“The management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
2. This annual treasury report covers:
 - the treasury position as at 31 March 2021;
 - the borrowing strategy for 2020/21;
 - the borrowing outturn for 2020/21;
 - compliance with treasury limits and prudential indicators;
 - investment strategy for 2020/21; and
 - investment outturn for 2020/21.
3. The Council’s debt, all held with the Public Works Loan Board (PWLB), and investment positions at the beginning and end of the 2020/21 year were as follows:

	31 March 2021 (£m)	Rate (%)	31 March 2020 (£m)	Rate (%)
General Fund (GF)	52.8	3.71	54.7	3.72
Housing Revenue Account (HRA)	218.9	3.77	188.4	4.32
Total Borrowing	271.7	3.76	243.1	4.02
Total Cash Invested	297.4	0.05	209.1	0.77
Net Cash Invested	25.7		(34.0)	

4. The table below shows the allocation of interest paid and received during the year 2020/21:

	Interest Paid (£m)	Interest Received (£m)	Net (£m)
General Fund (GF)	2.0	(1.0)	1.0
Housing Revenue Account (HRA)	8.4	0.0	8.4
Other*	0.0	(0.3)	(0.3)
Total	10.4	(1.3)	9.1

* Other – interest paid on balances held for Section 106 and other deposits

5. The Housing Revenue Account (HRA) is responsible for servicing 80.6% of the Council's external debt and the General Fund is responsible for the remaining 19.4%.
6. The table below shows the split of investments by duration as at 31 March 2021:

Maturity Period	Call (£m)	Fixed (£m)	MMF (£m)	Total (£m)
Liquidity	35.0	0.0	133.4	168.4
< 1 Month	0.0	109.0	0.0	109.0
1 – 3 Months	0.0	15.0	0.0	15.0
3 – 6 Months	0.0	0.0	0.0	0.0
6 – 12 Months	0.0	5.0	0.0	5.0
Total	35.0	129.0	133.4	297.4

7. The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Full Council on 26 February 2020.
8. The TMSS kept investments short-term and invested with highly rated or UK Government backed institutions, resulting in low returns compared with borrowing rates.

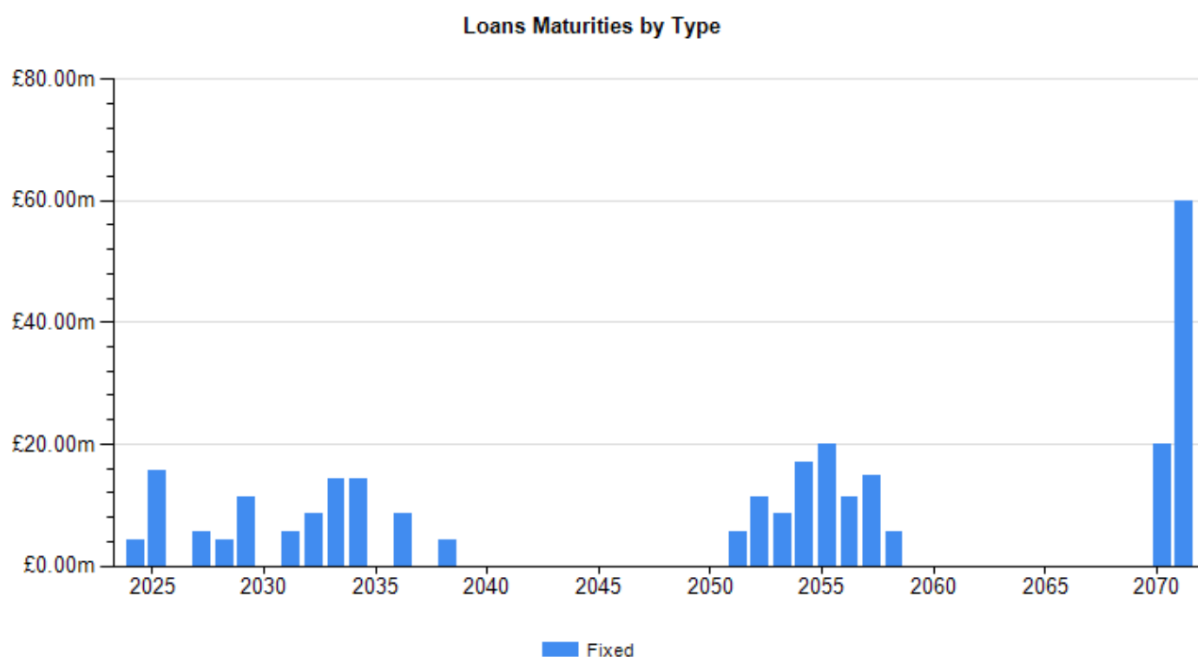
Treasury Borrowing

9. Borrowing totalling £40m was undertaken during the 2020/21 year. Public Works Loans Board (PWLb) debt maturing during the year totalled £11.4 million, with an average nominal interest rate of 4.04%. This resulted in an increase in debt to £271.7 million and the average interest rate reducing from

4.02% to 3.76%, due to the low interest rates obtained on the two new loans. These loans were taken out to support the HRA capital programme. The table below details these new loans taken:

Purpose	Amount	Rate (%)	Start Date	Maturity Date
HRA	£20m	1.26	01/04/2020	01/04/2070
HRA	£20m	1.25	21/04/2020	21/04/2070

10. All of the Council's loans are at a fixed rate of interest. The table below shows the debt profile as at 31 March 2021:



11. In 2020/21, the HRA PWLB debt of £219 million remained below the HRA Capital Financing Requirement (CFR) of £233.1 million, which generates internal borrowing of £14.1 million. This difference does not, as yet, exceed the value of HRA working balances. HRA reserves and working capital, in excess of the internal borrowing, represent cash balances, on which interest is allocated from the general fund. As at 31 March 2021, the HRA held cash balances of £219m over and above the £14.1m.
12. As at 31 March 2021, the Council had an under-borrowed position. This means that the capital borrowing need was not fully funded by the existing external loan debt and the balance is funded by cash reserves (known as internal borrowing).

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

	31 March 2021 CFR £m	31 March 2021 External Debt £m	31 March 2020 CFR £m	31 March 2020 External Debt £m
GF CFR (Excluding DSG funded Schools Windows borrowing)	122.2	0.0	114.1	0.0
GF CFR (DSG funded Schools Windows borrowing)	21.5	0.0	11.8	0.0
Total GF Headline CFR	143.7	0.0	125.9	0.0
Finance leases/PFI	8.9	0.0	9.2	0.0
Total Closing GF CFR	152.6	52.8	135.1	54.7
HRA TOTAL	233.1	0.0	215.8	0.0
HRA CFR Total	233.1	218.9	215.8	188.4
Total CFR/External Debt	385.7	271.7	350.9	243.1

Treasury Investments

13. At 1 April 2021, a significant part of the Council's treasury investment portfolio (£114 million) was held in fixed term deposits with other local authorities, DMADF and bank notice accounts.
14. The TMSS allowed investment in the following areas:
 - an unlimited investment limit with the UK Government (DMO) deposits, UK gilts, repos and treasury bills;
 - up to a maximum of £100 million per counterparty in supra-national banks, European agencies and covered bonds debt on a buy to hold basis with maturity dates of up to five years, Transport for London (TfL) and the Greater London Authority (GLA) bonds for up to three years;
 - a limit of £30 million to be invested with any UK Local Authority (subject to internal counterparty approval by the Director of Treasury and Pensions and Director of Finance);
 - no more than £30 million to be invested with any individual Money Market Fund;
 - any financial instrument held with a UK bank limited to £70 million depending on the credit rating and Government ownership above 25% (limit of £50 million);
 - any financial instrument held with a non-UK bank limited to £50 million.
15. The investments outstanding at 31 March 2021 amounted to £297.4 million invested in short-term deposits. This compares with £282 million short-term investments at 1 April 2020.

16. The table below provides an analysis of the cash deposits, together with comparisons from the previous year:

	31 March 2018 £m	31 March 2019 £m	31 March 2020 £m	31 March 2021 £m
Liquid Deposits	0.0	0.0	0.0	0.0
Money Market Funds	83.9	57.9	47.1	133.4
Notice Accounts	70.0	56.0	25.0	35.0
Custodian Held Assets	30.0	0.0	0.0	0.0
Term Deposits	115.5	212.5	137.0	129.0
Enhanced Cash Fund	39.9	0.0	0.0	0.0
Total	339.3	326.4	209.1	297.4

17. During 2020/21 cash balances varied between £248 million and £333 million reflecting the timing of the Council's income (council tax, national non-domestic rates, government grants and capital receipts, etc) and expenditure (precept payments, payroll costs, supplier payments and capital projects). The primary reason for the increased cash balance at the end of the 2020/21 financial year is in relation to the new HRA PWLB loans undertaken and Government grants for COVID-19 support received in 2020/21.
18. The average return achieved on investments managed internally for the year was 0.26% compared with the average 7-day money market rate (uncompounded) of -0.07%. The total interest received of £1.3 million compares with a weighted average of 0.93% and a total interest £2.7 million for 2019/20. Interest rates remained low throughout the year with the Council following a low risk strategy and avoiding potentially higher returns which would increase counterparty risk.

Prudential Indicators

19. During the year the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 26 February 2020.
20. The table below provides a breakdown of the indicators and actual position for the year ending 31 March 2021:

Indicator	2020/21 Approved Limit	2020/21 Actual	Indicator Met?	
Capital Financing Requirement	£402m	£385.6m	Met	
Authorised Limit for external debt ¹	£400m	£271.7m	Met	
Operational Debt Boundary ²	£340m		Met	
Capital Expenditure	£103m	£89m	Met	
Ratio of financing costs to revenue stream	GF 1.81% HRA 28.94%	GF (2.09%) HRA (6.52%)	Met	
Working capital balance	£0m	£0m	Met	
Limit on surplus funds invested for more than 364 days	£120m	£0m	Met	
Maturity Structure of Borrowing	Minimum	Maximum	Actual	Indicator Met?
Under 12 Months	0%	15%	0%	Met
12 Mths to within 24 Mths	0%	15%	0%	Met
24 Mths to within 5 years	0%	60%	9%	Met
5 years to within 10 years	0%	75%	13%	Met
Over 10 years	0%	100%	78%	Met

Reasons for Decision

21. The Council's treasury management activity is underpinned by the CIPFA Code, which recommends that members are informed of treasury management activities at least twice a year.

Equality Implications

22. There are no direct negative implications for protected groups, under the Equality Act 2010, arising from the information presented in this report.
23. Implications completed by: Sophie Green, Treasury Manager, tel. 07816 280 994.

Risk Management Implications

24. The purpose of this report is to present the Council's annual Treasury Management Outturn Report for 2020/21 in accordance with the Council's

¹ The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

² The Operational Boundary is the expected normal upper requirement for borrowing in the year.

treasury management practices. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities is measured. Risk levels were set in accordance with the approved Treasury Management Strategy Statement. The Council continues to recognise that effective treasury management provides support towards the achievement of its business and service objectives, specifically, being ruthlessly financially efficient. The identification, monitoring and control of risks are central to the achievement of the treasury objectives. Potential risks are identified, mitigated and monitored in accordance with treasury practice. It is also worthwhile in noting that this covers a period that included considerable uncertainty at a national level during the Covid-19 outbreak.

25. Implications verified by: Ray Chitty, Head of Insurance, tel 07739 315565

LIST OF APPENDICES

None.

Agenda Item 7

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 14/09/2021

Subject: Risk Management

Report of: Director of Audit, Risk, Fraud and Insurance

Summary

The purpose of this report is to provide members of the Audit Committee with an update on risk management across the Council.

Recommendation

For the Committee to review, note and comment on the report.

Wards Affected: None

H&F Values	Summary of how this report aligns to the H&F Values
<ul style="list-style-type: none">• Building shared prosperity	<i>Good risk management helps to: maintain and promote the Council's reputation;</i>
<ul style="list-style-type: none">• Creating a compassionate council	<i>Is an enabling tool to help protect residents and staff including some of the most vulnerable in society;</i>
<ul style="list-style-type: none">• Doing things with local residents, not to them	<i>Place people, businesses and the wider community at the heart of everything we do;</i>
<ul style="list-style-type: none">• Being ruthlessly financially efficient	<i>Ensure robust financial and information management and supports internal control, opportunity and innovation;</i>
<ul style="list-style-type: none">• Taking pride in H&F	<i>Protect valuable assets and the built and natural environment.</i>
<ul style="list-style-type: none">• Rising to the challenge of the climate and ecological emergency	<i>Enabling an approach to climate-sensitive decision making</i>

Financial challenge

The current and future climate for local government represents a significant risk to the council with the ongoing challenge of delivering services with significantly reduced funding levels further impacted by the coronavirus pandemic. This has seen the council incur additional expenditure whilst at the same time seeing reductions in the level of resources available through a combination of lower income levels and inherent pressures that existed prior to Covid-19 which must also be managed.

Financial implications

There are no specific financial implications arising from this report. Services are expected to manage their risks within current budgets. Where additional funds are required to mitigate or manage risks, separate decisions reports will be required for the approval of unbudgeted expenditure.

A standing Corporate risk, Financial Management of in year budget and Medium-Term Planning, identifies the risks to balancing the budget in response to continued government funding and demand pressures faced by the Council and the sector more generally and is assessed as high risk. The in-year position is reported monthly in the Corporate Revenue Monitor to Cabinet. Other corporate risks also identify financial pressures arising from demand and complexity of service provision which need to be managed.

Comments verified by Emily Hill, Director of Finance

Legal implications

There are no particular legal implications arising from this report.

Comments verified by Rhian Davies, Director of Resources

Contact Officer:

Name: David Hughes
Position: Director of Audit, Fraud, Risk and Insurance
Telephone: 020 8753 2587
Email: David.Hughes(Audit)@lbhf.gov.uk

Background Papers Used in Preparing This Report

Risk Registers, reports to Children and Education Policy and Accountability Committee; Health Inclusion and Social Care Policy and Accountability Committee; Finance, Commercial Revenue and Contracts Policy and Accountability Committee.

Background

1. To achieve the ambitions, outcomes and priorities set out in our Business Plan, it is essential that we continue to understand, manage and communicate the diverse range of risks and challenges that could threaten the organisation and vital services. Risks originate from a variety of sources, many of which are out of our direct control for example global events such as the coronavirus pandemic, Brexit, economic or market shocks, austerity or from climate change. More localised incidents can impact on residents, individuals, services and infrastructure.

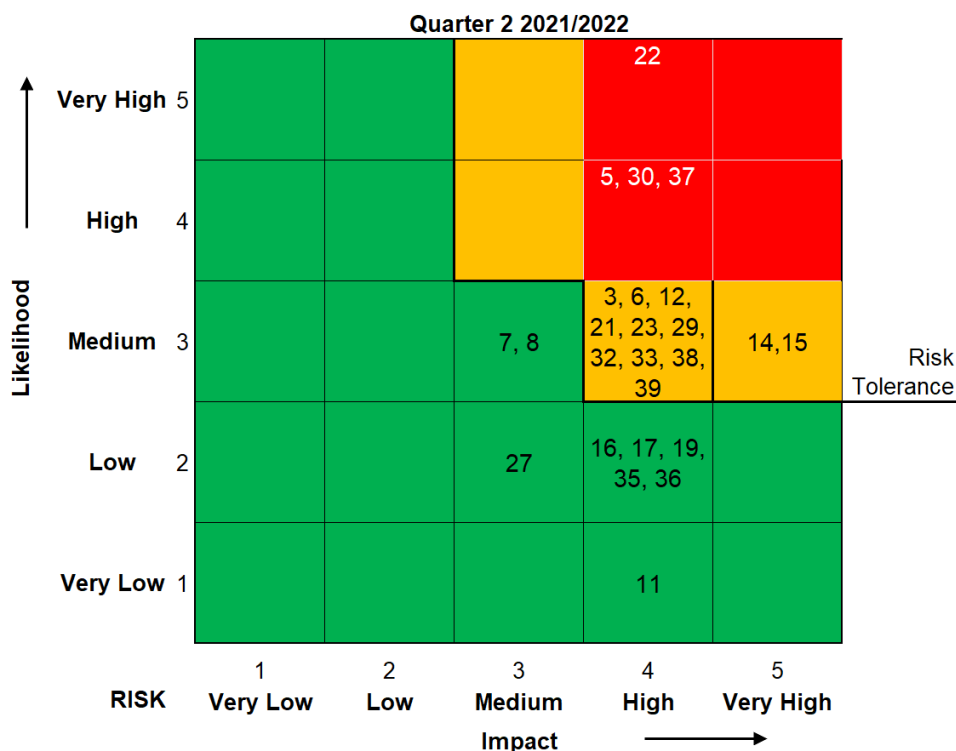
2. It is paramount that all risks are clearly identified, managed and reported through the relevant channel. Risks can never be eliminated entirely but proportionate and targeted action can be taken to reduce risks to an acceptable level. Furthermore, the work of the Council's Policy and Accountability Committees is acknowledged as a source of robust and additional assurance for the management of risk across its services.
3. Effective governance and management of risks are particularly significant as funding for Local Government has diminished authorities' objectives and are becoming increasingly fundamental and relate, for instance, to continuing to meet statutory service obligations. Arrangements must therefore be effective in a riskier, more time-pressured and less well-resourced context.
4. Local authorities are required to maintain a sound system of internal control, including risk management, internal audit, and whistleblowing arrangements. 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 take advantage of potential opportunities to improve services whilst continuing to provide better value for money for residents, visitors, local businesses and service users.
5. 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.
6. As part of its governance arrangements, the Council's approach to risk management requires Directors, managers and staff, through their departmental Senior Management Teams, to:
 - identify risks;
 - assess the risk;
 - agree and take action to manage the risk; and,
 - monitor, review and escalate risks.
7. The Council has robust risk management arrangements in place which feed into the Corporate Risk Register, which is set out in Appendix 1. This register contains the most significant cross-cutting risks that could impact on the outcomes that are set out in the Council's Priorities. These risks can be internal or external facing.
8. Internal risks relate to the organisation itself and cover areas such as programmes, workforce, business continuity, safety or technology. External risks are those that can affect the local area, its people, communities, businesses and infrastructure where the Council often has a role, in partnership, to mitigate them.
9. Risks relating to the Covid Pandemic remain under review, while this report returns to the Corporate Risk Register as indicated at the previous meeting, including the corporate risk around the management of Covid. This report provides the Committee

with an updated Corporate Risk Register, presenting a suite of risks as reviewed by the Council's Strategic Leadership Team.

Corporate risk register

10. The Corporate Risk Register is set out in Appendix 1 and summarised in the following Heat Map as at Quarter 2 for 2021/22:

OVERVIEW RISK HEAT MAP



Risk appetite

11. The Council remains accountable to the public for its performance and financial management. This means that the Council naturally has a low appetite for risk, however as the Covid-19 outbreak continued through a second successive wave the Council needed to take carefully considered risks and develop new and innovative ways to continue to deliver services, support and ensure the long-term wellbeing of communities is not impaired by decisions made in the short term. This makes good risk management essential.
12. This report provides assurance on the council's corporate risk management arrangements, explaining the internal control arrangements in place at a strategic level. It provides one of the sources of assurance the Committee can consider when approving the Annual Governance Statement. It also enables the Committee to fulfil its roles under the Committee's Terms of Reference to review the adequacy of council's Corporate Governance arrangements, including matters such as internal control and risk management.

Key controls in place to manage ongoing Covid risk

13. The council continues to respond well to an unprecedented global crisis within the resources and information available. Its strengths include working with a broad set of

partners, the community and volunteers to mitigate the effects of the outbreak and then to recover. Vaccination, testing, tracing and managing outbreaks and community transmission are essential components in the response to the virus. Effective communications have been central to encourage everybody to take the required steps to help themselves and keep others safe whilst Covid-19 remains in circulation.

14. The current and future financial climate for local government represents a significant risk to the Council's priorities and ambitions. The impact of Covid-19 on the economy is being felt by businesses and residents resulting in an increase in demand of services and significant reductions in income realised by the Council. Whilst every possible effort is being made to protect front line services the position remains challenging and may not be sustainable.

Conclusions

15. Local authorities will continue to face significant pressures over the coming months responding to the ongoing Covid-19 pandemic combined with financial pressures and the other concurrent demand led pressures. Council Officers and services continue to respond with all partners to changing circumstances at pace, interpreting and implementing new guidance and regulations as they arise.

List of Appendices:

Appendix 1 – Corporate Risk Register

Appendix 1 – Corporate Risk Register

Priority	Risk	Risk No.	Q2 21/22 Likeli-hood	Q2 21/22 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
Being ruthlessly financially efficient	Commercial, contract management and procurement risks, rules, outcomes, social value, management of spend and contractor performance management.	3	3	4	Work continues in support of the Ruthlessly Financially Efficient Action Plan. Cardiff City Council are undertaking a Peer review of the Council's operating model for Commissioning and Procurement. The Corporate Procurement Team are reviewing contract expenditure and sample checks on goods receipting is taking place. The Contracts Assurance Board meets weekly, compliance with governance, legislation, the Council's Social Value Policy and RFE are reviewed.	M	Stable	Rhian Davies
Being ruthlessly financially efficient	Failure to maintain services to residents in the even to significant events/incidents where business resilience risks (systems, processes, resources, IT) may be compromised.	5	4	4	The Council must remain vigilant and ensure business continuity plans are robust, particularly in the event of contractor failure, cyber-attack (ransomware) or Public Health issue. All Service departments are required to review, and refresh plans periodically and most recently to accommodate higher risk of Ransomware attacks, the Coronavirus, Brexit and the threat of an act of terrorism in London. Where services have updated continuity plans, they will be reviewed by the Emergency Planning Team. The recent alerts from the Cabinet Office and Public Health England result in the risk levels increasing. A report on cyber security arrangements was provided to the Committee in June 2021.	H	Stable	Rhian Davies
Being ruthlessly financially efficient	Information management and digital continuity, regulations, legislation and compliance.	6	3	4	The nature of the Council's business activities means that there are ongoing information governance risks, including cyber security risks and IT network security, which continue to require careful management.	M	Stable	Rhian Davies
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	3	The Chief Executive chairs the Statutory Accountabilities Board, whose membership includes the Director of Resources, Director of Children's Services and Director of Social Care. The remit of the Board is to review and consider the Council's compliance with its statutory duties. The potential for ongoing changes in the regulatory environment post-Brexit are kept under review, with reporting taking place to SLT and Finance PAC.	M	Reduced	ALL SLT MEMBERS
Creating a compassionate council	i) Standards and delivery of care, protection of children and adults and associated data quality and information risks. ii) Reliance on external assurance providers and providers to identify and communicate issues arising from inspections e.g. Ofsted and Care Quality Commission	8	3	3	The recent Ofsted inspection of Children's Services were judged as 'Good' across all four areas of assessment. Post Ofsted inspection action plan. Directorate specific training courses, training for safeguarding and social work. 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. An external inspection regime RAG rating monitor is included in the quarterly dashboard to SLT Assurance.	L	Stable	Jacqui McShannon/ Lisa Redfern
All Council Values	Decision making and maintaining reputation and service standards. Good Governance, conduct, external inspections.	11	1	4	Corporate inductions for staff and for managers, performance dashboard monitor, decision making training being refreshed, 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, monitoring and authorisation of directly awarded contracts, new governance and decision-making thresholds enacted. Review of corporate policies and strategies framework completed by SLT and kept under review.	L	Stable	Rhian Davies
Being ruthlessly financially efficient	Failure to identify and address internal and external fraud.	12	3	4	Policies are reviewed annually at Audit and Pensions Committee. Refreshed Fraud Response Plan, Anti-Money Laundering and Bribery Policies were reviewed in June 2021. The Council's Anti-Fraud and Corruption Strategy spans 2020-2023 and contains an action plan to provide SLT with a tool to ensure progress and transparency regarding counter-fraud activities. Performance is reported to both the Audit and Pensions Committee and SLT to demonstrate how counter fraud work aligns with the Strategy and contributes to the Council's overall fraud resilience. Fraud Awareness training is available on the Learning Platform to all staff and a bespoke course was assigned to staff in the Social Care department. The Corporate Anti-Fraud Service has been available to support services impacted by COVID-19.	M	Stable	David Hughes

Appendix 1 – Corporate Risk Register

Priority	Risk	Risk No.	Q2 21/22 Likeli-hood	Q2 21/22 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
Taking Pride in Hammersmith & Fulham, Doing things with, not to residents	Failure to ensure compliance with the statutory duties to undertake inspection regimes covering management of asbestos, electrical testing, fire risk, plant and equipment, water testing/Legionella.	14	3	5	Overall compliance reporting of 73 buildings that Property and FM directly provides FM support to as well as a summary of its 6 legally required statutory compliance modules consisting of Fire Management; Electrical; Mechanical; Lift and Lifting Equipment; Occupational Health and Environmental and Energy Management covering in total of 35 workstreams carried out and managed by Property and FM. Housing stock remains compliant across key areas - gas, electrical safety, water etc – monthly rolling monitoring programme in place. Monthly Contract meetings remain in place with all contractors and reported to senior management teams. Annual review of repairs contract in train. United Living, repair contractor for largest lot, to mutually exit, subject to Cabinet sign off (6/9/21) and be replaced by reserve contractor, Morgan Sindall. Risk based assessment in place for 27 buildings over 18+ metres with combustible spandrels/infill panels. Data on DELTA for MHCLG. Works scoped and phase 1 in progress. Compliance based capital works, including fire door upgrades, sprinkler installation, dry riser installation etc continue. FRA works via DLO continue with estimated two year completion date.	M	Stable	Joanne Woodward
Taking Pride in Hammersmith & Fulham, Doing things with, not to residents	Co-ordination and response to calls on the Council for Mutual Aid in a crisis and emergency planning response	15	3	5	Stable, the UK national threat level remains substantial, meaning an attack is likely, and reflects the threat from Islamist, right and left-wing terrorism. This forms the security backdrop to the current moderate rating a slight improvement from the severe rating in the last quarter. During the period London, Streatham, has sadly suffered another terrorist attack.	M	Stable	Sharon Lea
All Council Values	Framework and resourcing of change programmes e.g. Civic Campus, Hello Hybrid Future, new systems, not sufficient to ensure programmes are delivered.	16	2	4	Stable. Mechanisms in place to manage change through SLT, programme/ project governance and teams, the PMO/BI and project methodology. Collectively aim to ensure all major programmes do change well and managers support people well through change.	L	Stable	Emily Hill
All Council Values	Unable to attract and retain talented people to work for LBHF.	17	2	4	The People Strategy implementation including the 'H&F Way' culture change movement and the Race Equality staff working groups are addressing the issues that most concern our workforce to improve our employer reputation and ability to retain talent. The Council is committed to staff wellbeing, learning and development and has delivered online wellbeing and learning and development events throughout the pandemic including World class managers, the H&F Academy (earn while you learn), Wellbeing Wednesdays, mental health first aiders, recruitment for hiring managers and a suite of manager essentials courses. Get Ahead and Apprenticeship schemes are making a difference. Workforce dashboards and KPIs are closely monitored. Attrition has fallen from 16% to 10% (annual labour turnover) and RMB continues to closely monitor all recruitment requests and approvals.	L	Stable	Rhian Davies
Doing things with, not to residents	An event which triggers the Fulham Mortuary being designated as a disaster Mortuary	19	2	4	Designated Disaster Mortuary Plan has been reviewed and updated following recommendation from the Audit and Pensions Committee. FM, Emergency Planning, Coroners Service, Mortuary Service and Borough Solicitor are in a WhatsApp group in the event of an emergency. In the process of organising a tabletop exercise to test the plan.	L	Stable	Rhian Davies
Doing things with, not to residents	Failure to deliver the Civic Campus Programme.	21	3	4	Governance arrangements are in place and now well established, assurance is provided through the Civic Campus Programme Delivery Board and the overall programme status highlight report is noted as green. Key programme milestones, workstream progress, budgets and risks and issues are reported to the Board and to SLT Programme meetings. The Town Hall Extension achieved vacant possession and was handed over.	L	Stable	Joanne Woodward
Creating a compassionate council	Increase in the number of looked after children in the last 3 years creates budget pressures which are not able to be met to deliver the required services.	22	5	4	Over recent years the Children's Services department has experienced increasing demand for its services which has put significant strain on the limited resources available. Referrals and placements for looked after children and care leavers have increased along with significant rises in the demand, complexity and statutory responsibilities for young people with special education needs (SEN). The 2021/22 budget seeks to fund these additional pressures enabling a high-quality service to be maintained whilst also contributing to the requirement for efficiencies in a way that protects young people and improves outcomes.	H	Stable	Jacqui McShannon
Creating a compassionate council	High needs budget pressure continues, impacting on provision of services for vulnerable young residents.	23	3	4	In accordance with the RFE Priority a High Needs Block programme is in place with a focus on Better Outcomes for Children. Monitoring is undertaken by the Director, PMO and SLT Programmes with a designated Project Manager. Programme reports as amber hence the same assessment in this quarter. DSG monitor at SLT Assurance on the Dashboard and the position is reported to the Schools Forum. The council received additional high needs block funding in 2020/21 as part of the additional funding being provided nationally. The risk factors, in part, are the extension of statutory responsibilities to the full 0 to 25 age range, rising demand for Education, Health and Care Plans and funding structures.	M	Stable	Emily Hill

Appendix 1 – Corporate Risk Register

Priority	Risk	Risk No.	Q2 21/22 Likelihood	Q2 21/22 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
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	2	3	A cross departmental taskforce has improved the accessibility of the council's website and other digital services, this was audited and signed off by the Cabinet Office. Every digital service the council builds or buys, and every piece of content produced must now meet accessibility standards. The communications team will also be working with the co-production and housing resident involvement teams to create a citizens' panel the council can use for accessibility and user testing.	L	Reduced	Rhian Davies
All Council Values	Management of complaints, requests for information, members enquiries	29	3	4	Performance has improved across the area since the last review. Whilst there are still performance concerns, they are mainly in the area of complaints and relating to particular service areas rather than across the board. Regular reporting and controls are in place and action being taken to address areas of concern. Since the last review the limited assurance given by internal audit has been upgraded to satisfactory and the ICO has removed the requirement for regular reporting on SARS and FOI as satisfied with improvement. LGSCO is also satisfied with improvement trajectory and actions being taken.	H	Stable	Sharon Lea
Being ruthlessly financially efficient	Financial Management in year budget 2021/2022 and Medium-Term Planning.	30	4	4	The Social Care budget forecast remains caveated with the many unknowns in the budget from the on-going impact of Covid-19 such as the following: 1) the impact of the Hospital discharges placed by the NHS and requiring reassessment of care which is and likely to lead to further additional costs in social care; 2) the impact on the care market providers for on-going additional costs from Covid-19; 3) the impact to achieve the full delivery of savings; & 4) market instability following Covid-19 The continued financial uncertainty regarding government funding of local government beyond 21-22 creates a significant challenge in terms of budget setting and medium-term financial planning and is a risk driver.	H	Stable	Lisa Redfern
All Council values	Corporate management of Health and Safety	32	3	4	A sovereign Health and Safety Board is in place and meets regularly. The Service reports no HSE enforcement this quarter and for the previous quarter. 31 entries are currently on the Operational (Health and Safety) Risk Register. A new safety incident reporting system has been introduced. KPIs for 2021 / 2022 have been agreed by APSC in June 2021: Fire safety policy review (to reflect new legislation); Coronavirus ongoing monitoring and provision of information to worker via IPC awareness (also see risk 37); review of H&S training; improvements to driver safety management; risk profiling to realign council to new ways of working; reduction of work-related stress; training and assessment for the home working environment. Scrutiny of asbestos management in schools has moved in-house from being consultancy based. A deep-dive audit of water hygiene compliance in all council buildings has been initiated this quarter.	M	Stable	Joanne Woodward
Taking Pride in Hammersmith & Fulham, Doing things with, not to residents	Impact on the local economy and businesses from the closure of Hammersmith Bridge to pedestrians, road and river traffic.	33	3	4	Controls from August 2021: CCSO (Group of experts from LBHF officers/Xanta/Motts/WSP) Review monitoring data from the bridge on a continuous basis and continues to meet every two weeks. Opening Bridge reopened on 17 th July after stress reports found that the temperature system and stress was being managed to such an extent that the risk was significantly reduced. Bridge opened up to pedestrians and cyclists. River traffic allowed to operate again under the bridge. Sensors 350 sensors on the bridge monitoring 24/7 with alerts of any changes to officers by text and emails. Temperature Control System – Operational managing chain temperatures to reduce stress on the structure. Sensors alert of any temperature issues outside permitted levels. Monitored 24/7. Stabilisation - Mott MacDonalds option has been selected. Design works underway and report authorising £6 million works has been approved and published.	M	Stable	Sharon Lea
Doing things with, not to residents	Failure to progress safety improvement works on the Charecroft Estate.	35	2	4	As set out in the HRA 12 Year Asset Management Capital Strategy to Cabinet in Sept 2021, Charecroft Phase 1 is currently on site and includes: Fire Doors/Compartmentation, Door Entry, LED Lighting, CCTV and Lifts. Works include firestopping the riser cupboards (all the pipes and cables for the building) and replacing their doors on all 20 floors. Works have been third party verified by Oakleaf. The Phase 2 works: Replacement windows and infill panels, Roofing, External/structural repairs and Sprinkler systems.	L	Stable	Joanne Woodward
Being ruthlessly financially efficient	Failure to transfer the Pension Administration function to a new provider and ensure appropriate records are maintained and payments made.	36	2	4	An external review of the performance of our pension admin provider, Surrey County Council, led to a number of mitigating actions including – the creation of an in-house H&F pensions team and the appointment of a H&F Strategic Pensions Manager, the establishment of a pensions taskforce to oversee the change programme to move from Surrey CC to LPPA in Jan 2022, procurement of an external provider to support with correcting data gaps and a focus on improving performance standards. Regular updates are provided to the Pensions Fund Committee and the Pensions Board. The risk rating has therefore decreased but is monitored on a monthly basis by the pensions taskforce.	M	Reduced	Rhian Davies

Appendix 1 – Corporate Risk Register

Priority	Risk	Risk No.	Q2 21/22 Likeli-hood	Q2 21/22 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
Creating a compassionate council	Coronavirus – spread of infectious disease, particularly affecting vulnerable groups of residents and workforce/ contractors providing front line services.	37	4	4	We are now 18 months into the pandemic, whilst we are amongst the highest infection rate in London, our vaccination rate remains one of the lowest. The risks are dependent on how many staff vaccinated in phase 3 (Flu +booster). The emergent of any new variants which are not responsive to the vaccine. There is a national risk of a further surge testing will continue, Successful testing strategy in place, vaccinations and phase 3 boosters and flu campaign to start Sept 2021 to be a priority alongside continued vigilance, hands face & space. Risk through the winter of Flu, RSV, Norovirus- IPC is key to reduction of spread. Staff training being rolled out level1 & 2 IPC	H	Stable	Linda Jackson
Rising to the challenge of the climate and ecological emergency	Failure on the part of the Council to mobilise its response to the Climate Change emergency.	38	3	4	The Climate Emergency Unit is now in place, with initial posts recruited to. A draft climate strategy for a net zero borough by 2030 has been developed for Cabinet to approve in Autumn 2021. The resident-led commission has now been replaced with a new Climate Strategy Implementation Group to increase scrutiny and deliver actions at pace. A detailed audit of the Council's carbon footprint is now an annual activity to track progress against our action plan and to provide a robust evidence base for costing and prioritising organisational carbon reduction activity. Quick win workstreams to influence emissions through policy have been progressed, including emissions-based policies on parking, council fleet, energy procurement, and wider procurement. Engagement has begun with local businesses and organisations to develop an H&F Climate Alliance, and H&F has been a leader in designing and implementing the UN's climate education programme. Recent flooding has expedited the need for a climate adaptation plan to prepare residents, businesses and the council for more extreme weather including heavy rainfall and heatwaves. Individuals, households and infrastructure will need to adapt and prepare for more of occurrences and the council has an important supporting role.	H	Stable	Sharon Lea
Taking Pride in Hammersmith & Fulham, Doing things with, not to residents	Housing repairs performance - contractor failure (administration) – there are a number of contractors providing repairs and maintenance services to the Council's housing across the borough.	39	3	4	There are robust contract provision for poor performing contractors. There is a regular monitoring of contractors' performance and financial health. There is a clear mechanism for recovery of costs in relation to contractor failure. We have in place reserve contractors for all of the main contractors and continue to build the in-house DLO capability and capacity to take on work. Although these measures would mitigate the disruption in the short term would be significant.	H	Stable	Joanne Woodward

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Key

16-25 Red	High risk, immediate management action is required.
11-15 Amber	Medium risk, review controls for appropriateness and effectiveness
1-10 Green	Low risk, monitor and if escalates quickly check controls
Blue	Opportunity risk

Likelihood and Impact Based on a 1 to 5 scale with 1 Very Low and 5 Very High, the Score then is automatically calculated by multiplying them together.

Help

Risk Description	Risk described in a language that articulates clearly what could go wrong or what opportunity could be achieved.
Residual Exposure	Extent of the risk once the controls are currently in place. This is known as the residual risk and is calculated by multiplying impact of risk and likelihood of occurrence.
Existing Controls	Not all risks can be managed, but those that can are managed using a variety of controls.
	The art of risk management is to apply controls that are effective and efficient in reducing the exposure.
Risk Owner	This is the person or team best positioned to manage the identified risk

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 14/09/2021

Subject: Internal Audit Progress Report (April to August 2021)

Report of: David Hughes

Responsible Director: Director of Audit, Fraud, Risk and Insurance

Summary

This report summarises the work of Internal Audit in the period April to August 2021. Good progress has been made in completing the audit work that started late in the last financial year due to the Covid-19 pandemic. In addition, audits in a number of different areas of the 2021/22 plan have commenced. Although no overall opinion is given at this time on the adequacy and effectiveness of the Council's governance, risk management and controls, it should be noted that all audits finalised in the period received a positive assurance opinion.

Recommendations

1. For the Committee to note and comment on the report.

Wards Affected: None

H&F Values

Our Values	Summary of how this report aligns to the H&F Values
<ul style="list-style-type: none">Being ruthlessly financially efficient	The work undertaken by Internal Audit helps to ensure that management have robust controls and practices in place to safeguard the Council's assets, controlling expenditure and maximising potential income to protect and invest in essential frontline services which are in place to meet the Council's priorities

Contact Officer:

Name: David Hughes
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Background Papers Used in Preparing This Report

None.

DETAILED ANALYSIS

Internal Audit Work April to August 2021

1. The Audit Committee are provided with updates at each meeting on progress against the Annual Audit Plan and on any limited or no assurance audits issued in the period.
2. The Audit Plan for 2021/22 was reviewed by the Audit Committee in March 2021. To ensure that the Annual Audit Plan is more responsive to changing risks and challenges, it has been developed as a '3 plus 9-month' plan. This approach allows for the first three months to be identified in detail with the remaining nine months being more flexible to suit the needs of the Council at the time. The Plan is reviewed and updated following discussions with Directors, taking into account changing risks and priorities. The revised Plan is reported to the Committee on a quarterly basis and any significant changes in the coverage of the Plan will be highlighted.
3. Since the last report to Committee, eight audits have been completed, two of which received a **Substantial Assurance** opinion.
4. In addition, an advisory review has been completed on the quality and accuracy of data in respect of the Youth Endowment Fund Grant.

Internal Audit Opinion

5. Although no overall assurance opinion can be given at this stage, the S151 Officer and the Committee can be assured that sufficient internal audit work is in progress to ensure an appropriate assurance opinion can be provided by the end of the financial year.
6. Appendix 1 shows the finalised audits as at the end of August 2021 and the status of the remaining planned audits is shown in Appendix 2.

Ruthlessly Financially Efficient

7. As part of the Council's drive to be Ruthlessly Financially Efficient (RFE), Internal Audit have been asked to undertake a continuous programme of testing of key financial controls. This testing is currently in progress and outcomes will be reported later in the financial year.

Consultation

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

Legal Implications

9. 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.
10. 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.
11. There are no particular legal implications arising from this report.

Implications verified by Grant Deg, Chief Solicitor, 07798 588 766.

Financial Implications

12. 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.
13. The proposals contained in this paper have no additional resource implications for the audit service.

Implications completed by Andre Mark, Finance Business Partner, 020 8753 6729 and verified by Emily Hill, Director of Finance, 0208 753 3145.

Risk Management

14. 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.

Implications verified by Moira Mackie, Head of Internal Audit, 07800 513 192.

List of Appendices:

- Appendix 1 Summary of Audit Reports finalised as at end of August 2021
Appendix 2 Audit Plan 2021-22 Status Report as at end of August 2021

**Internal Audit – Finalised Audits
(to end of August 2021)**

Plan Area	Auditable Area	Issued	Assurance level given	No of High Priority Recs	No of Med. Priority Recs	No of Low Priority Recs	Reported to Committee
Resources – Digital Services	Post Implementation Review (Techtonic) (2020/21)	Aug-2021	Satisfactory	0	2	2	Sep-2021
Resources – Democratic Services	Elections Readiness (2020/21)	Aug-2021	Substantial	0	0	0	Sep-2021
Children’s Services	Youth Endowment Fund Grant	Jul-2021	Advisory	1	1	0	Sep-2021
Schools	Avonmore Primary (2020/21)	Jul-2021	Satisfactory	0	5	2	Sep-2021
	John Betts Primary	Jun-2021	Satisfactory	0	1	4	Sep-2021
Social Care and Public Health	Supervision – Compliance (2020/21)	Aug-2021	Satisfactory	0	2	7	Sep-2021
Economy	Integrated Housing Management System (IHMS) Programme Management	Jun-2021	Satisfactory	0	3	6	Sep-2021
Environment	Grounds Maintenance – Contract Monitoring (2020/21)	Aug-2021	Satisfactory	0	3	1	Sep-2021
	NNDR (2020/21)	Jun-2021	Substantial	0	0	1	Sep-2021

Internal Audit Plan 2021/22 Status Report (as at end of August 2021)

Plan Area	Draft Report Issued	In Progress	2021/22 - Not Yet Due
Cross-cutting	2020/21: <ul style="list-style-type: none"> Contract Management (Apr-2021) 	2020/21: <ul style="list-style-type: none"> DPO/ GDPR Support (Information Assets) Waivers (report drafted) 2021/22: <ul style="list-style-type: none"> RFE – Financial /HR Compliance Debt Management VAT 	<ul style="list-style-type: none"> Contract Management Framework Governance & Compliance (gifts & hospitality, declarations of interest)
Finance	2020/21: <ul style="list-style-type: none"> Housing Rents (Aug-2021) 	2020/21: <ul style="list-style-type: none"> Treasury Management (report drafted) 2021/22: <ul style="list-style-type: none"> Use of & Control of Purchasing Cards (report drafted) 	
Resources		2021/22: <p>People & Talent:</p> <ul style="list-style-type: none"> Overtime Employment Tribunals Agency Spend Sickness Absence <p>Digital Services:</p> <ul style="list-style-type: none"> IT Asset Management Ransomware 	<p>People & Talent:</p> <ul style="list-style-type: none"> Performance Management Equalities Impact Assessments Annual Leave <p>Legal Services:</p> <ul style="list-style-type: none"> Disrepair Legal Claims Accessibility Requirements <p>Digital Services:</p> <ul style="list-style-type: none"> Remote Working Resilience IT Audit Needs Assessment IT Service Continuity Plans

Internal Audit Plan 2021/22 Status Report (as at end of August 2021)

Plan Area	Draft Report Issued	In Progress	2021/22 - Not Yet Due
Children's Services	2020/21: <ul style="list-style-type: none"> Placements – Advisory (Jul-2021) Recharging for SEN (Jun-2021) 	2020/21: <ul style="list-style-type: none"> Use of Spot Contracts (report drafted) 2021/22: <ul style="list-style-type: none"> Supporting People Claims (on-going) No Recourse to Public Funds (to include Economy & CAFS) 	<ul style="list-style-type: none"> Raising Payments on Mosaic/ IBC
Schools	2020/21: <ul style="list-style-type: none"> St John's XXIII Primary (Jun-2021) Flora Gardens Primary (Jun-2021) 2021/22: <ul style="list-style-type: none"> Miles Coverdale Primary (Jul-2021) St Augustine's RC Primary (Aug-2021) 	2020/21: <ul style="list-style-type: none"> School Bursarial Service (report drafted) 2021/22: <ul style="list-style-type: none"> Sir John Lillie Primary St Paul's C of E Primary Vanessa Nursery Wendell Park Primary 	<ul style="list-style-type: none"> Bayonne Nursery Brackenbury Primary Larmenier Sacred Heart Primary Old Oak Primary William Morris 6th Form Schools Thematic Work (VAT)
Social Care & Public Health	2020/21: <ul style="list-style-type: none"> Mosaic Financial Controls (draft to be updated) 	2021/22: <ul style="list-style-type: none"> PFI Programme 	<ul style="list-style-type: none"> Commissioning & Procurement Learning Disabilities – CLCH S75 Agreement – West London NHS Trust Integrated Care Partnership
Economy	2020/21: <ul style="list-style-type: none"> Housing Decants (Jun-2021) Security – Resource Management (Aug-2021) 	2020/21: <ul style="list-style-type: none"> Corporate Health & Safety (report drafted) Homelessness Service Charges (report drafted) Maintenance of Play Equipment (report drafted) 2021/22: <ul style="list-style-type: none"> Techforge Property System DLO Communal & Programmed Remedial Works Fire Safety 	<ul style="list-style-type: none"> Leaseholder Debt Capital Projects – Post Completion Records Lift Maintenance HRA Cost Apportionment Capitalisation of Works Housing Repairs Gas Safety

Internal Audit Plan 2021/22 Status Report (as at end of August 2021)

Plan Area	Draft Report Issued	In Progress	2021/22 - Not Yet Due
Environment	2020/21: <ul style="list-style-type: none"> Parking – PRP Scheme (Jun-2021) 	2020/21: <ul style="list-style-type: none"> CCTV – Contract Management (report drafted) 2021/22: <ul style="list-style-type: none"> Leisure Centres 	<ul style="list-style-type: none"> NNDR Council Tax Housing Benefit