

Audit Committee

Agenda

Wednesday 31 July 2024 at 7.00 pm

145 King Street (Ground Floor), Hammersmith, W6 9XY

Watch the meeting live: youtube.com/hammersmithandfulham

MEMBERSHIP

| Administration | Opposition |
|--------------------------------------------------------------------------------------------------|---------------------------------|
| Councillor Patrick Walsh (Chair) Councillor Florian Chevoppe-Verdier Councillor Lisa Homan | Councillor Adrian Pascu-Tulbure |
| | Independent |
| | Councillor David Morton |

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Members of the public are welcome to attend, but spaces are limited so please contact Debie.Yau@lbhf.gov.uk if you'd like to attend. The building has disabled access.

Date Issued: 23 July 2024

Audit Committee Agenda

| <u>Item</u> | | <u>Pages</u> |
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| 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 | | 5 - 14 |
| | <p>To approve the minutes and exempt minutes of the previous meeting and to note any outstanding actions.</p> <p><i>This item includes an exempt document. Discussion of it will require passing the proposed resolution at the end of the agenda to exclude members of the public and press.</i></p> | |
| 4. EXTERNAL AUDIT PLAN 2023/24, AUDIT RISK ASSESSMENT AND STATEMENT OF ACCOUNTS UPDATE | | 15 - 88 |
| | <p>This report, for information, presents the external audit plan and risk assessment for the audit of the financial year 2023/24. In addition, it provides an update on the Statement of Accounts for 2022/23 and 2023/24.</p> | |

- 5. EXTERNAL AUDIT PROGRESS AND SECTOR UPDATE** 89 - 104
- The following is presented by the External Auditor for discussion and noting:
- External Audit Progress and Sector Update (June 2024)
- 6. CORPORATE ANTI-FRAUD SERVICE ANNUAL REPORT 2023/24** 105 - 121
- The Council takes its responsibilities to protect the public purse very seriously and is committed to protecting the public funds it administers. This report provides an account of fraud-related activity undertaken during the financial year 2023/24 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.
- This item includes an appendix that contains exempt information. Discussion of the appendix will require passing the proposed resolution at the end of the agenda to exclude members of the public and press*
- 7. RISK MANAGEMENT UPDATE** 122 - 127
- The purpose of this report is to provide members of the Audit Committee with an update on risk management across the Council, including the steps being taken to refresh the Corporate Risk Register and to update the Risk Management Strategy.
- 8. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2023/24** 128 - 171
- This report summarises the work of Internal Audit in 2023/24 and provides 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. This opinion is provided for the use of the London Borough of Hammersmith and Fulham and is used to support its Annual Governance Statement.
- 9. DATES OF FUTURE MEETINGS**
- The following meeting dates have been scheduled:
- 16 September 2024
 - 9 December 2024
 - 10 March 2025
- 10. EXCLUSION OF THE PUBLIC AND PRESS (IF REQUIRED)**

Proposed resolution:

The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in 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.

London Borough of Hammersmith & Fulham

Audit Committee Minutes



Monday 11 March 2024

PRESENT

Committee members: Councillors Patrick Walsh (Chair), Florian Chevoppe-Verdier, Ashok Patel (attended remotely), Adrian Pascu-Tulbure and David Morton

Other Councillor: Councillor Rowan Ree (Cabinet Member for Finance and Reform)

Officers:

Joanna McCormick (Acting COO, Corporate Services)
Sukvinder Kalsi (Strategic Director of Finance)
James Newman (Assistant Director of Finance)
David Hughes (Director of Audit, Fraud, Risk and Insurance)
Moir Mackie (Head of Internal Audit)
Jules Binney (Risk and Assurance Manager)
Tina Akpogheneta (Chief Digital Officer)
Ben Savage (Head of Information and DPO) (attended remotely)
Debbie Yau (Committee Coordinator)

Guests:

Paul Dossett (Key Audit Partner, Grant Thornton)
Andy Conlan (Senior Manager, Grant Thornton)

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

Councillor Ashok Patel attended the meeting remotely and he left the meeting before the private session of item 8.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF THE PREVIOUS MEETING

Matters Arising

Sukvinder Kalsi (Strategic Director of Finance) advised that the External Auditor had issued an unqualified opinion on the Statement of Accounts 2021/22 Accounts on 22 February 2024. The Committee noted the supplementary update on the conclusion of the audit of the Statement of Accounts 2021/22.

RESOLVED

That the minutes of the meeting held on 27 November 2023 were agreed as an accurate record.

4. STATEMENT OF ACCOUNTS 2022/23

Sukvinder Kalsi (Strategic Director of Finance) presented the report which presented the 2022/23 Statement of Accounts of London Borough of Hammersmith and Fulham (LBHF), including the Pension Fund Accounts and Annual Governance Statement for approval.

Andy Conlan (Senior Manager, Grant Thornton) briefed members that the Audit Findings Report (ISA260) (Main Financial Statements and LBHF Pension Fund) 2022/23 (Appendix 2) had been completed during October 2023 through to February 2024. While it was a challenge for both sides to work collaboratively on the audits for both 2021/22 and 2022/23 concurrently, it had allowed the latter audits to be substantially completed more efficiently. It was expected the unmodified opinion would be signed off in line with the Government timetable by end of March 2024. Having caught up all the audits to the current year, the External Auditor would start planning for the 2023/24 audits shortly. Andy referred members to “Follow up to prior year recommendations” on pages 193 to 195 and “Audit Adjustments” on pages 196 to 200. He noted that given the concurrent preparation of the statements, some of the prior year recommendations were ongoing in the 2022/23 financial year. He also noted that there were a small number of unadjusted misstatements and minor misclassification and disclosure amendments. The External Auditor considered it was reasonable to leave those issues unadjusted as they were below materiality.

Referring to the “Fees and non-audit services” on pages 201 to 202, Councillor Ashok Patel sought explanation on the difference between the proposed and final fees. Paul Dossett (Key Audit Partner, Grant Thornton) highlighted the complexity of the process in setting the audit fee for local governments. He said that the fees in this report reflected the five-year contract made by the Public Sector Audit Appointments (PSAA) for the period between 2018/19 and 2022/23. The fee schedule therein comprised a base scale fee plus additional charges arising from new audit requirements as a result of regulation or changes in auditing standards. Paul noted that according to the PSAA, the contract from 2023/24 onwards had a new set of scale fees allowing some degree of resilience to avoid major deviations from those in the next contract period.

In this connection, the Chair remarked that following the exit of certain market players, the number of auditors who possessed the specialist skills to undertake audits for local governments became very limited. He understood that a vast majority of councils had subscribed to PSAA’s service and those that had not did struggle to meet their statutory obligations for audits.

Echoing the Chair’s views, Councillor Florian Chevoppe-Verdier appreciated the difficulties due to the complicated auditing process, the increasing reporting requirements and diversity in the auditing market. He considered that transparency and democracy came with a cost. Separately, he was pleased to note the Council’s

performance from the Statement of Accounts 2022/23. While some councils had gone bankrupt a year after COVID, this Council, despite operating with a 10% funding cut, had managed to stay in positive financial situations and continue its policies to provide its residents free home care and free school meals.

Sukvinder Kalsi advised that the Council was an immensely complex organisation with enormous capital spending and revenue. He reassured the Committee that according to the independent review of the External Auditor on H&F's financial affairs, the Council had done a good job outperforming many other councils. As regards the Audit fee, as he recollected and confirmed by David Hughes, the final fees were about 50% in cash terms as compared to that some 5 to 10 years ago. While there might be a slight uplift following the PSAA's latest arrangements, he considered it was a worthwhile investment as the Council's residents and stakeholders were assured that the Council was well managed financially.

Recalling that some councils had experienced substantial delays in auditing their accounts, the Chair asked about the present position of the Council in comparison with local authorities overall. Paul Dossett (Key Audit Partner, Grant Thornton) remarked that by signing off the 2022/23 audits before the end of March, this Council sat comfortably on the top half. He then briefed members about the situation of council audits by the backstop deadline on 30 September 2024.

Anticipating the External Auditor's busy schedule over the next few months, Councillor Rowan Ree (Cabinet Member for Finance and Reform) was keen to ensure the signing off of the 2022/23 audits by the end of March. Paul Dossett highlighted the Grant Thornton's commitment to do so. He said the H&F's 2022/23 audit work had been substantially completed, pending clearance of the final set of queries. Paul noted it was also Grant Thornton's intention to complete H&F's 2023/24 audits within this year.

Noting the central government was discharging single-year financial settlement for local authorities, Councillor Chevoppe-Verdier was concerned about the long-term impact of such practice. Councillor Ree highlighted the chaotic ways of the central government in dispensing the financial settlement which had made financial planning a lot harder. In addressing the single-year financial settlement which was the sixth year in a row, the Council had set the budgets by making small conservative assumptions and building in high levels of policy contingencies based on high inflation rate. Worst case and other scenarios had been worked out in anticipation of the central government's funding levels. Councillor Ree remarked that the practice of single-year financial settlements was one of the factors that had made the Council's financial management a lot harder. He hoped that the practice would be reviewed after the next election.

Councillor Adrian Pascu-Talbure referred to the Council's key risks on page 30 and queried why housing was not one of the highest-level risks. Sukvinder Kalsi advised that details of the Housing Revenue Account (HRA) were covered under the Annual Governance Statement. He noted that HRA had been under financial stress during 2022/23 but the Council had done recovery and mitigation actions to improve its position. The structural deficit of HRA of £4.1 million at the start of 2022/23 had been reduced to £1.4 million in 2023/24 and eliminated entirely going into 2024/25. To

keep the HRA in a stronger and more stable position, a minimum balance of £5 million would be maintained. Councillor Ree appreciated the efforts taken to stabilise the HRA. Following the publication of its 10-year business plan, it was now clear how the HRA reserves would grow and become stronger over time while spending the monies therein wherever needed. He welcomed future audits on the HRA.

Councillor Pascu-Tulbure sought information on income figures from fines, e.g. parking and clean air neighbourhood. Sukvinder Kalsi highlighted that by nature the Statement of Accounts summarised the income and expenditure accounts on a balanced sheet and record reserve movements. He undertook to provide the requested information which fell under the Environment Department.

ACTION: Sukvinder Kalsi

Noting that the debts enlisted under “Debtors” on page 70 involved reasonable amount of money, Councillor Patel was keen to ensure that actions were being undertaken to recover them. Sukvinder Kalsi assured the Committee that the Council had been taking active steps through the Debt Board to manage and improve the overall position of the debts. As the Chair of the Debt Board, James Newman (Assistant Director of Finance) noted the Board would continue to review different types of debts notably business rates and council tax as well as the most efficient ways and procedures to collect them. It was reckoned that the more debts were collected, the less need to identify savings to cover the bad debts.

Councillor Ree considered it was very important for the Council to collect council tax, business rates and service charges timely to pay off contract sums. However, in the face of economic downturn, the Council was keen to ensure that people were not put under unnecessary financial hardship when it came to paying for the services they had received. They must pay but it could take a bit more time to do so.

Councillor Patel referred to Aviva Investors which shared the same “reasonable assurance” as other fund managers on this 2022/23 audits report (page 235). He understood that during 2023/24, the Council had decided to redeem the units in the Aviva Fund and asked about the progress. Sukvinder Kalsi and Councillor Chevoppe-Verdier noted that the advisor of the Pension Fund Committee (PFC), Deloitte (now renamed as Isio) had advised the Committee to disinvest from the Aviva Fund. Unfortunately, Aviva failed to sell a number of assets and the H&F Pension Fund had only been able to recover some of the investment. At the last PFC meeting attended by Aviva directors, it was agreed that the outstanding amount would be payable by the end of June this year. Councillor Chevoppe-Verdier said the PFC was not happy about the need to continue paying the management fee and would deal with the matter strictly.

Councillor Pascu-Tulbure appreciated the transparency on officers’ remuneration on pages 80 and 81. Noting that some non-senior officers were earning serious money with remuneration band in the range of up to £165,000 - £169,000, he was concerned about the job descriptions of these staff. Sukvinder Kalsi noted that the Statement had complied with the statutory reporting requirements by disclosing the remuneration packages for senior staff and set out some remuneration bands for officers across the Council from £50,000 onwards. James Newman added that

senior staff included the Council's Chief Executive, Statutory Chief Officers and members of the Strategic Leadership Team (i.e. those reporting to the Chief Executive).

Councillor Ree expressed thanks to Grant Thornton for its audit reports which offered reassurance to the Council's residents and business partners that the Council was operating in a stable financial position. Councillors and officers could also take the opportunity to review and improve the service delivery particularly at a time of funding cut.

RESOLVED

That the Committee agreed

1. To approve the 2022/23 Annual Governance Statement which was included in the Statement of Accounts (Appendix 1).
2. To approve the Statement of Accounts for 2022/23, including the Pension Fund Accounts (Appendix 1).
3. To note the content of the external auditor's 'Audit Findings Report' (ISA260), including the auditor's findings, recommendations and the Council's response to those recommendations (Appendix 2).
4. To approve the 2022/23 management representation letters (Appendices 3 and 4).
5. To approve the Pension Fund Annual Report 2022/23 (Appendix 5).
6. To note that the accounts remain 'unaudited' until final sign-off by the external auditor.
7. To delegate authority to the Chair of the Audit Committee, in consultation with the Director of Finance to approve any further adjustments to Appendices 1, 2, 3, 4 and 5 which might be required as part of the completion of the audit work.

5. EXTERNAL AUDITOR PROGRESS AND SECTOR UPDATE

Councillor Florian Chevoppe-Verdier referred to the consultations issued by Department of Levelling Up, Housing and Communities and National Audit Office on measures to address the delay in local audit. He was interested to note the point of view from Grant Thornton and requested it to circulate its response, if any. Paul Dossett (Key Audit Partner, Grant Thornton) confirmed the firm had provided a formal response. He agreed to check whether the response was a public document and revert.

ACTION: Grant Thornton

The Chair expressed appreciation on the delivery of audits in a timely manner and hoped that this would continue.

RESOLVED

That the Committee noted the External Auditor Progress Report and Sector Update.

6. INTERNAL AUDIT PROGRESS REPORT (APRIL 2023 TO FEBRUARY 2024)

Moira Mackie (Head of Internal Audit) presented the report which summarised the status of work included in the 2023/24 Internal Audit Plan as at the end of February 2024. The Committee noted that six audits had been finalised, two of which (Council Tax and Housing Benefit) received a Substantial assurance opinion and four (Digital: New Systems Acquisition, Randolph Beresford Nursery, Community Safety – Anti-Social Behaviour and Climate Change) received Satisfactory assurance, with a further three audits at draft report stage. She also briefed members on the finalised audits (Appendix 1) and the status of the remaining planned audits (Appendix 2).

The Chair noted that certain plan areas needed to be deferred for different reasons. He was concerned whether the capacity of the audit team would be able to cope with the workload in dealing with these deferred audits in addition to the regular ones.

Moira Mackie remarked that the team took a risk-based approach to the audit plan. So, a plan area which was lower down on the priority list because of the risks at the time of assessment might be due for an audit later in the following year. For some which had been carried forward for more than one year and were not so significant or just a cyclical piece, some assurances could be obtained from other sources without comprising the plan. She was confident the allocated resources would be sufficient to meet the needs.

The Chair noted that some schools had requested to defer internal audits due to staff changes. He asked how the new incumbents managed to prepare for the audit according to the accounting and audit practices. Moira Mackie remarked that the in-house audit team would not arrange audits for schools having had some significant changes and give sufficient notice when they were ready. In undertaking an audit with these schools, the audit team, apart from liaising with the Council's governance and finance teams, would reach out to the school and its finance team, and if necessary, provided close support to the new staff.

Councillor Ashok Patel noted that to ensure the Annual Audit Plan 2023/24 being more responsive to changing risks and challenges, it had been developed as a '3 plus 9-month' plan (page 381). He considered a 6+6-month plan might help avoid duplication of work.

David Hughes (Director of Audit, Fraud, Risk and Insurance) explained that the 3+9-month approach started during COVID having regard that the risks of plan areas in local governments were changing much quicker than that in the past. As such, the annual plan set out in clear details the scope of work to be done in the next quarter while leaving more flexibility on the tasks to be undertaken in the remaining nine months. The plan was reviewed and updated every quarter. In this way, team resources could be deployed effectively by focusing on the key risks identified by the service directors for the next quarter.

Councillor Adrian Pascu-Tulbure sought information on the recommendations particularly high priority ones that had been identified during the audit process. Moira Mackie noted from her recent review that there were no significant recommendations found. However, the annual report to be presented in summer should involve a few pieces of more complicated work with outstanding issues highlighted for members' reference. David Hughes echoed that the more complicated cases usually took more time to complete. He suggested including in future reporting a section on follow up to prior recommendations to assure the Committee there was no risk. The Committee agreed.

ACTION: David Hughes / Moira Mackie

RESOLVED

That the Committee noted the report.

7. DRAFT INTERNAL AUDIT PLAN 2024/25

Moira Mackie (Head of Internal Audit) presented the Strategic Audit Plan which documented significant, persistent risks that the Council faced and the business areas to be covered over a five-year period. The Strategic Plan supported the annual planning process and ensured that internal audit continued to provide assurance over the breadth of the Council's operations.

David Hughes (Director of Audit, Fraud, Risk and Insurance) added that the way of flexible planning and focusing on key risks was now commonly adopted by the sector across London and in line with the new global internal audit standard. It helped to demonstrate assurance around the Council's objectives and key priority areas. He informed members that a paper on the new global internal audit standard, together with the requirements and best practices of internal audit as well as the role of audit committees would be prepared for this Committee's consideration in due course.

Councillor Florian Chevoppe-Verdier noted that one of the changes to the way of delivering the Internal Audit Service was to increase the attendance on working groups to provide advice and constructive challenge where real time input to projects and initiatives would be useful (page 390). He was concerned about the transparency of these working groups, including the membership, meeting details and minutes.

In response, David Hughes cited the example of the Civic Campus project where good governance arrangements and records had been in place such that officers, having recognised the key risks, continued to review the effectiveness of mitigation actions taken. Another example was the Housing's repairs service. Instead of doing the audits, the internal audit team worked proactively alongside with them in the last 12 to 18 months to make sure the risks were assessed and tracked, and the action plans were robust and monitored. The internal audit team had actively been involved in these working groups but no formal report had been prepared at the end of the process. David suggested adding the working groups' updates to the progress report. Councillor Chevoppe-Verdier supported as it helped enhance the Committee's understandings of the working groups and reflected the internal audit team's strength in interventions.

ACTION: David Hughes / Moira Mackie

Noting from the Draft Internal Audit Plan 2024/25 that it was planned to review readiness for voter ID and postal voting controls in the second quarter, Councillor Ashok Patel considered the timeframe was rather late given the mayoral election was happening on 2 May and the general election any time before January 2025. David Hughes remarked that again, instead of doing traditional audit, the team would work alongside officers to review the process and improve controls while giving assurance. As the issue of voter ID was more significant on the general election, the internal audit team would work with elections colleagues during the process to make sure the postal votes and the elections came through successfully.

Councillor Rowan Ree (Cabinet Member for Finance and Reform) said he understood that over the last few months, the election and registration team had been looking at election reports in particular those involving borough-wide election under the new system. At the request of Councillor Chevoppe-Verdier, David Hughes said he could provide an update on the work done in relation to the mayoral election at the next Committee meeting on 17 June 2024. Members agreed.

ACTION: David Hughes / Moira Mackie

RESOLVED

That the Committee noted the early draft of the Annual Audit Plan and the draft Strategic Audit Plan as set out in Appendices 1 and 2 respectively.

8. RISK MANAGEMENT UPDATE

David Hughes (Director of Audit, Fraud, Risk and Insurance) introduced the report which provided an update on risk management across the Council. Jules Binney (Risk and Assurance Manager) briefed members on changes made to the Corporate Risk Register since November 2023.

Councillor Florian Chevoppe-Verdier referred to Risk No. 8 ((Failure to identify and address internal and external fraud). While appreciating a lot of progress had been made in this respect, he was concerned that fraud had become the number one crime in the country. It was important for the local authority to continue sharing fraud data with the London Fraud Hub which matched a number of data sets across councils in London to highlight potential fraud cases for investigation. David Hughes gave a detailed account on the development of the National Fraud Initiative back in 2019 and the uptake barrier due to pre-dative cost. Now about 20 London boroughs had signed up at reasonable price. Data sets, including those from agency members, were shared and matched every month to detect tenancy fraud, parking fraud or moonlighting etc. Consideration was given to putting more data sets to enable frontline staff to check people's eligibility for services to prevent fraud access to the same service in different councils.

In response to Councillor Chevoppe-Verdier's question whether data from private sector could also be shared and matched, David Hughes said there was a business

case for the National Fraud Initiative to consider particular areas of concern such as NHS. By putting the relevant data together, the Council could then take actions proactively and reactively. David added that H&F's BI team was establishing an internal fraud hub such that investigation underway would be made known to other teams serving the same client. It could also help in debt recovery.

Councillor Rowan Ree (Cabinet Member for Finance and Reform) appreciated the sharing of extra data across the borough which shall give the Council chances to look at all sort of services and track down fraud cases. He shared with the Committee that a former tenant was recently found guilty of committing tenancy fraud and sentenced to 16-month suspended imprisonment.

Councillor Ashok Patel referred to Risk 12 (Unable to retain talented people in key posts at LBHF) and sought explanation of "‘deep dive’ to analyse churn more closely". In response, David Hughes remarked that there were particular skill shortages across London councils and audit specialist was a case in point. Social care, environmental health and information technology were other areas experiencing skill shortage. People from permanent employment were diverted to work for agencies which offered higher pay rates. The Council, apart from providing apprentice training for skills in demand, was also looking at how to make the offers as attractive as possible for these areas.

The Chair noted that some risks had reduced its scores and a risk had been removed from the list. This reflected the effectiveness of Corporate Risk Register as a tool used by various departments to manage and mitigate the risks until they were successfully removed.

Exclusion of the public and press

The Committee 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 exempt presentation, on the grounds that they contained 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 outweighed the public interest in disclosing the information.

The Committee held further discussions in private session.

RESOLVED

That the Committee noted the report including the exempt presentation.

9. DATES OF FUTURE MEETINGS

The Committee noted the dates of future meetings:

- 17 June 2024
- 16 September 2024
- 9 December 2024
- 10 March 2025

10. EXCLUSION OF THE PUBLIC AND PRESS (IF REQUIRED)

Please see item 8.

Meeting started: 7.00 pm
Meeting ended: 9.02 pm

Chair

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Agenda Item 4

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 31/07/2024

Subject: External Audit Plan 2023/24, Audit Risk Assessment and Statement of Accounts Update

Report author: Christopher Harris, Head of Corporate Accountancy, Finance Systems and Tax

Responsible Director: Sukvinder Kalsi, Executive Director Finance and Corporate Services

SUMMARY

This report, for information, presents the external audit plan and risk assessment for the audit of the financial year 2023/24. In addition, it provides an update on the Statement of Accounts for 2022/23 and 2023/24.

RECOMMENDATIONS

1. To note the 2023/24 External Audit Plan as prepared by the Council's External Auditor, Grant Thornton (Appendix 1).
2. To note the contents of the report produced by Grant Thornton on Informing the audit risk assessment 2023/24 and the responses from management (Appendix 2).

Wards Affected: All

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 | As part of the financial governance of the Council, and to ensure the Council is using its resources effectively, there is a need to appoint a suitable external auditor. |

Financial Impact

There are no direct financial implications in relation to this report.

Legal Implications

There are no direct legal implications in relation to this report.

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Background Papers Used in Preparing This Report

None

External Audit Plan 2023/24

1. The Council's external auditor (Grant Thornton UK LLP) is required to share with the Audit Committee its audit plan for the financial year subject to audit.
2. The external auditors proposed audit plan for the year of account 2023/24 is attached at appendix 1. The auditor will also be presenting the plan to the Committee.

Informing the audit risk assessment 2023/24

3. The Council's external auditor, Grant Thornton, has additionally submitted a report on Informing the Audit Risk Assessment 2023/24 (appendix 2).
4. The report, which includes management responses, sets out a series of risk assessment questions aimed at obtaining an understanding of management processes and the Council's oversight of the following areas:
 - General Enquiries of Management
 - Fraud
 - Laws and Regulations
 - Related Parties
 - Going Concern
 - Accounting Estimates

Update on Statement of Accounts

5. The external auditor issued an unqualified opinion on the 2022/23 Accounts on 28 March 2024, these accounts having previously been approved by Audit Committee on 11 March 2024. There are no significant differences to report between the previous Committee version and the final accounts (i.e. the net position on the main statements and usable reserves position remains unchanged).
6. The draft (unaudited) 2023/24 Statement of Accounts were published on 31 May 2024 in accordance with the statutory deadline. The draft accounts are published on the Council's website here:

<https://www.lbhf.gov.uk/sites/default/files/2024-05/draft-lbhf-statement-of-accounts-2023-24-unaudited.pdf>
7. Further to publication of the draft accounts, the public inspection period commenced on 3 June 2024 and ran until 12 July 2024.
8. Further to the completion of external audit work, the final 2023/24 accounts will be presented to the Audit Committee at a future meeting for approval.

LIST OF APPENDICES:

Appendix 1 – Grant Thornton – External Audit Plan 2023/24

Appendix 2 – Grant Thornton – Informing the audit risk assessment for London Borough of Hammersmith and Fulham and the Pension Fund 2023/24

External Audit Plan for London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund

Year ending 31 March 2024

June 2024



Contents



Your key Grant Thornton team members are:

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Section

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| Significant risks identified | |
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| Other matters | |
| Our approach to materiality | |
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| Value for Money Arrangements | |
| Audit logistics and team | |
| Audit fees and updated auditing standards | |
| IFRS 16 ‘Leases’ and related disclosures | |
| Independence and non-audit services | |
| Communication of audit matters with those charged with governance | |
| Escalation policy | |
| Preparing for the backstop | |

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|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Page | 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 Council 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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Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report [About time?](#) in March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters (continued)

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been set by Public Sector Audit Appointments (PSAA).
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Director of Finance Quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will monitor and report on progress against our prior year recommendations, in relation to both our audit work and VFM work.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Key matters (continued)



Our Responses (continued)

- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We have identified a significant risk with regard to management override of controls to reflect this – please refer to page 11 for more detail.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have considered all revenue streams of the Council and we have rebutted this significant risk for all revenue streams. We have also determined this to be appropriate for all expenditure streams – please refer to page 9 and 10 for more detail.
- All other significant risks are in line with prior years, reflective of the limited change in operations and internal environment, and are detailed on pages 12-14.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the London Borough of Hammersmith and Fulham ('the Council') and Hammersmith and Fulham Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

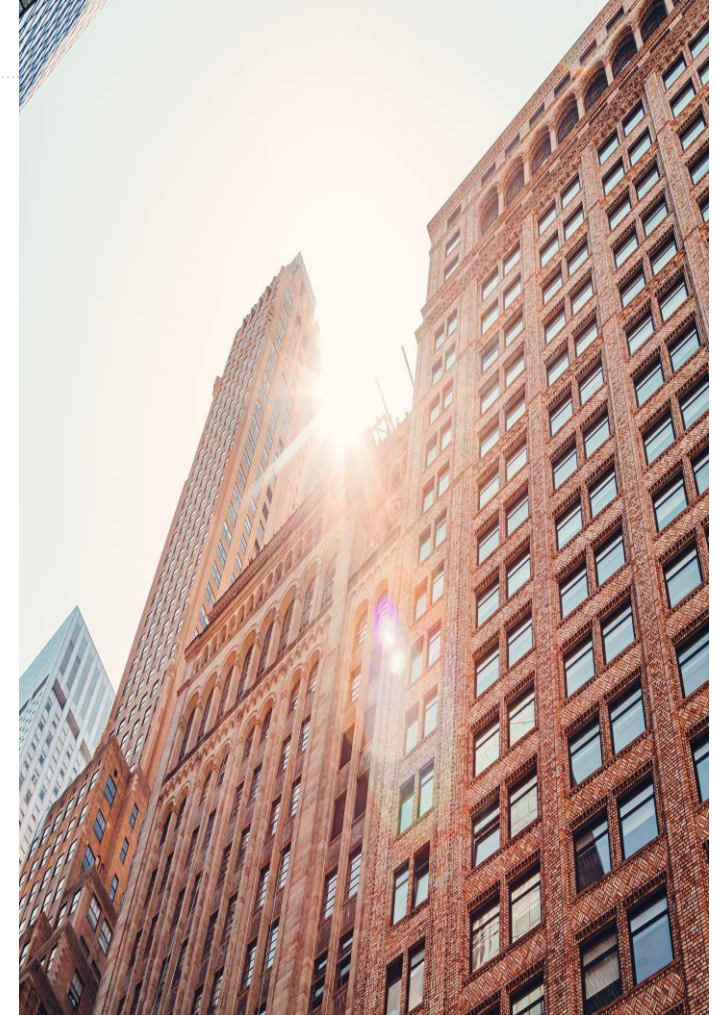
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code which is currently being consulted upon. This Plan reflects the requirements of the Code of Practice which came into effect 1 April 2020. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Westminster City Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and we consider whether there are sufficient arrangements in place at the Council and Pension Fund for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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



Introduction and headlines (continued)

Significant risks

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

Council

- The risk that the valuation of land and buildings in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

Pension Fund

- The risk of management override of controls.
- The risk that the valuation of level 3 investments in the accounts is materially misstated

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

Council

We have determined materiality to be £11.1m (PY £11.1m), which equates to 1.5% of the Council's gross expenditure (cost of services) for the year.

We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100,000 (PY £100,000) for senior officer remuneration

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.6m (PY £0.6m).

Pension Fund

We have determined materiality to be £16.18m, which equates to 1.26% of the Pension Fund's net assets as at 31 March 2023.

A separate materiality has been set for the Fund Account of £6.3m to detect errors in specific accounts at a lower level of precision.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.809m.

Introduction and headlines (continued)

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money remains ongoing. To date this has not identified any new risks of significant weakness. However we will roll forwards the risks of significant weakness from the prior year work and undertake follow up work to determine if these continue to represent weaknesses in those particular arrangements.

The significant weaknesses identified in 2022/23 which represent risks of significant weakness for investigation in 2023/24 were identified in Housing relating to:

- (1) the financial sustainability of the Housing Revenue Account (HRA)
- (2) the service performance in Housing.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Audit logistics

Our planning visit took place in April 2024. Our fieldwork visit will take place in between July and November 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for our work to take place on site alongside your officers.

Our proposed fee for the audit, as determined by the PSAA scale fee, will be £430,131 (PY: £218,106 – final fee per 2022/23 Audit Findings Report) for the Council and £86,884 for the Pension Fund (PY: £49,556 - final fee per 2022/23 Audit Findings Report). This is subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|--------------------------------------------------|--------------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ISA240 fraudulent revenue recognition [rebutted] | Council and Pension Fund | Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. | <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • the culture and ethical frameworks of local authorities, including London Borough of Hammersmith and Fulham, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk at for the London Borough of Hammersmith and Fulham or Hammersmith and Fulham Pension Fund.</p> |

Significant risks identified (continued)

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|------------------------------------------------------------------------------------|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk of fraud related to expenditure recognition under Practice Note 10 (rebutted) | Council and Pension Fund | In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition. | <p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.</p> <p>Having considered the nature of the expenditure streams of the Council, and on the same basis as that set out for revenue, we do not consider this to be a significant risk for the Council or the Pension Fund at the time of our planning however we will keep this assessment under review.</p> <p>We were satisfied that this does not present a significant risk of material misstatement in the accounts as:</p> <ul style="list-style-type: none"> • The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; • We have not found significant issues, errors or fraud in expenditure recognition in the prior years audits; • Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. <p>Therefore, we do not consider this to be a significant risk at for the London Borough of Hammersmith and Fulham or Hammersmith and Fulham Pension Fund.</p> |

Significant risks identified (continued)

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|----------------------------------|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Management over-ride of controls | Council and Pension Fund | <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. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journal entries; • Analyse the journal entry listing and determine the criteria for selecting high risk unusual journals; • Test unusual journal entries recorded during the year and after the draft accounts stage for appropriateness and corroboration; • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |

Significant risks identified (continued)

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---------------------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation of land and buildings | Council | <p>The Council revalues its Land and Buildings, Council Dwellings, Surplus Assets and Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value (for Land and Buildings and Council Dwellings) or fair value (for Surplus Assets and Investment Properties) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.8 billion Land and Buildings – including Council Dwellings and Surplus Assets, £85.5m Investment Property) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management has engaged the services of a valuer to estimate the current value as at 31 March 2024.</p> <p>We therefore identified valuation of Land and Buildings, Council Dwellings, Surplus Assets and Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>This significant risk is particularly focused on the valuers' key assumptions and inputs to the valuations as these are the greatest sources of estimation uncertainty/sensitivity.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • Engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation; • Use our auditor's expert valuer to challenge and evaluate the appropriateness of obsolescence factors (for assets valued under the existing use value methodology); • Use our auditor's expert valuer to challenge and evaluate the appropriateness of rental yields as a management's expert valuer's key assumption within their estimate of investment property valuation; • Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements; • Assess the value of a sample of assets in relation to market rates for comparable properties; and • Test a sample of beacon properties in respect of Council Dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. |

Significant risks identified (continued)

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|--------------------------------------------------------------------------------------------------------------------|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation of the pension fund net liability - assumptions applied by the professional actuary in their calculation | Council | <p>The Authority'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 (£90.0 million in the Authority's balance sheet at the 31 March 2023) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability.</p> <p>We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation (we would reconsider this if it becomes apparent at the year-end that there significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Update 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; • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases; • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Test 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; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. |

Significant risks identified (continued)

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|----------------------------------|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation of Level 3 Investments | Pension Fund | <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 (£186.4 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 2024.</p> | <p>We will:</p> <ul style="list-style-type: none"> Evaluate management's processes for valuing Level 3 investments; Review 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 request year-end confirmations from investment managers and the custodian; For a sample of investments, test 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. Reconcile those values to the values at 31 March 2024 with reference to known movements in the intervening period; In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and Where available review investment manager service auditor report on design and operating effectiveness of internal controls. |

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Other risks identified

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---------------------------|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Minimum Revenue Provision | Council | <p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets.</p> <p>MRP represents one of the few elements of capital financing in local authority financial statements which is a true charge to useable reserves, and therefore over time has the potential to have a significant impact on the Council's longer term financial sustainability.</p> <p>As a result of findings across the sector as a whole whereby MRP has been miscalculated or not calculated in accordance with the statutory guidance, we have identified this as a risk requiring specific audit attention.</p> | <p>We will:</p> <ul style="list-style-type: none"> Gain an understanding of the Council's current policy for calculating the MRP charge for the year and evaluate whether this is in accordance with the statutory guidance; Evaluate whether the MRP policy has been appropriately understood and approved by the Council's members; Substantively test the inputs into the MRP calculation back to supporting evidence and the financial statements; Evaluate key ratios in relation to borrowing, CFR and MRP and benchmark the Council's position against that of its closest peers, documenting and corroborating the reasons for any anomalies. |

Other risks identified (continued)

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|-----------------------------|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Breach of the HRA ringfence | Council | <p>The Housing Revenue Account (HRA) should be self financing. The HRA is strictly ringfenced to ensure that expenditure on maintaining dwellings and managing tenancies is balanced by rents charged to tenants and that rents cannot be subsidised by council tax or vice versa.</p> <p>As a result of findings across the sector as a whole, whereby there were transactions which breached the HRA ringfence either intentionally or otherwise, and in the context of the severe financial pressure facing the Council's HRA given major cost pressures and a challenging reserves position, we have identified this as a risk requiring specific audit attention.</p> | <p>We will:</p> <ul style="list-style-type: none"> Specifically identify and test any unusual journals which impact the HRA and General Fund in unexpected transactions; Tailor into our existing work programmes across expenditure, income and balance sheet substantive testing, additional procedures to confirm that the impact of the transaction on the General Fund or HRA is corroborated by the evidence and substance of the underlying transaction. |

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

Other matters

Other work- Council

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
 - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other work- Pension Fund

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

| Matter | Description | Planned audit procedures |
|--------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | <p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit Council: £11.1m (PY £11.1m), which equates to 1.5% of the Council's gross expenditure (cost of services) for the year.</p> <p>Pension Fund (except Fund Account): £16.18m, which equates to 1.26% of the Pension Fund's net assets as at 31 March 2023.</p> | <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements |
| 2 | <p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p> | <p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £100k. – We have identified the Fund Account as a statement is an area where a lower materiality to account for the significant difference in value between this and the net assets statement, and therefore to effectively identify misstatements deemed to be significant to decision makers. We have set a materiality of £6.3m (PY £6.3m). This relates to the Pension Fund audit only. |

Our approach to materiality (continued)

| Matter | Description | Planned audit procedures |
|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3 | <p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p> | <p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p> |
| 4 | <p>Other communications relating to materiality we will report to the Audit Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p> | <p>We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Council and Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if</p> <p>Council audit: it is less than £0.6m (PY £0.6m); and</p> <p>Pension Fund audit: it is less than £0.809m.</p> <p>If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.</p> <p>.</p> |

Our approach to materiality (continued)

| | Amount (£) | Qualitative factors considered |
|----------------------------------------------------------------|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Materiality for the Council financial statements | £11m | <p>In determining materiality we have considered the following key factors:</p> <ul style="list-style-type: none"> • Debt arrangements. • Business environment: the Council operates in a generally stable, regulated environment, although in recent years government policies have reduced the funding available and this has increased the financial pressures on the authority. • Control environment – the audit of the 2022-23 financial statements did not identify any significant deficiencies in the control environment. • Other sensitivities – There has been no change in key stakeholders, and no other sensitivities have been identified that would require materiality to be reduced. |
| Materiality for the Pension Fund financial statements | £16.18m | <p>In determining materiality we have considered the following key factors:</p> <p>Any significant changes in the investment holdings/strategy.</p> <p>Business environment: the Pension Fund operates in a generally stable, regulated environment.</p> <p>Control environment – the audit of the 2022-23 financial statements did not identify any significant deficiencies in the control environment.</p> <p>Other sensitivities – We are required to cap our materiality level to ensure we provide sufficient assurance to the Council, given the Council represents 98% of the LGPS Fund the materiality has to be capped at 1.26% of Investment assets accordingly.</p> |
| Materiality for specific transactions, balances or disclosures | | <p>We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.1 for senior officer remuneration disclosures in the Council’s financial statements and Key Management Personnel disclosures in the Pension Fund. We have set a separate materiality for the Fund Account to the Pension Fund of £6.3m.</p> |

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

| IT system | Audit area | Planned level IT audit assessment |
|-----------|-------------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| SAP | Financial reporting, General Ledger, Accounts Payable, Accounts Receivable, Payroll | We will consider the design but not the operating effectiveness of the ITGCs |
| UPM | Pensions Administration (member data), Pensions payroll | We will consider the design but not the operating effectiveness of the ITGCs |

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024.

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



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.



Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Our planning work for 2023/24 is not yet complete, and we will update you separately once this has concluded.

Value for Money arrangements (continued)

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

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Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Value for Money arrangements (continued)

The Audit Code sets out that the auditor's work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. A key part of this is the consideration of prior year significant weaknesses and known areas of risk which is a key part of the risk assessment for 2023/24. We set out our reported assessment below:

| | |
|----------|---------------------------------------------------------------------------------------------|
| G | No significant weaknesses in arrangements identified or improvement recommendation made. |
| A | No significant weaknesses in arrangements identified, but improvement recommendations made. |
| R | Significant weaknesses in arrangements identified and key recommendations made. |

| Criteria | 2022/23 Auditor judgement on arrangements informing our initial risk assessment | Additional risk-based procedures planned |
|---------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial sustainability <i>(excluding the Housing Revenue Account)</i> | Amber Generally appropriate arrangements in place with regard to financial sustainability but two improvement recommendations made with regard to savings identification, development and reporting and the capital programme. The Council enjoyed strong performance in 2021/22 and 2022/23. The medium-term financial forecast indicates a challenging position in common with much of local government with regard to savings identification and potential use of reserves. <i>This is excluding the position on the financial sustainability of the Housing Revenue Account (HRA).</i> | We will follow up progress against the improvement recommendation(s) made and ensure that our work assesses the current arrangements in place. |
| Governance | Amber No significant weaknesses in arrangements identified, but three improvement recommendations made relating to risk management, Audit Committee arrangements and the monitoring of Council-owned companies. | We will follow up progress against the improvement recommendation(s) made and ensure that our work assesses the current arrangements in place. |
| Improving economy, efficiency and effectiveness <i>(excluding the service performance in Housing)</i> | Green Generally sufficient arrangements in place with regard to improving economy, efficiency and effectiveness but two improvement recommendations made. The Council has performed well in key service areas and can point to a number of successes during 2021/22 and 2022/23. <i>This is excluding the service performance in Housing.</i> | We will undertake sufficient work to ensure that we have documented our understanding of the arrangements in place as required by the Code of Audit Practice. |
| Financial sustainability and Improving economy, efficiency and effectiveness Cross-cutting weakness | Red Significant weakness in Housing (HRA and service performance) Impacting VfM themes: ✓ Financial sustainability ✓ Improving economy, efficiency and effectiveness Significant weakness identified in Housing relating to (1) the financial sustainability of the Housing Revenue Account (HRA) and (2) the service performance in Housing. We have issued two key recommendations. See details on pages 7 to 13 | We will follow up progress against the key recommendations made and ensure that our work assesses the current arrangements in place. |

Audit logistics and team Council



Alisha Nor Ezanee, Audit In-Charge

Key audit contact responsible for the day to day management and delivery of the audit work. Alisha will monitor the query logs with the finance team and highlight any significant issues to management.



Nick Halliwell, Audit Manager

Nick will work closely with senior members of the finance team, ensuring that any issues that arise are addressed on a timely basis. He will attend Audit and Performance Committee and liaison meetings with senior officers. He will also undertake reviews of the team's work, and ensure that our reports are clear, concise and understandable



Paul Dossett, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Committees and senior officers.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit logistics and team Pension Fund



Lakshmi Forster, Audit Manager

Lakshmi will work closely with senior members of the finance team, ensuring that any issues that arise are addressed on a timely basis.



Nick Halliwell, Senior Audit Manager

Nick will work across both the Pension Fund and Council audits, ensuring they are joint up. He will attend Audit and Performance Committee and liaison meetings with senior officers. He will also undertake reviews of the team's work, and ensure that our reports are clear, concise and understandable



Matt Dean, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Committees and senior officers.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

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- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for London Borough of Hammersmith and Fulham Council to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £430,131 for the Council audit and £86,884 for the Pension Fund Audit

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor’s annual report for the previous Audit Year
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here <https://www.psa.co.uk/appointing-auditors-and-fees/fee-variations-overview/>

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

Proposed fee 2023/24

| | |
|---------------------------------------------------------------------------------------------------------------------------------|----------|
| Council Audit Scale Fee | £430,131 |
| Audit expert fees – (for the valuation of Land & buildings, schools, surplus assets, council dwellings & Investment properties) | £TBC |
| ISA 315 | £12,550 |
| IFRS 16 | £TBC |
| Pension Fund Audit | £86,884 |
| ISA 315 | £7,500 |
| Audit expert fees – (if required for Investment valuations) | £TBC |
| Total audit fees (excluding VAT) | £TBC |

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Previous year

Council Audit: In 2022/23 the scale fee set by PSAA was £144,367, however this was revised per our Audit Plan to £231,117 to reflect developments in auditing and accounting standards, technical/national issues and delays in the 2021/22 audit. The fee continued to be reviewed at a more granular level and was revised upon completion of the 2022/23 audit. The actual fee charged for the audit was £218,106.

Pension Fund Audit: In 2022/23 the scale fee set by PSAA was £22,420, however this was revised per our Audit Plan to £47,750 to reflect developments in auditing and accounting standards, technical/national issues and delays in the 2021/22 audit. The fee continued to be reviewed at a more granular level and was revised upon completion of the 2022/23 audit. The actual fee charged for the audit was £49,556.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

“a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.”
In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

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IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures we will make enquires of management to gain an understanding of various key balances in the accounts, including IFRS16, to inform our risk assessment. We expect that these will be shared with those charged with governance for transparency. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual via the link.

[IFRS 16 Application Guidance December 2020.docx \[publishing.service.gov.uk\]](#)

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group and Council.

Independence and non-audit services (continued)

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group and Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

| Service | Fees £* | Threats | Safeguards |
|---------------------------------------------------------|---------|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Audit related | | | |
| Certification of Teacher's Pension return | 7,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £430,131 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Certification of Pooling Housing Capital receipts grant | 7,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £430,131 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Certification of Housing Benefit subsidy claim | 43,000 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the recurring element of the fee for this work is £43,000 in comparison to the total fee for the audit of £430,131 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |

Independence and non-audit services (continued)

| Service | Fees £* | Threats | Safeguards |
|---------------------------|---------|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Non-audit: | | | |
| CFO Insights Subscription | 12,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of ££430,131 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |

* fees (or estimated fees) per the 2022/23 Audit Findings Report as 2023/24 fees are still TBC

Communication of audit matters with those charged with governance

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| Our communication plan | Audit Plan | Audit Findings |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters | • | |
| Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant matters in relation to going concern | • | • |

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance (continued)

| Our communication plan | Audit Plan | Audit Findings |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------------|
| Significant findings from the audit | | • |
| Significant matters and issue arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud) | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Audit and Performance Committee (at next available Audit and Performance Committee meeting or in writing to Audit and Performance Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the Audit and Performance Committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

Preparing for the backstop

For any outstanding years up to 2022/23, local authorities should:

- Prepare, adopt and publish financial statements in line with Code and Statutory requirements (Accounts and Audit Regs 2015 – ‘true and fair’)
- Support statements with a proper set of working papers and audit trail
- Work with the auditor to support the completion of outstanding audit work (where possible) and for the completion of Value for Money Work.

We are pleased in relation to the 2022/23 backstop our audit was completed in March this year, ahead of this date.

For 2023/24, local authorities should:

- Agree a timetable and working paper requirements with the auditor
- Put project planning and key milestones in place
- Consider the implications of CIPFA consultation (property valuation and pensions)
- Ensure the Audit Committee is properly briefed and prepared

As your auditor we will:

- Keep you updated on all national developments
- Set out clear expectations of the information we will require to conclude our work
- Agree a plan for the delivery of our work programme with a commitment to key milestones

Next steps

We await the government’s response to the consultation. We will discuss next steps including any implications for your audit once we have further information.



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Informing the audit risk assessment for London Borough of Hammersmith and Fulham and the Pension Fund 2023/24



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 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 your business or any 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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Purpose

The purpose of this report is to contribute towards the effective two-way communication between London Borough of Hammersmith and Fulham and the Pension Fund's external auditors and between London Borough of Hammersmith and Fulham and the Pension Fund's, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

Page 58 This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council and Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council and Fund's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

| Question | Management response |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24? | 2023/24 saw continued economic uncertainty and the ongoing impact of high inflation and associated higher interest rates. For the financial year, the Council has managed these impacts and remained within budget. The medium-term financial outlook remains challenging and the Council continues to monitor and manage these challenges through its medium-term financial strategy (MTFS). |
| 2. Have you considered the appropriateness of the accounting policies adopted by the Council and Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they? | Yes – the Council has reviewed the accounting policies; there have been no events or transactions that have given cause for significant change to these policies in 2023/24. |
| 3. Is there any use of financial instruments, including derivatives? If so, please explain | Yes – as set out in the Financial Instruments note to the Accounts (both the Council and Pension Fund); there are no derivatives. |
| 4. Are you aware of any significant transaction outside the normal course of business? If so, what are they? | No – management are not aware of any significant transaction outside the normal course of business that would materially impact the accounts. |

General Enquiries of Management

| Question | Management response |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they? | The impact of the current economic climate continues to be closely monitored. Assets have been valued with due regard to these risks and in accordance with RICS or other industry guidelines. As at the valuation date, we are not aware of any specific impact on the value of the assets within the portfolio. |
| 6. Are you aware of any guarantee contracts? If so, please provide further details | We are not aware of any material guarantee contracts. |
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details | The Council is involved in a range of complex regeneration programmes and procurements. These are always subject to potential claims and these will be evaluated as and when they arise but are not expected to have a material effect on the financial statements. Please see also email from the Monitoring Officer to Grant Thornton dated 8 th April 2024. |
| 8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council and Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years? | The Council has an internal Legal Department, supported by external solicitors and barristers procured via the LBLA framework. Where expert advice is sought, solicitors and barristers will be commissioned outside of that framework as necessary. |

General Enquiries of Management

| Question | Management response |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>9. Have any of the Council or Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p> | <p>There were no reported items of fraud or non-compliance from service providers for 2023/24 which would affect the material accuracy of the financial statements.</p> |
| <p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p> | <ul style="list-style-type: none"> • Link Asset Services - The Council has consulted with Link who have provided treasury advice and in relation to general treasury investment. • PwC – The Council subscribes to a tax advice helpline for provision of advice regarding indirect taxation (typically VAT and SDLT). • Wilks Head & Eve and Lambert Smith Hampton – property valuation • Analyse Local – Collection Fund provisions • Hymans Robertson LLP – Pension Fund Actuary • Deloitte - Pension Investment Advisors • KPMG – Hammersmith Bridge <p>Major capital and regeneration projects typically require procurement of professional advice concerning, amongst other things (and as relevant), legal and property consultation etc. Details are available from relevant services and project managers.</p> |
| <p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p> | <p>Expected Credit Losses on debtors are provided and reported against debtor lines using an appropriate methodology based on the nature of the debt. The Council's investments are generally short-term money market investments with no material risk (usually AAA rated). See Accounting Estimates summary within the Statement of Accounts for further information.</p> |

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Transparency Committee and management. Management, with the oversight of the Audit and Transparency Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Transparency Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council and Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Transparency Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Transparency Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Transparency Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Council and Fund's management.

Fraud risk assessment

| Question | Management response |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1. Has Council and Fund assessed the risk of material misstatement in the financial statements due to fraud including the nature, extent and frequency of such assessments?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council and Fund's risk management processes link to financial reporting?</p> | <p>Yes, the risk has been considered and arrangements are in place to prevent and detect fraud. These include work carried out by Internal Audit and the Corporate Anti-Fraud Service on overall fraud risk across the Council which is reported to the Audit Committee on a regular basis. This includes considering the annual internal audit and counter fraud work programmes (which includes proactive anti-fraud reviews), reviewing the Council's anti-fraud policies, and reporting on fraud caseloads and outcomes, including cases of interest.</p> <p>The Council publishes guidance for staff for identifying and reporting suspected fraud. This includes a dedicated and anonymous 'whistleblowing' process. Over the past year, the Anti-bribery and Corruption Policy, Anti-Money Laundering Policy, Fraud Response Plan have been reviewed and are refreshing the risk assessment to inform our work.</p> <p>The Council identified 235 positive outcomes from 1 April 2023 to 31 March 2024. The fraud identified has a notional value of over £680,000. A further £320,000 of fraud and error was identified through the National Fraud Initiative run by the Cabinet Office.</p> <p>A comprehensive risk register is maintained by the Council and is reviewed each quarter. This risk register considers all risks including fraud. A risk update report is presented to the Audit Committee each quarter and as an annual risk report, covering the councils risk strategy and management action.</p> |
| <p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p> | <p>The Council has a robust framework of internal controls and effective processes and policies to prevent; fraud, bribery, money laundering etc. However, there are always areas within any organisation that are at risk of fraud. As part of the preparation of the annual audit plan, a fraud risk assessment is carried out to ensure that those areas of high risk are included. These areas include procurement, employee fraud, and tenancy fraud. Other areas of risk to fraud are Right to Buy, NNDR, Council Tax (Single Payer Discounts), Blue badges and Freedom passes, all of which are subject to audit reviews.</p> <p>The Council has continued to review new and emerging fraud risks.</p> |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Council and Fund as a whole, or within specific departments since 1 April 2023? If so, please provide details</p> | <p>The Council identified 235 positive outcomes from 1 April 2023 to 31 March 2024. The fraud identified has a notional value of over £680,000. A further £320,000 of fraud and error was identified through the National Fraud Initiative run by the Cabinet Office. This is included in reporting to the Audit Committee twice per year.</p> |

Fraud risk assessment

| Question | Management response |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p> | <p>The Corporate Anti-Fraud Service regularly update the Audit Committee on fraud risks, reporting on new and emerging risks, fraud caseloads and outcomes, including cases of interest. The Committee receives detailed reports from the anti-fraud service every six months. .</p> |
| <p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Council and Fund where fraud is more likely to occur?</p> | <p>Certain areas will be susceptible to increased risk of fraud as set out in the response to question 2, above. The Council reports fraud risks and detected instances of fraud through the periodic fraud reporting to the Audit Committee.</p> |
| <p>6. What processes do the Council and Fund have in place to identify and respond to risks of fraud?</p> | <p>The Council operates a Corporate Anti-Fraud Service (CAFS). It consists of trained managers, investigators and intelligence officers who investigate allegations of fraud against the Council, or who undertake pro-active fraud reviews (similar to audits) of Council services. The Committee receives detailed reports from the anti-fraud service every six months.</p> <p>The Council publishes guidance for staff for identifying and reporting suspected fraud. This includes a dedicated and anonymous 'whistleblowing' process.</p> <p>Over the past year, the Anti-bribery and Corruption Policy, Anti-Money Laundering Policy, Fraud Response Plan have been reviewed and are refreshing the risk assessment to inform our work.</p> |

Fraud risk assessment

| Question | Management response |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>7. How do you assess the overall control environment for Council and Fund, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p> | <p>Internal controls, including segregation of duties, are in place and these controls are reviewed regularly as part of the work carried out by Internal Audit and the Corporate Anti-Fraud Service (CAFS).</p> <p>The majority of transactional finance services are carried out at Hampshire Integrated Business Centre which has in built system controls and provides separation of duties from Council officers. The Council receives a ISAE 3402 Type 2 Report on the suitability, design and operating effectiveness of controls at the IBC and also an annual confirmation from the IBC of their awareness of any fraud. Other internal controls are in place for transactions processed within the Council.</p> <p>Not applicable – internal controls are in place.</p> <p>The other controls in place in place include access control, supervisor review/authorisation, reconciliation, training and policies and procedures.</p> <p>No</p> |
| <p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p> | <p>No</p> |

Fraud risk assessment

| Question | Management response |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>9. How does Council and Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p> | <p>The Council publishes guidance for staff for identifying and reporting suspected fraud. This includes a dedicated and anonymous 'whistleblowing' process. The guidance is published both on the council internet and intranet pages. Staff are expected to report any suspected fraud or irregularity.</p> <p>The Council's whistleblowing policy continues to be the primary support route for staff reporting concerns. To mark International Fraud Awareness Week (12-18 November 2023), the Council launched Safecall, an independent reporting hotline, marking a significant step towards enhancing transparency and accountability. The launch was prominently featured on the intranet, providing contact information, website links for electronic reporting, the Council's whistleblowing Policy, and a brief eLearning module titled LBHF Whistleblowing in the Learning Zone, accessible to all staff members.</p> |
| <p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p> | <p>There will, naturally, be posts which are at a higher risk of fraud and corruption than others; these will typically be posts which:</p> <ul style="list-style-type: none"> • are involved in the granting of financial aid, relief and benefits etc. • have access and authority to set up new customers and access to cash and bank accounts • have responsibility for the award of significant contracts <p>We have a variety of specific controls in place including separation of duties, access control and independent reconciliation for the areas highlighted. In addition, global controls include the governance structure (as set out in the constitution), the Contracts Assurance Board, the Corporate Revenue and Capital monitoring processes and anti-bribery and anti-fraud policies. Procedures are regularly reviewed and internal controls tested and assessed through the internal audit process to ensure that they are sound enough to prevent or detect fraud insofar as is possible.</p> |
| <p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>No</p> <p>The risks are mitigated by the register of interest, the annual related parties declaration and examination of these relationships and transactions in the Statement of Accounts.</p> |

Fraud risk assessment

| Question | Management response |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p> | <p>Fraud risks and outcomes are reported to Audit Committee on a six-monthly basis. The Director of Audit, Fraud, Risk and Insurance has the ability to report directly to the Chair of the Audit Committee or the Chief Executive where appropriate.</p> <p>A comprehensive risk register is maintained by the Council and is reviewed each quarter. This risk registers consider all risks including fraud. A risk update report is presented to the Audit Committee each quarter and as an annual risk report, covering the Council's risk strategy and management action.</p> <p>The Council identified 235 positive outcomes from 1 April 2023 to 31 March 2024. The fraud identified has a notional value of over £680,000. A further £320,000 of fraud and error was identified through the National Fraud Initiative run by the Cabinet Office.</p> |
| <p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p> | <p>The Council's whistleblowing policy continues to be the primary support route for staff reporting concerns, although, since April 2023, CAFS has received no new fraud referrals via the Council's whistleblowing policy.</p> |
| <p>14. Have any reports been made under the Bribery Act? If so, please provide details</p> | <p>No reports have been made under the Bribery Act in 2023/24.</p> |

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Transparency Committee, is responsible for ensuring that the Council and Fund's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Transparency Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Page 70

| Question | Management response |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Council and Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council and Fund's regulatory environment that may have a significant impact on the Council and Fund's financial statements?</p> | <p>Policies and procedures are established across the organisation to ensure compliance with laws and regulations. This includes an Employee and Members Code of Conduct. These are available via the Council's intranet.</p> <p>All decision reports require legal implications to be completed which include compliance with laws and regulations. The Council has an in-house legal team and a Monitoring Officer who considers legality, conduct and the proper operation of the Council's constitution and governance arrangements. The Monitoring Officer (also the Director of Legal Services) is part of the Strategic Leadership Team.</p> <p>Management are not aware of any changes to the Council's or Pension Fund's regulatory environment that may have a significant impact on the Council's or Pension Fund's financial statements.</p> |
| <p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p> | <p>Fraud risks and outcomes are reported to Audit Committee on a six-monthly basis. The Director of Audit, Fraud, Risk and Insurance has the ability to report directly to the Chair of the Audit Committee or the Chief Executive where appropriate.</p> |
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p> | <p>Not to management's knowledge, other than matters covered in the answer to Q6 below.</p> |
| <p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p> | <p>At present, there is no claim or active litigation that would materially impact the financial statements.</p> |

Impact of laws and regulations

| Question | Management response |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>5. What arrangements does Council and Fund have in place to identify, evaluate and account for litigation or claims?</p> | <p>The Council's Legal Services are provided by the legal team. They review outstanding litigation and correspondence to identify and assess the likelihood and quantum of outstanding and potential claims. The legal team uses a mixture of in-house lawyers, external solicitors and barristers (as set out earlier). The Council's Finance Board are also asked to disclose any litigations and claims they are aware of as part of year-end out-turn processes.</p> |
| <p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p> | <p>In 2023/24 H&F was subject to an investigation by the Housing Ombudsman. This investigation brought to light areas requiring improvement within the housing service. Housing Services is now delivering on the recommendations in the Housing Ombudsman Action Plan with an improved complaints and responsive repairs service to ensure we embed a culture of accountability and ownership at all levels.</p> |

Related Parties

Matters in relation to Related Parties

The Council and Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council or Fund;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council or Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council or Fund, or of any body that is a related party of the Council or Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council or Fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

| Question | Management response |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1. Have there been any changes in the related parties including those disclosed in the Council or Fund's financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and the Council or Fund whether Council and Fund has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions | <p>There have not been any significant changes from the previous year.</p> |
| <p>2. What controls does Council and Fund have in place to identify, account for and disclose related party transactions and relationships?</p> | <p>All members complete a declaration of pecuniary interests under the Localism Act 2011 and the Code of Conduct (adopted July 2012) and it is the responsibility of members to inform Legal services of any new interests. The register of interests can be found on the Council's website.</p> <p>As part of the preparation of the financial statements, management also undertake a specific exercise each year to identify related party transactions and relationships and these are disclosed in the Statement of Accounts. Information for this disclosure is gathered from the Council's members and chief officers through a formal process.</p> |
| <p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p> | <p>Members are required to declare and to excuse themselves as necessary from decision making where they have a pecuniary interest (see Declaration of Interest, Section 22 pp.201-202 of the constitution: Constitution). Internal controls are in place to ensure that finance processes and procedures are followed when a payment is being made, including segregation of duties for authorisation and payment.</p> |
| <p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p> | <p>To our knowledge, the Council has not engaged in any transactions which could be considered outside the normal course of business. Any significant transaction would however, be captured by standing authorisation processes and limits as set out in the financial procedure rules as part of the constitution.</p> |

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government and Pension Fund bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

| Question | Management response |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Council and Fund will no longer continue? | LBHF has a medium-term financial strategy updated annually which will highlight funding gaps in future years and mitigating action will be taken to address these. In the unlikely event that statutory services can no longer be provided, the Section 151 officer will issue a Section 114 notice and no new expenditure will be permitted by the Council until a balanced budget can be set. |
| 2. Are management aware of any factors which may mean for Council and Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they? | The Council has set a balanced budget for 2024/25 however the medium-term financial outlook both in respect of government funding and the wider economic climate remains significantly challenging. Despite these challenges, LBHF continues to have a healthy level of reserves and there is no indication at the current time that any statutory services will no longer be provided. |
| 3. With regard to the statutory services currently provided by the Council or Fund does Council and Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Council and Fund to cease to exist? | LBHF expects to continue to deliver statutory service for the foreseeable future. |
| 4. Are management satisfied that the financial reporting framework permits Council and Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements? | Yes. The MTFS process and the reserves strategy provided elsewhere show that the Council has firm control of its allocation of resources, even given the ongoing financial pressures. Clear reporting lines and management of longer-term commitments such as Capital spend, PWLB borrowing and Pensions mean the Council has a good handle on the management of items in the statements that have a long-term impact. |

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body'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 body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body'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 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?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures? | There are a number of areas in which estimates require significant judgement, for example: depreciation, valuation of assets, provisions including Business Rate appeals, the recoverability of debtors, pension liabilities, and pension asset values. The approach to these estimates has not changed significantly in 2023/24. |
| 2. How does the Council or Fund's risk management process identify and address risks relating to accounting estimates? | The Council and the Pension Fund identifies and assesses the major sources of estimation uncertainties as part of the preparation of the statement of accounts. Meetings are held with all service finance leads to determine any significant issues which may impact on this assessment. |
| 3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates? | Management consider the information available within the Council and information provided by staff and advice of external experts. The approach to significant estimates will form part of discussions at the Council's Finance Board and will be agreed by the Director of Finance. |
| 4. How do management review the outcomes of previous accounting estimates? | Actual outcomes, when available, are compared to estimates to know and understand when estimates are materially different to actuals. |
| 5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these? | No. |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p> | <p>Management will periodically review the need for specialist skills in arriving at accounting estimates. The key areas remain property valuation, financial instrument valuation, assessment of pension asset/liability and estimation of business rate appeals provision and there are established processes in place for obtaining expert advice in these areas.</p> |
| <p>7. How does the Council or Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p> | <p>Significant estimates are, generally, assessed with the support of external expertise. Consideration of control activities, process, methods and models will form part of the contracting and instruction process. Relevant in-house experts and/or the relevant clienting function will review method statements and outputs etc in concert with corporate finance (and the expert as necessary) prior to the inclusion of estimates in the accounts. Corporate finance undertake reasonableness checks, such as analytical review of outputs and seek explanations for changes as necessary.</p> |
| <p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p> | <p>See response to question 7 above.</p> |
| <p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. | <p>See response to question 7 above.</p> |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they? | No. |
| 11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable? | They are reviewed on a regular basis and experts used where appropriate. |
| 12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ? | The statements of accounts includes a disclosure on the assumptions made about the future and other major sources of estimation uncertainty which is reviewed by the members of the Audit Committee. |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Land and buildings valuations | <p>Assets valued in accordance with CIPFA Accounting Code of Practice and RICS regulations. The Valuer has arrived at their opinion of Current Value and Fair Value from referring to recent comparable market transactions.</p> <p>For specialised properties, the Current Value has been derived using Depreciated Replacement Cost methodology.</p> | Valuation Procedure Note 2023-24 provides detailed guidance on asset selection, appropriate valuation methodologies used and roles and responsibilities for the year-end asset valuation process. Valuation and Property Services officers ensure accuracy and integrity of the property data kept on TechForge (site plans, rental income, lease and tenure information) by performing regular reviews and reconciliations. TechForge property data is annually reconciled with the Corporate Asset Register. All year-end valuation reports are reviewed by Corporate Finance and Valuation and Property Services officers to ensure that any material fluctuations in the property values are queried with the external valuers who performed the valuations. | Yes, external valuers Wilks, Head & Eve (WHE) | Impact of current economic climate (higher interest rates and inflation), Brexit and the war in Ukraine have been considered by Wilks, Head & Eve in their revaluation report. These events continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are mostly functioning normally with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. For more detail regarding the assumptions made in valuations, please refer to the valuation year-end certificates issued by WHE. | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Council dwelling valuations | Assets valued in accordance with CIPFA Accounting Code of Practice, RICS regulations and 'Stock Valuation for Resource Accounting Guidance for 2016'. Issued by DLUHC using Existing Use Value – Social Housing (EUV-SH) method of valuation | Please see previous for land and buildings | Yes, external valuers Wilks, Head & Eve | WHE valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards, except as identified above. Componentisation of dwellings using structure, externals, roof and M&E as major components was applied. Dwellings stock valued on beacon basis. For more detail regarding the assumptions made in valuations, please refer to the valuation year-end certificates issued by WHE. | No |
| Investment property valuations | Assets valued in accordance to CIPFA Accounting Code of Practice and RICS regulations, using Fair Value as a method of valuation. | Please see the above for land and buildings | Yes, external valuers Wilks, Head & Eve | Please see the above for land and buildings. In addition, Fair Value hierarchy was applied to the investment properties' valuations, as required by IFRS 13. | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--------------|-----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Depreciation | Straight line method using opening Gross Book Value (GBV) of depreciable element of the asset over estimated Useful Expected Life (UEL) | Working papers containing calculated depreciation charges for the year are distributed to the departments for a review prior to posting on the ledger to ensure they are within their expectations but also to check that the cost centres for the charges are accurate. | Corporate Capital accountant in liaison with project management to determine UELs of non-property related assets. Property related assets' GBV and UELs are determined by the external valuers as part of year-end valuations | For the assets in value over £5m which are not componentised in our fixed asset register, the external valuer is asked to value each material component separately. Corporate Finance use this information to recalculate depreciation charges based on componentisation and to assess if there is any material difference between the depreciation charged on the asset as whole and the depreciation charge for the componentised asset. This exercise was carried out in 2023/24 and no material difference in depreciation charges was noted. Depreciation is calculated in line with the accounting policy. | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Valuation of defined benefit net pension fund liabilities | Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. | Officers challenge methods provided and agree reasonableness of estimates. The Strategic Investment Manager asks for confirmation of any significant movements in valuation assumptions, and the reasons why. | Yes – Actuary Hymans Robertson LLP | Actuary using financial assumptions that comply with IAS26. The longevity assumptions have changed since the previous IAS26 disclosure for the Fund. The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2024 and 31 March 2023. The structure of the liabilities is substantially the same as at the latest formal valuation. Sensitivity analysis is undertaken on major assumptions (IAS 26). | No |
| Level 2 investments | Where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. | Officers maintain constant dialogue with the custodian and fund managers. Monitoring of asset valuations forms part of the quarterly performance report which is taken to Pension Fund Committee every quarter. The Fund takes professional advice in relation to investments/asset allocations in response to the funding level. | The Pension Fund contracts the custodian, Northern Trust, to undertake accounting notes for the Fund, this includes levelling. Officers also liaised with the Fund Managers on the levelling process and the most appropriate classification for that asset class. | Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made considering historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates. | No |

Appendix A Accounting Estimates

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| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Level 3 investments | <p>Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data, such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in.</p> <p>These funds are valued according to non-exchange based market valuations. As a result of this, the final realised value of investments may differ slightly from the valuations resented in the accounts.</p> | Officers maintain constant dialogue with the custodian and fund managers. Monitoring of asset valuations forms part of the quarterly performance report which is taken to Pension Fund Committee every quarter. The Fund takes professional advice in relation to investments/asset allocation in response to the funding level. | The Pension Fund contracts the custodian, Northern Trust, to undertake accounting notes for the Fund, this includes levelling. Officers also liaised with the Fund Managers on the levelling process and the most appropriate classification for that asset class. | Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made considering historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates. | No |
| Fair value estimates | No estimates are required, the amortised cost valuation is taken at 31st March. The associated fair value where applicable is calculated based on 31st March discount rate. | | | | |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Provisions | <p>NNDR Appeals provision - Detailed analysis of information on rateable values</p> <p>Current and potential provisions are reviewed annually and if there is a likelihood (greater than 50%) that the Council will have to meet the costs, a provision is created.</p> | <p>NNDR Appeals provision - The Analyse Local estimation model has been rigorously tested during development by comparison to previously settled proposals and appeals.</p> <p>Key Council departments (including Finance leads, Legal and Insurance) are consulted as part of the year-end closedown process. Information is obtained on whether the Council has any potential provisions or need to continue with the provision on its balance sheet.</p> | <p>NNDR Appeals provision – Yes</p> <p>Other Provisions – Council employs its own experts in areas such as Legal and Insurance who are able to advise on any new or current provisions</p> | <p>NNDR Appeals provision - Alternative estimates were not considered.</p> | <p>NNDR Appeals provision - No</p> |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Accruals | Significant accruals are mostly based on documented (third party) evidence and where this is not available, an analytical calculation is done to arrive at the appropriate accrual. | Documented (third party) evidence or analytical calculation. | No | Alternative estimates were not considered | No |
| Credit loss and impairment allowances | Historic risk of default | Regular reporting | Yes | N/A - no accounting entries made due to small value. | No |

Appendix A Accounting Estimates (Continued)

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Finance lease liabilities | The Council is currently in the process of moving to IFRS 16 in time for mandatory implementation in 2024/25 (currently finance lease liabilities are calculated under the current standard) | All leases information is taken from TechForge system and relevant teams feed into this. In addition, an annual completeness check is done on all material new contracts registered on the Contracts portal to identify any embedded leases. | No | No | No |
| PFI Liabilities | The PFIs are valued based on the contract model and are accounted for as on-balance sheet assets and liabilities. | The discount rates used in valuing the liabilities are based on IRR calculated over the life of the PFI agreement. | No | No | No |



London Borough of Hammersmith and Fulham

June 2024

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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 Council 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 Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a series of sector updates in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Standards 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:

<https://www.grantthornton.co.uk/industries/public-sector/local-government/>

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.

Audit Deliverables

Below are some of the audit deliverables planned for 2023/24.

| 2023/24 Deliverables | Planned Date* | Status |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------|
| <p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2023/24 financial statements.</p> | July 2024 | Presented at this committee |
| <p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit and Standards Committee.</p> | Autumn Audit Committee – Council and Pension Fund | Not yet due |
| <p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p> | November 2024 | Not yet due |
| <p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.</p> | November 2024 | Not yet due |

We are pleased to report that the Council prepared their 2023-24 accounts in line with the Local Government timetable. We also have received the key audit working papers we require on a timely basis and have been able to make a positive start on the audit fieldwork. Having this year completed all the backlog audits we will continue to work with the finance team to ensure the 2023-24 audit is completed this calendar year.

Audit Backstop - update

As we have previously updated, the Government consulted in February 2024 on a proposal to introduce a series of statutory backstops to bring the local audit system back on track. The proposals also included a series of updates to the NAO's Code of Audit Practice.

Our understanding was that the necessary regulations to enact the backstop legislation were due to be laid before Parliament prior to summer recess in July 2024. This would have enabled the legislative framework which would have enabled the 30 September 2024 backstop to be implemented.

The calling of a General Election on July 5th puts this timetable in considerable doubt. The Government that is elected will have to both decide if it wants to implement the backstop solution and if so, determine the timetable by which it happens. In the meantime your outstanding years have been completed and we are now working on the 2023-24 financial statement audit.

Audit sign off as at 31 May 2024

As at the end of May, we had signed 136 audits for 2022/23, representing 65% of our local government population. We envisage achieving a 75% sign off rate by the end of September. This compares with a sign off rate for other firms at the end of May of 7% (18 audits). If the backstop is extended to the end of the year – we envisage this figure moving to 80% completion.

We had signed off 81% of our 2021/22 audits by the end of May. We envisage achieving an 85% sign off rate by the end of September. Other firms had signed off 48% of audits by the end of May.

| Audit year | Grant Thornton audits signed | Grant Thornton audits signed | Other firms |
|------------|------------------------------------|---------------------------------------|------------------------------------|
| | Position as at end of May 2024 (%) | Forecast position end of Sep 2024 (%) | Position as at end of May 2024 (%) |
| 2022-23 | 65 | 75 | 7 |
| 2021-22 | 81 | 85 | 48 |
| 2020-21 | 92 | 92 | 81 |

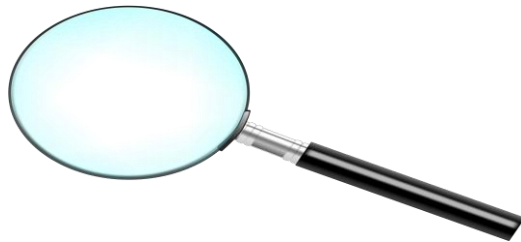
Change of external auditor – how to get the best out of new arrangements

With 2023/24 being the first year of a new five-year PSAA contract for external audit, and the year-end (31 March 2024) having just passed, many Local Authorities will now be starting to work closely with a new incoming external auditor. Audit delays from the past mean that for some Local Authorities, this will be the first close experience of working with an external auditor for several years.

When it works well, external audit can provide management with valuable insight and, at the same time, demonstrate to the public that there has been proper use of, and accounting for, public money. To get the best out of this year's audit though, many Local Authorities will need to take effective steps to close-down the prior year backlog whilst simultaneously ensuring a smooth transition between different external auditors.

A recent Local Government Association “Must know” guide on working with auditors may help with navigating the unique challenges that this year's audit cycle poses. The guide provides an oversight of internal and external audit functions and outlines what to expect from external audit, and when to expect it.

For the full guide, see [Must know guide: Working with auditors | Local Government Association](#).



Working well with a new external auditor

- **Understand the respective responsibilities of the Local Authority and the external auditor.**
- **Be open to early meetings between senior executives and the new external auditor.**
- **Understand that outgoing and incoming external auditors will need time to confer.**
- **Introduce the Head of Internal Audit.**
- **Facilitate introductions for the Audit Committee.**
- **Share the timetable and be clear about how timetable risk will be managed.**
- **Provide a named single point of contact and appropriate supporting resources.**
- **Provide early information around any new projects, including commercial projects.**
- **Provide appropriate access to IT systems and records.**
- **Respond promptly to requests for information.**
- **Ensure that all relevant staff affected by the external audit process understand what to expect and why it is important.**

Local government elections – what do they mean for Audit Committees?

With the 2nd May 2024 local government elections having seen changes at many of the 107 local authorities that took part, for many local authorities it is now time to agree Audit Committee membership at the start of a new municipal year.

Whilst newly elected administrations will inevitably want to focus on new strategic vision and “fixing things”, it will be important to remember to continue to “defend things” and protect the underlying mechanics of effective government as well.

The Audit Committee is one of the key lines of defence for a local authority. Its members oversee governance, risk management, internal and external audit, anti-fraud arrangements, financial reporting and statutory duties.

Following the local elections there may be changes to appointments to the Audit Committee. Experience shows that the Committees are more effective when appointments are non-political; cover a range of relevant skills and experience (including financial expertise); and include at least one independent, co-opted member. Two independent co-opted members is generally considered best practice.

Once appointed, the new Audit Committee will need to build relationships with internal audit, external audit, and senior management. It may also want to review its terms of reference. Training needs of new Audit Committee members will also need to be identified and training provided.

Annual reviews of Audit Committee effectiveness are common, but for the early days, new Committees may wish to make use of the Local Government Association’s April 2024 “Ten Questions” to make sure they start by steering on the right path.

For a full copy of the Local Government Association’s guide, see [Ten questions for audit committees](#).

Ten questions for a newly formed Audit Committee

- **How can we be an effective Audit Committee?**
- **What might we miss as an Audit Committee?**
- **How will we get assurance for ourselves and others regarding governance, risk management, internal control, and the accuracy of financial reporting?**
- **What is management doing to ensure there is an effective culture?**
- **How does management support and promote the role of audit (internal and external)?**
- **How will management provide us with practical support?**
- **What is internal audit’s role, scope, and mandate? How should internal audit be resourced?**
- **How does internal audit set its audit plan? Is internal audit providing assurance around business-critical risks?**
- **How do we know we have an effective internal audit function?**
- **How should internal and external auditors work together to complement each other?**
- **What are the 2-3 things we should be most worried about?**

LGA Improvement and Assurance Framework

On 24 May 2024 the Local Government Association (LGA) published an Improvement and Assurance Framework which is applicable to unitary, county, district and borough councils in England, and to English authorities with all types of governance system.

There has not previously been a document or framework which sets out, in one place, the various required components of local government assurance, how they all fit together, how to use them effectively and what improvement support is available to help. This framework aims to:

- support councils to understand how to use the components within the framework and how they fit together;
- increase the effectiveness of assurance in the sector. While it cannot itself prevent failures, its use may reduce the risk – and costs - of statutory or non-statutory intervention, whether by Oflog, central government or other regulators;
- make it easier for local residents and businesses to understand how to hold their local authority to account.

The framework includes content on:

- A definition of assurance.
- How does accountability work?
- Components of the improvement and assurance framework.
- Working with auditors.
- Guidance on taking a structured and robust approach to considering commercial activity.

- Guidance for officers in key statutory roles and for key committees including the Audit Committee.
- How does the council hold itself to account?
- Key principles of good assurance and accountability.

The framework can be accessed here:

<https://www.local.gov.uk/publications/improvement-and-assurance-framework-local-government-0>



The State of the Locals

In April, shortly before the recent local government elections, a “State of the Locals” report found that public trust in government at all levels is falling, but that public trust in local councillors and the Local Authorities they run is still almost twice as strong as public trust in the national UK government.

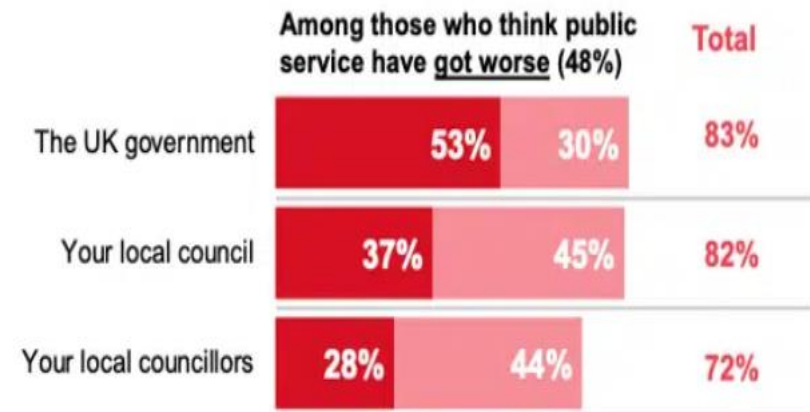
The report, published by the Local Government Information Unit (LGIU), found that the public do recognise the role that Local Authorities and their members play and do credit them when things go well. However, the report also found that the public believe services have got worse over the last five years overall; believe Local Authorities play a significant role in this (although not as great a role as the national government); and do not always understand what Local Authorities do.

For new members joining local government for the first time and for the more experienced members starting or continuing their term, it’s worth reflecting on LGIU findings. From the surveys that LGIU carried out, detailed findings show that people feel residents should be included more within decision-making processes; but there remains a low level of public awareness about what local government does.

This may be a good time to revisit communications strategies. Educating the public about the role and functions of local government, as well as the outcomes that members are actually able to achieve, might not only protect trust at its current level above national government, but also pave the way for a stronger level of trust overall in the future.

For a full copy of the LGIU report, see [The State of the Locals 2024 - LGIU](#)

State of the Locals extract: Who do the public think are responsible?



Good practice for Combined Authorities

The Local Government Association (LGA) published two good practice guides for Combined Authorities on 31 March 2024 – one on good governance and one on good financial management. Grant Thornton supported the LGA in the development of these guides.

Since the first Combined Authority was established in Greater Manchester in 2011, the UK Government has approved devolution deals for 18 areas in England. The power and the scope of the Combined Authorities varies significantly from one part of the country to another, but they all offer opportunities for regional development, and for delivery at scale. Good governance and good financial management are going to be important for making the most of the opportunities they bring.

The good governance guide describes the essential components for good governance and then provides guidance on how to establish and maintain an effective governance framework, at whatever stage of development a Combined Authority is at. With a range of roadmaps, checklists, tools and resources, the guide provides tips and pointers on how to ensure transparency; accountability; effective and lawful decision making based on participation; integrity; and efficiency.

The good financial management guide provides foundational guidance for new Combined Authorities setting up financial management arrangements for the first time and also offers a checklist for pre-existing authorities aiming to review and improve their existing approach. The guide recognises that it is common for new Combined Authorities to have limited internal capacity and that many have inherited financial management procedures from predecessor bodies which now need to be adapted.

For full copies of the Local Government Association's guides, see

<https://www2.local.gov.uk/publications/good-governance-combined-authorities#4-establishing-and-maintaining-good-governance>

<https://www.local.gov.uk/publications/good-financial-management-combined-authorities>



Productivity plans – new guidelines revealed and a note of caution

On 16th April 2024, Local Government Minister Simon Hoare wrote to all Local Authority Chief Executives, asking them to formally begin compiling their productivity plans. Key things for members to be aware of are:

- There is no formal template and there are no specific metrics to report;
- Four categories are proposed for consideration. These surround resources; technology; reducing wasteful spend; and the barriers preventing progress;
- Metrics and performance indicators are expected to be included in the plans, but Local Authorities can decide for themselves which ones are relevant to include;
- Plans should be three to four pages long and need to be returned to DLUHC by 19th July 2024, with members having endorsed them first; and
- For transparency, plans should then be published on the Local Authority's website, so that residents can see them and, over time, monitor progress.

Whilst this may feel like additional burden, there will presumably be scope for using key performance indicator metrics already available.

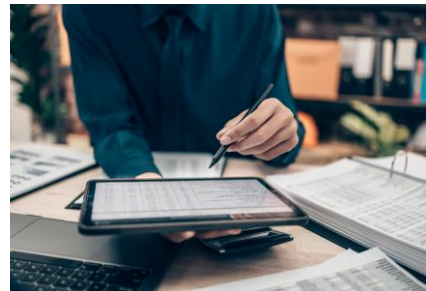
The current intention of government is not to use Productivity Plans for rating or scoring or for league tables, but rather to inform policy considerations in the future. However, most Councils will remember that the Times recently used Office for Local Government data to compile and publish its own league table, so far without any redress from national government.

For Productivity Plan metrics, as for any other performance indicators, it will be important to be clear about what drives the metrics. Whether for a three-to-four-page productivity plan or for any other domain, simply obtaining data isn't enough. Understanding the data, explaining it to residents, and acting on it is ultimately what matters most.

For recent comments from the Local Government Lawyer on Simon Hoare's letter to Chief Executives and on the Times's league table see:

[Government reveals guidelines for new council 'productivity plans'](https://www.localgovernmentlawyer.co.uk/government-reveals-guidelines-for-new-council-productivity-plans/) ([localgovernmentlawyer.co.uk](https://www.localgovernmentlawyer.co.uk))

[Councils cry foul after Oflog data used for Times article on 'worst-performing councils'](https://www.localgovernmentlawyer.co.uk/councils-cry-foul-after-oflog-data-used-for-times-article-on-worst-performing-councils/) ([localgovernmentlawyer.co.uk](https://www.localgovernmentlawyer.co.uk))



Housing and homelessness – continuing crisis and a new reform

The Levelling-Up, Housing and Communities (LUHC) Committee published a report on the finances and sustainability of the social housing sector on 29th April 2024, arguing that the Government needs to deliver 90,000 more social homes for rent each year to alleviate the “continuing chronic shortage” of social housing.

Just one day later, latest quarterly statistics on statutory homelessness and households in temporary accommodation were released. They made for sobering reading when compared with equivalent quarterly statistics from the previous year, underlining the real affect that our shortage of housing is having:

- 4.8% increase in overall initial assessments for homelessness year on year;
- 15.8% increase in households owed a relief duty this year compared to last;
- 15.3% increase in households owed a main homelessness duty;
- 12.1% increase in households in temporary accommodation;
- 15% increase in households with children in temporary accommodation.

For short term responses to homelessness, the February 2024 announcement that the Government would top up local authority homelessness prevention grants by £109 million will doubtless be helpful, as perhaps could be some certainty around the future of no-fault eviction laws. For a long-term solution though, addressing the supply of housing stock itself may still the best means of addressing the root cause of homelessness issues.

A new reform came into effect on the same day that homelessness statistics were published. Since 30th April, Local Authorities have been empowered to buy land for development through using Compulsory Purchase Orders without paying inflated ‘hope value’ costs. ‘Hope value’ estimates the cost land could be worth if it was developed on in the future, often meaning that Local Authorities have been forced to pay potentially thousands more to buy the land they need for housing and/ or have become entrenched in protracted disputes.

Housing and homelessness are complex areas and there is unlikely to be any quick fix solution. The new reform may help stimulate the building activity needed to address at least one part of the problem though, and in this respect is likely to be welcome.

For a full copy of the LUHC Committee report, see

[The Finances and Sustainability of the Social Housing Sector \(parliament.uk\)](https://www.parliament.uk/publications/2024/04/levelling-up-housing-and-communities-committee-report-the-finance-and-sustainability-of-the-social-housing-sector)

For the latest statistics on homelessness and households in temporary accommodation, see [Statutory homelessness in England: October to December 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/statutory-homelessness-in-england-october-to-december-2023)

For details of the new reform around hope values, see [New powers for councils to help build more affordable homes - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/new-powers-for-councils-to-help-build-more-affordable-homes)

Design for life – the smart regeneration journey to 2030

Leading think tank Localis published an analysis of local regeneration policy on 8th May 2024, making a series of recommendations to national government around how best to develop the public realm over the rest of this decade.

Localis highlighted that local regeneration projects, particularly in urban areas, are key to addressing the national housing crisis; national net zero targets; and national health aspirations.

Recommendations that the report called on national government to implement included:

- Return to strategic regional planning;
- Establish regional planning offices;
- Provide single revenue and capital budgets to Local Authorities instead of splitting the budgets;
- Stop loosening regulation over council asset sales;
- Mandate that local and regional development plans will include carbon assessments and promote urban sites;
- Provide long term financial settlements, to reduce fiscal uncertainty and encourage public-private partnership; and
- For health and wellbeing aspects of regeneration, base additional funding on demographic profiles.

Localis described local authorities as “the hinge around which regeneration actors revolve.” Whilst their recommendations would require changes in national policy, there are best practice questions that Local Authorities can be asking themselves now:

- Is our planning department properly financed?
- Are our regeneration goals sufficiently balanced across housing, carbon and community health needs?
- Do we have effective ongoing relationships with partners so that we can leverage short term funds quickly when they do become available?
- Can we scale up capacity for regeneration by pooling leverage with local NHS bodies, the third sector and community organisations?

For a full copy of the Localis report, see

<https://www.localis.org.uk/research/design-life-smart-regeneration-journey-2030/>



Simpler Recycling – new rules to be aware of

The Department for Environment, Food and Rural Affairs (DEFRA) announced on 9th May 2024 that simpler recycling rules are going to be introduced. Local Authorities are likely to be required to comply by 2026. The new rules aim to simplify recycling processes and boost recycling rates, although they have met with significant criticism.

To be ready for compliance with the new rules, Local Authorities need to prepare for:

Standardisation:

All Local Authorities in England will be required to collect a consistent set of recyclable materials: Plastics; Glass; Metals; Paper and Card; and Food Waste. The intention is to remove uncertainty and variation around the country about what can and cannot be recycled.

A three-bin arrangement:

‘Dry recycling’ items such as cardboard and paper, tins and glass will be collected in one bin. Organic waste (food and garden) will be collected in a second bin. Residual (non-recyclable) waste will be collected in a third.

Weekly and fortnightly requirements:

Food waste collection will be required weekly. Local Authorities will be required to collect residual waste on a fortnightly basis, even if at present they have already successfully transitioned to a three-weekly cycle.

Critics have pointed out that mixed dry recycling may contaminate paper and lead to less of it being recycled; whilst the move away from three weekly residual waste collection in favour of a fortnightly residual waste collection is likely to reduce recycling overall. Nevertheless, the reform has been passed and Local Authorities will need to be ready. Important steps to take now are:

- Review and update the Waste Management Strategy;
- Engage with finance business partners to ensure that activity will be accurately recorded and, in turn, translated to relevant new funding claims;
- Explore whether the changes in themselves generate new income opportunities; and
- Assess the readiness of contract delivery partners.

For DEFRA’s comments on the reform, see [Simpler bin collections for England to boost recycling - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/simpler-bin-collections-for-england-to-boost-recycling)



Audit Committee resources

The Audit Committee and organisational effectiveness in local authorities (CIPFA):

<https://www.cipfa.org/services/support-for-audit-committees/local-authority-audit-committees>

LGA Regional Audit Forums for Audit Committee Chairs

These are convened at least three times a year and are supported by the LGA. The forums provide an opportunity to share good practice, discuss common issues and offer training on key topics. Forums are organised by a lead authority in each region. Please email ami.beeton@local.gov.uk LGA Senior Adviser, for more information.

Public Sector Internal Audit Standards

<https://www.gov.uk/government/publications/public-sector-internal-audit-standards>

Code of Audit Practice for local auditors (NAO):

<https://www.nao.org.uk/code-audit-practice/>

Governance risk and resilience framework: material for those with a leadership responsibility on good governance (CfGS):

<https://www.cfgs.org.uk/material-for-those-with-a-leadership-responsibility-on-good-governance/>

The Three Lines of Defence Model (IAA)

<https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>

Risk Management Guidance / The Orange Book (UK Government):

<https://www.gov.uk/government/publications/orange-book>

CIPFA Guidance and Codes

The following all have a charge, so do make enquiries to determine if copies are available within your organisation.

Audit Committees: Practical Guidance For Local Authorities And Police

<https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

Delivering Good Governance in Local Government

<https://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework-2016-edition>

Financial Management Code

<https://www.cipfa.org/fmcode>

Prudential Code

<https://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2021-edition>

Treasury Management Code

<https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2021-edition>



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London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 31/07/2024

Subject: Corporate Anti-Fraud Service Annual Report – 1 April 2023 to 31 March 2024

Report of: David Hughes, Shared Services Director for Audit, Fraud, Risk and Insurance

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

Summary

The Council takes its responsibilities to protect the public purse very seriously and is committed to protecting the public funds it administers. This report provides an account of fraud-related activity undertaken during the financial year 2023/24 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.

The Corporate Anti-Fraud Service (CAFS) provides a complete, professional counter-fraud and investigation service for fraud attempted or committed against the Council. It demonstrates the Council's commitment to preventing, detecting, and discouraging fraud and corruption.

The Council identified 235 positive outcomes from 1 April 2023 to 31 March 2024. The fraud identified has a notional value of over £680,000. A further £320,000 of fraud and error was identified through the National Fraud Initiative run by the Cabinet Office.

Recommendation

1. For the Committee to note and comment on the report.
 2. For the Committee to note and comment on the Anti-Fraud & Corruption Strategy 2024/27.
-

Wards Affected: None

| Our Values | Summary of how this report aligns to the H&F Priorities |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Building shared prosperity | CAFS carries out a variety of proactive measures aimed at prevention and reactive investigations, covering a diverse range of services provided by the Council. By actively preventing and uncovering fraudulent activities and subsequently recovering money and assets obtained through fraud, CAFS ensures the |

| | |
|-----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | safeguarding of essential frontline services for the benefit of residents. |
| Creating a compassionate council | CAFS undertake both proactive (preventative) and reactive (investigations) counter-fraud activity across a wide range of Council services. By preventing and detecting fraud and recovering fraud loss, it protects vital frontline services and contributes to establishing a caring council. |
| Doing things with local residents, not to them | CAFS engages with residents and provides multiple reporting channels so that concerns about fraud against the Council can be reported and investigated. |
| Being ruthlessly financially efficient | CAFS supports the Council in its statutory obligation under Section 151 of the Local Government Act 1972 to ensure the protection of public funds and to have an effective system of preventing and detecting fraud and corruption. |
| Taking pride in H&F | CAFS collaborates with a wide range of services to integrate fraud prevention measures into its operations. The service promotes its work, particularly successful outcomes achieved, demonstrating the Borough's commitment to tackling fraud. |
| Rising to the challenge of the climate and ecological emergency | CAFS seeks to ensure that the service supports the Council's aims and objectives around climate change and carbon reduction. |

Contact Officer(s):

Name: Andy Hyatt
Position: Head of Fraud
Telephone: 020 7361 2777
Email: andy.hyatt@lbhf.gov.uk

Background Papers Used in Preparing This Report

None

1. INTRODUCTION

- 1.1. This report provides an account of fraud-related activity undertaken by the Corporate Anti-Fraud Service (CAFS) from 1 April 2023 to 30 September 2023 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.
- 1.2. CAFS remains a shared service providing the Council with a complete, professional counter-fraud and investigation service for fraud attempted or committed against the Authority.
- 1.3. The report also details activity and performance against the Council's Anti-Fraud and Corruption Strategy to assess its effectiveness, highlights some of

the current and emerging areas of fraud risk and provides an overview of the effectiveness of the Council's arrangements to minimise the risk of fraud.

- 1.4. Between 1 April 2023 and 31 March 2024, the Council processed 119 new referrals, examined 1,965 NFI matches, and concluded 1,760 investigations. Conclusions varied from successful prosecutions to preventative measures, actions to deter fraud, or no further action if no wrongdoing was found. Out of the concluded cases, 531 resulted in positive outcomes related to prevention or detection.
- 1.5. The table below shows this activity and details the fraud types.

| Activity | Cases | Fraud types | Closed | Live |
|--------------------------------------------------|-------|-------------------------|--------|------|
| Live cases as of 01/04/23 | 233 | Tenancy & Housing cases | 89 | 188 |
| New referrals received | 119 | Internal Staff | 6 | 4 |
| NFI investigated matches | 1,965 | NFI | 1,643 | 322 |
| Closed investigations. (Positive outcome 531) | 1760 | High/Medium risk fraud | 17 | 14 |
| | | Low-risk fraud | 4 | 7 |
| Live cases as at 31/03/24 | 557 | POCA | 1 | 22 |

- 1.6. The 531 positive outcomes identified have a notional value of over £1,000,000, detailed in the following table.

| Activity | Fraud proved. | Notional Values (£'s) |
|-------------------------------------------------------------------|---------------|-----------------------|
| Housing application fraud | 13 | 52,113 |
| Right to Buy | 22 | 214,900 |
| Advisory Reports | 2 | 6,000 |
| Prevention subtotal | 37 | 273,013 |
| Tenancy Fraud (<i>all Council stock</i>) | 18 | 348,667 |
| Internal Staff | 4 | 19,500 |
| High/Medium risk fraud (<i>e.g. NNDR, Parking, Social Care</i>) | 10 | 24,978 |
| Low-risk fraud (<i>e.g. Freedom passes, Council Tax, SPD</i>) | 12 | 15,944 |
| Detection subtotal | 44 | 409,089 |
| Proceeds of Crime (<i>POCA</i>) | 1 | 19,710 |
| Press Release | 1 | 2,000 |
| Deterrence subtotal | 2 | 21,710 |
| National Fraud Initiative (<i>fraud & error</i>) | 448 | 320,223 |
| Total | 531 | 1,024,035 |

- 1.7. Calculating notional values helps quantify the financial benefits of counter-fraud efforts and emphasises the significance of directly addressing fraud. This is especially crucial when every single penny should be invested in delivering high-quality services to local people.
- 1.8. Notional values help quantify the financial benefits of counter-fraud work. They can also highlight the savings achieved through preventive actions. Nevertheless, it is important to acknowledge that not all aspects of fraud can be accurately measured in monetary terms, for example:

- Disruption to service delivery,
- Reputation damage and loss of public trust,
- Negative impact on the organisational culture, especially significant effect on staff morale, recruitment, and retention, or
- Damage to relationships with partners and stakeholders.

1.9 Details of noteworthy cases are reported in Appendix 1.

2. EMERGING ISSUES

2.1 This section informs members about new fraud types, emerging trends, or risks.

Economic Crime and Corporate Transparency Act 2023

2.2 The Economic Crime and Corporate Transparency Act 2023 (the “Act”) has changed how corporate criminal attribution works for economic crimes and added new failure to prevent fraud offences to hold organisations to account if they profit from fraud committed by their employees.

2.3 Failure to prevent fraud offences applies to organisations meeting two of these three criteria: doing business in the UK with a turnover of over £36m, a balance sheet total of over £18m, or more than 250 employees. This means local authorities are included.

2.4 Under the new offence, an organisation will be liable when an employee or agent commits a specified fraud offence for the organisation’s benefit, and the organisation does not have reasonable fraud prevention procedures in place.

2.5 The aim is to discourage organisations from ignoring fraud by employees that may benefit them. The offence will encourage more companies to implement or improve prevention procedures, driving a significant shift in corporate culture to help reduce fraud.

2.6 There is a defence to having reasonable procedures in place to prevent fraud, and the suggested guidance follows six principles of compliance: top-level commitment, Risk Assessment, robust but proportionate procedures, due diligence, communication (including whistleblowing) and training, monitoring, and review.

2.7 There is no commencement date for the new offence, but it is expected to be shortly after the government issues the guidance.

3. WHISTLEBLOWING

3.1 The Council's whistleblowing policy continues to be the primary support route for staff reporting concerns, although, since April 2023, CAFS has received no new fraud referrals via the Council’s whistleblowing policy.

- 3.2 Despite the relatively low level of whistleblowing activity at present, the Council acknowledges the crucial role played by the whistleblowing policy in ensuring protection for individuals who come forward. Therefore, to mark International Fraud Awareness Week (12-18 November 2023), the Council launched Safecall, an independent reporting hotline, marking a significant step towards enhancing transparency and accountability.
- 3.3 If staff have concerns about anything and do not feel comfortable expressing them directly to a Council officer, they can use the Safecall whistleblowing hotline facility, which also has a website for online referrals.
- 3.4 Safecall provides a 24-hour, 7-day-a-week service. When contacting Safecall, callers connect to a highly skilled professional call handler. They will be asked to explain the concern in as much detail as possible. Callers may remain anonymous should they wish, but the more information they can give, the easier it will be for the concern to be fully investigated.
- 3.5 The launch was prominently featured on the intranet, providing contact information, website links for electronic reporting, the Council's whistleblowing Policy, and a brief eLearning module titled LBHF Whistleblowing in the Learning Zone, accessible to all staff members.

4. ANTI-FRAUD AND CORRUPTION STRATEGY

- 4.1 The new Anti-Fraud & Corruption Strategy 2024/27 is attached for review in Appendix 2. This latest strategy commenced on 1 April 2024 and builds on the progress made to date. It has been refined to reflect changes to our activity, which will be increasingly proactive, collaborative, and agile to anticipate changing environments. The new pillars will consist of Govern, Understand, Prevent, and Respond.
- 4.2 The outgoing 2020/23 Strategy has driven the Council's fraud resilience throughout the financial year 2023/24, supporting the five themes: i) GOVERN, ii) ACKNOWLEDGE, iii) PREVENT, iv) PURSUE and v) PROTECT. Therefore, this report has been structured to demonstrate how counter-fraud activity has aligned with that strategy throughout 2023/24 and underpinned these themes.

i) GOVERN

A robust framework of procedures and policies

- 5.1 The Council has a robust framework of procedures and policies that supports the prevention, detection, and response to fraud within the Council. They promote a culture of transparency, accountability, and compliance, essential elements of an effective anti-fraud strategy.

- 5.2 The framework not only discourages potential fraudsters but also showcases the presence of set rules and repercussions for fraudulent behaviour. It offers clarity and uniformity, minimising confusion and deterring unintentional or opportunistic fraud.
- 5.3 Policies and procedures also lay the groundwork for training initiatives, ensuring employees are well-versed in identifying fraud and taking preventive measures through detailed guidelines. Ensuring everyone understands how fraud impacts the Council and how to prevent it will be one of the critical themes of the new Anti-Fraud & Corruption Strategy 2024/27.

ii) ACKNOWLEDGE

Committing support and resources to tackle fraud

- 6.1 It is vital that the Council can call upon competent, professionally trained officers to investigate suspected fraud. All CAFS investigators are members of the Government Counter Fraud Profession (GCFP), which provides a professional structure with common standards and competencies for those in counter-fraud roles.

Demonstrating that it has a robust anti-fraud response

- 6.2 Counter-fraud activity is reported to the Audit Committee twice yearly, detailing performance and action in line with the Anti-Fraud and Corruption Strategy.
- 6.3 CAFS reports on investigation outcomes, including successful detections, prevention activity, actions that deter fraud, or no further action where assurance is obtained that there is no case to answer.
- 6.4 Additionally, sharing successful anti-fraud efforts in the media can show a strong response against fraud and deter others from committing similar crimes by showing the consequences. Seeing the punishment for fraud can make people reconsider their actions, fearing the same fate. It highlights that justice is served and wrongdoings are not tolerated.

iii) PREVENT

- 7.1 The "Prevent" aspect of the Strategy focuses on detecting and preventing fraud, which is a key part of CAFS's work. It emphasises the importance of improving anti-fraud controls and processes.
- 7.2 CAFS emphasises to staff and management their duty to prevent fraud and corruption. They raise awareness through training that highlights the risks of fraud and its impact on the Council and the community.
- 7.3 Tailoring fraud awareness to the relevant departments or services it helps employees better understand how the training relates to their daily tasks. This training also helps staff to feel empowered to act against potential fraud.

Corporate Investigations

7.4 Corporate investigations cover a wide range of different counter-fraud activities. The work in this area is varied and extends beyond counter-fraud investigations to incorporate activities contributing to the organisation's assurance framework.

7.5 Since 1 April 2023, corporate investigation work has included:

| | |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Conflict of Interest | CAFS received information that a new employee in Adult Social Care had a close relationship with an external recruitment provider specialising in social care. The employee was found to have an email address associated with the provider and had exchanged emails with them, indicating a conflict of interest. It was also discovered that the employee had signed documents on behalf of the provider and tried to influence senior management to use their services. Following an investigation, the employee was dismissed for gross misconduct based on CAFS's findings. |
| CCTV | CAFS conducted an independent review and investigation on behalf of the Head of Public Protection in response to a CCTV server failure at one of the Council's hubs. The investigation uncovered two instances of failure. The first occurred despite emergency backup power being activated when a cable became disconnected. The second failure was caused by brick dust entering the server's air filters. The investigation found that the condition of the server room site played a significant role in the failure, although the responsible party could not be definitively determined. Additionally, inadequate access controls hindered CAFS from establishing the exact entry times of staff or contractors into the server room. Recommendations have been provided to address both issues. |
| School Charity Cheque Fraud Alert | <p>Several schools across the UK have experienced fraudulent activities involving cheques designated for the charity Children in Need. Some banks have identified irregularities and stopped payments. Numerous cheques have been deposited into personal accounts or cashed for higher amounts after being intercepted and altered. Investigations are ongoing, with schools working to recover the funds.</p> <p>Regrettably, one of our schools has fallen victim to this scheme. A cheque originally intended for Children in Need in the amount of £255.05 was tampered with and cashed for £4,000.05. However, the bank responsible for honouring the cheque, which only had one signature, is taking responsibility for the loss because the school's bank mandate explicitly dictates that cheques exceeding £500 must have two authorised signatures, which this one did not.</p> |
| Property verification | <p>Home Ownership Services sought assistance from CAFS for a scoping exercise to research properties identified for refurbishment to support the Council's Net Zero goals. It is crucial for the Council to determine which properties are owner-occupied to ensure finance caps are only placed on those who are entitled to the support.</p> <p>The work undertaken by CAFS enabled the Home Ownership Services to identify four more properties where the leaseholder was letting the property, ensuring the Service could accurately apply mandatory charging caps to genuine owner-occupied properties.</p> |
| Voters Register | Vigilant Electoral Services officers flagged multiple suspicious registration applications with matching surnames, similar names, and birthdates for different |

| | |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | addresses. Despite failing identity checks, some applicants provided documents for further verification. CAFS investigation found forged documents and fake addresses, leading to police involvement. The fraud attempt aimed to create false identities for future financial fraud, but thanks to thorough checks, the applications were rejected, preserving the register's integrity. |
| Employee Fraud | <p>A member of the public reported a concern to the Council about a maintenance van with LBHF branding parked at a house in Ealing. The van was traced back to its nominated driver through the vehicle registration. The area supervisor was sent to Ealing, where he discovered that one of his operatives was doing private work at the address. The operative took sick leave before any suspension could take place.</p> <p>CAFS was brought in to investigate and found that the van had been driven to five different addresses outside of LBHF during working hours. However, before the investigation could be completed, the operative resigned. Despite the resignation, the Council still considers disciplinary action in cases of potential misconduct. In this situation, the cost of further investigations and the impact on senior officers led to the decision not to proceed, and the resignation was accepted.</p> |
| Dual working | <p>Human resources were notified of a potential case of employee fraud after a team manager expressed concerns about an agency worker. Having been hired in August 2023, the manager became aware of rumours that the individual was working elsewhere.</p> <p>CAFS was tasked to investigate the concerns, and these enquiries revealed that the employee had also been working for another London council since March 2023, but they should have disclosed this information when they joined LBHF. Supported by the evidence obtained, the team manager undertook a fact-finding interview with the employee per the Council's policy, but the employee terminated their position with immediate effect.</p> |

Housing/Tenancy Fraud

- 7.6 Given the desperate shortage of affordable homes, demand for social housing continues to grow. It is an asset to the public and often a lifeline to the people it's meant for. Detecting and stopping social housing fraud can help alleviate some of the strain on the Council's housing resources.
- 7.7 CAFS provides an investigative service to all aspects of housing, including requests for the succession or assignment of tenancies, allegations of subletting or other forms of tenancy breaches, and right-to-buy applications.
- 7.8 Between 1 April 2023 to 31 March 2024, CAFS successfully recovered 18 properties which were being misused. These have now been allocated or made available to those in genuine need of housing support within the community.
- 7.9 Full details of the successful investigation activity regarding social housing are detailed below:

| P/Code | Size (bedrooms) | Reason for recovery | Outcome | Notional value |
|--------|-----------------|---------------------|------------------|----------------|
| SW6 | 1 | Abandonment | Keys returned | £13,115.00 |
| SW6 | 3 | Abandonment | Court Possession | £27,648.00 |
| W12 | 2 | Abandonment | Keys returned | £21,272.00 |
| W12 | 1 | Subletting | Keys returned | £13,115.00 |

| | | | | |
|-----|---|------------------|------------------------|------------|
| W6 | 1 | Abandonment | Keys returned | £13,115.00 |
| W6 | 2 | Abandonment | Court Possession | £20,172.00 |
| W12 | 1 | Abandonment | Keys returned | £13,115.00 |
| W14 | 1 | Abandonment | Keys returned | £13,115.00 |
| W14 | 4 | Subletting | Keys returned | £36,224.00 |
| W12 | 2 | False succession | Court Possession | £20,172.00 |
| W12 | 4 | False succession | Court Possession | £35,124.00 |
| W11 | 1 | Abandonment | Court Possession | £13,115.00 |
| W6 | 3 | Abandonment | Keys returned | £28,748.00 |
| W6 | 2 | Abandonment | Keys returned | £21,272.00 |
| W6 | 1 | Abandonment | Keys returned | £13,115.00 |
| SW6 | 1 | Abandonment | Keys returned | £13,115.00 |
| W12 | 1 | False succession | Keys returned | £13,115.00 |
| SW6 | 2 | False succession | Successful Prosecution | £20,000.00 |

7.10 In addition to the 18 successfully recovered properties, there are an additional six cases where possession has been awarded, but we are awaiting eviction. There are also 16 more cases due to be heard in court.

7.11 The table below highlights the pending cases of tenancy fraud where there is a realistic prospect of property recovery.

| | |
|-------------------------------------------|-----------|
| Pending eviction | 6 |
| Tenancy fraud cases pending court hearing | 16 |
| NTQ / NOSP served | 1 |
| Legal Advice Pending (tenancy) | 4 |
| | 27 |

Right to Buy

7.12 CAFS aids the right-to-buy process as part of its prevention activities, which involve checking and reviewing new applications. To ensure that tenants meet the right-to-buy criteria, CAFS has developed a thorough due diligence process that involves asking a series of questions.

7.13 The checking process helps verify the details of all individuals involved in the right-to-buy transaction, including those responsible for financing the purchase. Additionally, CAFS conducts visits to verify the information provided and to assess the composition of households.

7.14 The right-to-buy checks conducted by CAFS maintain the integrity and probity of the scheme. However, since 1 April 2023, this prevention process has led to the cancellation of 22 RTB applications, including recovering a property when the checks identified a potential right-to-buy address being unlawfully sublet.

| Postcode | Outcome |
|----------|---------------|
| SW6 | RTB withdrawn |
| SW6 | RTB withdrawn |
| SW6 | RTB withdrawn |

| | |
|-----|---------------|
| W12 | RTB withdrawn |
| W14 | RTB withdrawn |
| SW6 | RTB withdrawn |
| W11 | RTB withdrawn |
| W6 | RTB withdrawn |
| W12 | RTB withdrawn |
| SW6 | RTB withdrawn |
| SW6 | RTB withdrawn |
| W14 | RTB withdrawn |
| SW6 | RTB withdrawn |
| W12 | RTB withdrawn |
| W6 | RTB withdrawn |
| SW6 | RTB withdrawn |
| W12 | RTB withdrawn |
| SW6 | RTB withdrawn |
| W12 | RTB withdrawn |
| SW6 | RTB withdrawn |
| SW6 | RTB withdrawn |
| SW6 | RTB withdrawn |

iv) PURSUE

- 8.1 Stopping fraud and corruption from happening in the first place must be our primary aim. However, those who keep on trying may still succeed. It is, therefore, essential that a robust enforcement response is available to pursue fraudsters and deter others.
- 8.2 A recent press release regarding a CAFS successful prosecution reiterated the Council's robust enforcement response as well deterring others from committing similar crimes by showing the consequences.

National Fraud Initiative

- 8.3 A vital component of the anti-fraud and corruption strategy is making better use of information and technology. To this effect, the Council participates in the biennial National Fraud Initiative (NFI), an electronic data-matching exercise coordinated by the Cabinet Office.
- 8.4 Over 1,200 public and private sector organisations participate in the NFI, including councils, the Police, hospitals, and nearly 100 private companies, all helping to identify potentially fraudulent claims and errors. The latest outcomes for the 2022/2023 NFI matching exercise are detailed below.

| Matches | Fraud/Error | Amounts |
|-------------------------------------------------------|-------------|--------------------|
| Student Loans – HB overpayment created | 41 | £86,514.00 |
| HB to HB at other Councils – HB overpayment created | 7 | £14,179.00 |
| HB to deceased records | 57 | £3,614.00 |
| CTRS to HB at other Councils – HB overpayment created | 29 | £5,838.00 |
| Council Tax SPD removed no longer entitled | 249 | £167,828.00 |
| Blue Badge Parking Permit to deceased records | 65 | £42,250.00 |
| | 448 | £320,223.00 |

CONSULTATION

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

EQUALITY IMPLICATIONS

10.1 There are no equality implications arising from this report.

LEGAL IMPLICATIONS

11.1 A range of legislation governs the work of CAFS, including the Police and Criminal Evidence Act, the Criminal Procedures Investigation Act, the Regulation of Investigatory Powers Act, the Fraud Act, the Prevention of Social Housing Fraud Act, the Proceeds of Crime Act, and Data Protect Act.

11.2 There are no significant legal implications arising from this report.

Implications verified by Grant Deg, Assistant Director, Legal Services on 8 November 2023.

FINANCIAL AND RESOURCES IMPLICATIONS

12.1 Resources required to deliver on the Council's Counter-Fraud Strategy are funded from the budget allocated to the Corporate Anti-fraud Service. There are no additional resource implications arising from this report. Successful investigations and prosecutions can lead to the recovery of Council assets and money required to protect frontline services.

Implications verified by Sukvinder Kalsi, Director of Finance, on 8 November 2023.

RISK MANAGEMENT

13.1 The delivery of the counter-fraud strategy and associated policies contribute to the management of fraud risks faced by the Council, with proactive exercises supporting managers to put effective counter-fraud and corruption controls in place in their systems and processes.

Implications verified by Jules Binney, Risk and Assurance Manager, on 8 November 2023.

List of Appendices:

Exempt Appendix 1 – Counter-fraud notable cases.
Appendix 2 – Anti-Fraud and Corruption Strategy 2024-2027

ANTI-FRAUD AND CORRUPTION STRATEGY 2024-2027

1. INTRODUCTION

- 1.1 Fraud is the largest crime type in the UK. By its very nature, fraud is hidden; therefore, detecting and stopping it poses a significant challenge. Additionally, fraud methodologies continue to change and evolve as society and technology change, so the Council needs to be alert and have the right capabilities and structures to combat it.
- 1.2 The challenge of protecting public money from fraud remains significant, with increased pressures placed on local authorities to support those struggling for economic or health reasons. Fraud against the Council means money intended to support and enhance communities, primarily funded by the taxpayer, ends up in the pockets of those not legitimately entitled to it. This means less money is available to spend on Council services or support.
- 1.3 The Council recognises that every pound lost to fraud is a pound that cannot be utilised for community support. Hence, the prevention of fraud and corruption is a collective responsibility, and the Council is fully dedicated to fulfilling its obligations. The Council is determined to safeguard public funds by fostering a strong ethical culture and implementing effective measures against fraud. This document outlines the Council's Strategy for combating fraud and corruption, serving to uphold this commitment.

2. FRAUD AND CORRUPTION

- 2.1 The Fraud Act 2006 details the legal definitions of fraud and is used for the criminal prosecution of fraud offences. The Council also deals with fraud in noncriminal disciplinary matters.
- 2.2 For this document, fraud is defined as the dishonest action designed to facilitate gain (personally or for another) at the expense of the Council, the residents of the Borough or the wider national community. This includes offences such as deception, forgery, theft, misappropriation, collusion, and misrepresentation. Although used in this context, it is not intended to limit the Council's full use of the Fraud Act 2006.
- 2.3 In the context of local authorities, fraud manifests itself in many different guises. Some examples include housing and tenancy fraud, council tax, business rates, blue badge, social care fraud, internal fraud, bribery, and corruption.
- 2.4 Corruption refers to obtaining private gains from public office through the offering or acceptance of inducements designed to influence official action or decision-making. These temptations can take many forms, including cash, holidays, event tickets, meals, and other hospitality.

2.5 The Bribery Act 2010 allows individuals to be convicted where they are deemed to have given consent or tacit approval to giving or receiving a bribe. The Council has a separate **Anti-Bribery Policy**, which addresses bribery and the provisions of the Bribery Act in detail, including advice for staff on escalating concerns.

3. THE STRATEGY

3.1 The Anti-Fraud and Corruption Strategy forms part of the Council's counter-fraud framework, a collection of interrelated policies and procedures, including the Code of Conduct, Financial Regulations, Whistleblowing Policy, and Disciplinary Policy. It also includes policies and procedures targeted explicitly at countering fraud and corruption.

3.2 The Strategy provides management with a tool to ensure progress and transparency concerning counter-fraud activities. It is designed to heighten the Council's fraud resilience and demonstrate its protection and stewardship of public funds.





3.3 In developing this Strategy, the Council has adopted the guiding principles included in "*Fighting Fraud and Corruption Locally 2020*", the local government's counter-fraud and corruption strategy, and the CIPFA Code of Practice on "Managing the Risk of Fraud and Corruption".

4. STRATEGIC OBJECTIVES

4.1 Our strategy aims to build on the momentum gained from the previous approach, which focused upon five strategic pillars, where the Council concentrated its counter-fraud efforts. These pillars have been streamlined to reflect changes to our activity, which will be increasingly proactive, collaborative, and agile to anticipate changing environments. They are now GOVERN; UNDERSTAND; PREVENT; RESPOND.



4.2 The table below highlights some of the activity that will drive and support the strategic objectives.

|  GOVERN |  UNDERSTAND |  PREVENT |  RESPOND |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • The Council's leadership will take responsibility for ensuring anti-fraud, bribery and corruption measures are embedded throughout the organisation. • The risks associated with fraud will be communicated to those charged with Governance. • The Council will establish and communicate a framework of procedures and policies that demonstrate a commitment to integrity and ethical values and combine to act as an effective fraud deterrent. • The authority will perform evaluations periodically to provide unbiased assessments on the effectiveness of the investigation process and the anti-fraud and corruption Strategy. | <ul style="list-style-type: none"> • Identify and assess fraud risks, including new and emerging threats. • Continually review and maintain a Fraud Risk Register, which identifies, records, and assesses fraud risks across the Council and evaluates the mitigating controls. • Undertake a loss measurement exercise to determine the financial impact of fraud and inform risk assessments. • Develop effective horizon scanning to assist in identifying new risks or trends early. • Improve the awareness of fraud, including how it occurs and its impact on the Council, the community, and among our staff. • Develop and share good practices and lessons learned from all aspects of counter-fraud activity. • Raise awareness through a series of campaigns and the publication of fraud successes in local and national media, including using all forms of social media. | <ul style="list-style-type: none"> • Develop a fraud prevention and deterrence programme across the Council. • Introduce innovative data and proactive analysis approaches to identify and implement fraud prevention opportunities. • Examine and assess fraud prevention controls in process across the Council, considering a wide range of possible fraud schemes and risk exposure and recommending improvements where necessary. • Use data analytics techniques to test controls and obtain assurances as to their effectiveness. • Proactively promote and further enhance the Council's counter-fraud culture, heightening fraud awareness and understanding throughout the organisation and amongst the community. • Nurture an environment that enables the reporting of any genuine suspicions of fraudulent activity. • Monitor and review systems where self-declarations are required to support the Council's transparency to ensure compliance and integrity. | <ul style="list-style-type: none"> • Maintain a specialist resource to investigate suspected or detected fraud, corruption, and theft. • Ensure that the resources dedicated to combatting fraud are sufficient and those involved are skilled and configured to maximise the impact of investigations. • Enable the Council to apply appropriate sanctions, including criminal and civil proceedings, and the recovery of losses, where applicable. • Through positive action and enforcement, we will provide the public with assurances and overturn any negative perceptions of public sector fraud. • Continue using technology to tackle fraud, building new and enhancing existing capabilities. • Work with the police, enforcement agencies and communities to strengthen and continuously improve the Council's resilience to fraud and corruption. • Protect public sector funds through reductions in vulnerability to fraud and a reduction in fraud losses. |

5. MEASURING SUCCESS

5.1 The objectives in this strategy aim to build on the solid foundations we have created from the previous strategy, evolve, and rise to the new challenges that we face. Our successes by 2027 will include the following.



GOVERN

- An enhanced counter-fraud culture bolstered by the actions and transparency of leaders.
- The Council has robust arrangements and executive support to ensure counter-fraud measures are embedded throughout the organisation.
- The Council has a well-publicised collection of policies and procedures aimed at combating fraud.



UNDERSTAND

- The Council has seen an increase in awareness regarding fraud, with more individuals actively involved in combating fraud and a greater appreciation for the importance of counter-fraud efforts.
- A comprehensive fraud risk register is maintained and informed by a directory of fraud risks reviews and evaluations.
- Proactive measures are taken to identify and address emerging risk through effective horizon scanning and fraud risk assessments.
- We have implemented a process to measure and place value on the outcomes achieved by the counter-fraud function in terms of proactive and reactive counter-fraud work.
- All investigative activities and their resulting outcomes are recorded, with performance closely monitored and published across a range of channels.



PREVENT

- Lessons learned from counter-fraud activity contribute to a fraud prevention programme targeting control weaknesses and process vulnerabilities.
- A suite of counter-fraud training, guides and toolkits are accessible to staff throughout the organisation.
- The utilisation of data and technology will enhance our ability to work more efficiently and explore new avenues for preventing and detecting fraud.
- Learning from data analytics will assist us locating warning signs in datasets which are indicative of fraud.
- The deployment of prevention and disruption activities is a standard practice.



RESPOND

- Counter-fraud activity will yield measurable financial benefits, evidenced by a return on investment.
- Work collaboratively with partners to reduce fraud loss in public funds.
- The counter-fraud specialists possess the necessary skills that align with the various counter fraud activities, and they possess the ability and capacity to punish offenders.
- The counter-fraud specialists have the right skills commensurate with the range of counter fraud activity and has the capability and capacity to punish offenders.
- Counter-fraud staff possess knowledge about, and are provided with, opportunities for suitable professional growth and training.

6. MANAGING THE RISK OF FRAUD AND CORRUPTION

6.1 Everyone has a role to play in reducing the risk of fraud. However, Elected Members and Senior Management are ideally positioned to influence the ethical tone of the Council and play a crucial role in fostering a culture of high ethical standards and integrity.

- 6.2 As with any risk faced by the Council, managers must ensure that fraud risk is adequately considered within their service areas and in support of achieving strategic priorities, business plans, projects, objectives, and outcomes. In making this assessment, it is essential to consider the risk of fraud occurring (i.e. proactive) rather than the actual incidence of fraud that has happened in the past (i.e. reactive). Once the fraud risk has been evaluated, management should take appropriate action to mitigate those risks on an ongoing basis, for example, through introducing and operating effective systems of internal control (“first line of defence”). Where of significance, fraud risks should be considered as part of departmental risk management processes and, if necessary, included in departmental risk registers.
- 6.3 Managers must remember that adequate supervision, scrutiny, and professional scepticism must not be seen as distrust but as sound management practices shaping attitudes and creating an environment that opposes fraudulent activity.
- 6.4 Through the Council’s Corporate Anti-Fraud Service, we will play a proactive role in fraud prevention and a robust reactive response where fraud is detected. Fraud prevention is critical, and fraud awareness and education are vital in mitigating fraud risk at the outset, particularly in high-risk areas and emerging fraud risks.

7. REPORTING CONCERNS AND ADVICE

- 7.1 The Council recognises that the primary responsibility for preventing and detecting fraud rests with management. If anyone believes that someone is committing fraud or suspects corrupt practices, these concerns should be raised directly with line management or their superior in the first instance. This depends, however, on the seriousness and sensitivity of the issues involved and who is thought to be involved.
- 7.2 If that person feels management is involved or condoning the activity, you should approach either the Director of Human Resources or the Director of Audit, Fraud, Risk and Insurance. If the allegation relates to an elected member, then the Council’s Monitoring Officer must be notified.
- 7.3 Notifications will be treated with the utmost confidentiality. Any person who is implicated in the alleged offence must not be included in the notification procedure. Employees who wish to raise a serious concern should refer to the detailed **Whistleblowing Policy**.
- 7.4 Additionally, a concern can be raised by calling our confidential external whistleblowing hotline, Safecall, on 0800 915 1571 or by completing and submitting an online form via the Safecall website: www.safecall.co.uk.
- 7.5 When managers are made aware of suspected fraud by employees, they are also responsible for passing on those concerns expediently to the Director of Human Resources or the Director of Audit, Fraud, Risk and Insurance.

- 7.6 Where required, the Corporate Anti-Fraud Service, in conjunction with other services such as Human Resources, Legal Services, IT Services, will give advice and support to managers involved in fraud investigation, including evidence gathering, documentation and retention, disciplinary proceedings and, where relevant, referral to the Police or appropriate law enforcement agency.
- 7.7 The Council's approach to suspected fraud can be demonstrated in its **Fraud Response Plan**.

8. INVESTIGATIONS

- 8.1 To avoid potentially contaminating the evidence, managers should not investigate concerns themselves without seeking relevant authority. Instead, they should immediately report all suspicions of fraud or corruption, as detailed above, following the Fraud Response Plan.
- 8.2 Managers must seek advice from key professional services, e.g. Human Resources, Legal Services, Corporate Anti-Fraud Service, Internal Audit, and if relevant, ICT or the Housing Investigation Team, before undertaking investigations.

Agenda Item 7

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 31/07/2024

Subject: Risk Management Update

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, including the steps being taken to refresh the Corporate Risk Register and to update the Risk Management Strategy.

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 Impact

The current and future strategic operating environment for local government represents a significant risk to the council with the ongoing challenge of delivering services with increased demand and legislative pressures. This is further impacted by wider economic factors leading to rising costs from inflation and reduced funding. This has seen the Council incur additional expenditure whilst at the same time seeing pressures in the level of resources available through a combination of lower income levels and inherent demographic/legislative pressures.

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. The council holds a corporate contingency budget and adequate levels of reserves to enable it to manage unforeseen costs.

A standing corporate risk, Financial Management 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 in the Corporate Revenue Monitor to Cabinet and includes financial risks. Other corporate risks also identify financial pressures arising from demand and complexity of service provision which need to be managed.

Comments verified by Sukvinder Kalsi, Director of Finance, 29 February 2024

Legal implications

There are no particular legal implications arising from this report.

Comments verified by Grant Deg, Assistant Director of Legal Services, 1 March 2024

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

Background

1. To achieve the ambitions, outcomes and priorities set out in the Council 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, the Russian invasion of Ukraine, Brexit, Gaza, 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 financial challenges continue 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 Executive 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. 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. The Corporate Risk Register is reviewed on a regular basis by the Council's Strategic Leadership Team (SLT) and then presented to the Audit Committee.
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. This report provides the Committee with an update on the steps being taken to refresh the Corporate Risk Register and to review and update the Council's Risk Management Strategy.

Corporate Risk Register review

10. SLT Assurance reviewed the Corporate Risk Register on 5 June 2024 and no new risks have been identified or existing risks closed since the previous report to the Audit Committee in March 2024. There were also no changes in risk scores since the last report, confirmation that controls continue to be applied to manage and monitor the risks
11. It is recognised that many of the risks on the corporate register are long term and are not expected to change significantly over time. This is borne out by recent reports to the Committee. Several of the risks on the Council's corporate register are commonly seen on corporate risk registers across London.
12. Recent changes in the corporate management structure mean that some of the corporate risks have been reassigned and need to be reviewed with the relevant Executive Director who has taken over responsibility for those areas.
13. The Risk and Assurance Manager is working with departments to both review their corporate risks and departmental risk registers, along with the risk registers on major programmes. This both helps to provide assurance on the management of risk in departments and on major programmes as well as ensuring that new and emerging risks which need to be raised to the corporate register are identified and discussed.
14. The Committee will recall that, following recommendation from the Council's external auditor, that the number of risks on the corporate risk register has been reduced. SLT continue to review the number of risks on the register to ensure they are satisfied that the right risks are being reported and monitored.
15. Taking account of the stability of existing risks on the register and changes in the corporate management structure, the Director of Audit, Fraud, Risk and Insurance and the Risk and Assurance Manager will be taking the opportunity over the summer work with SLT to refresh the Corporate Risk Register so that it provides more focus on planned mitigations which are intended to maintain or reduce the risk over time.
16. This will provide enhanced assurance to SLT, Executive Directors and Members that planned actions are being implemented, are having the desired effect and provide opportunities to take corrective action where appropriate.

Refresh of the Risk Management Strategy

17. The council has a vision to improve people's lives, and to do this, objectives are set in the business plan that are intended to deliver this vision. It is essential that risks to the Council delivering these objectives are identified, monitored and managed.
18. The Council's current risk management strategy (approved by the Committee in 2019) was developed just before the Covid pandemic, where risk management arrangements came to the fore and played a significant part in the management and oversight of the Council's response. Since then, the Council has faced significant challenges, along with other councils, in terms of the exit from the European Union

and an uncertain economic climate, leading to high interest rates and cost of living for residents.

19. It is timely that the corporate risk management strategy should be revised to support the delivery of the H&F Vision to ensure the Council continued to support its residents and communities and deliver quality services within a challenging financial envelope.
20. In addition to refreshing the Corporate Risk Register, a review of the Council's Risk Management Strategy will be undertaken and presented to SLT Assurance in November 2024, prior to being presented to the Audit Committee. The refreshed Corporate Risk Register and Risk Management Strategy will be reported to the Committee at its meeting in December.
21. Following the adoption of the new Risk Management Strategy and Corporate Risk Register, training sessions will be held for Heads of Service and managers across the Council which will cover both risk management and the internal audit process. This will help to further embed good risk management practice and good design and operation of controls to manage risk across the Council.

Risk appetite

22. 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 with the ongoing challenges faced by the Council, there is a need to continue to 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.
23. The ongoing situation in Ukraine and Gaza continues to impact on the cost of domestic and business energy costs and fuel costs for activities such as transport and heating. While reported inflation is falling, interest rates remain high and the cost of living crisis continues to impact on residents and continues to lead to increased demand for services where residents need more support.
24. These factors impact on the Council in a number of ways including its staffing costs (including the level of pay awards), the cost of borrowing (particularly where it is needed for ongoing/planned capital works), cost pressures on contractors providing Council services (staffing, fuel, materials). The impact will also be felt by partner organisations (such as schools and the voluntary and community sector, where officers will closely monitor the impact and consider any support the Council will be able to provide.
25. A key concern for the Council is the impact that the cost of living crisis being experienced by residents through inflation and rising energy costs as well as the ongoing economic uncertainty (including the potential for rising unemployment). A [range of support measures](#) are being offered to residents and officers will continue to assess the situation and consider what further actions can be taken.
26. These and other factors are kept under regular review by SLT. This is done to ensure that ongoing impacts are recognised and appropriate mitigations put in place to protect Council services and local residents.

27. Regular reporting to the Committee 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.

Conclusions

28. Local authorities will continue to face significant pressures over the coming months, with the prospect of further reductions in public spending, combined with external economic pressures and concurrent demand led pressures. Council officers and services continue to respond with partners to changing circumstances at pace, interpreting and implementing new guidance and regulations as they arise.
29. Taking the opportunity to both review the format and content of the Corporate Risk Register and to review and update the Council's Risk Management Strategy will help to ensure that robust risk management arrangements are embedded across the Council and that reporting to SLT Assurance and Members on the corporate risks is enhanced.

Agenda Item 8

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 31 July 2024

Subject: Head of Internal Audit Annual Report 2023/24

Report of: David Hughes, Director for Audit, Fraud, Risk and Insurance

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

Summary

This report summarises the work of Internal Audit in 2023/24 and provides 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. This opinion is provided for the use of the London Borough of Hammersmith and Fulham and is used to support its Annual Governance Statement.

The report sets out a consistent level of assurance being obtained and provided for 2023/24 through the work of internal audit. This reflects the commitment to a robust assurance framework being led by the Chief Executive, through monthly SLT Assurance meetings, and through the delivery of the Ruthlessly Financially Efficient programme of the Council.

Recommendation

For the Committee to note the Head of Internal Audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment (para 20) and to consider whether there are any areas the Committee would like to explore further.

Wards Affected: None

H&F Values

| Our Values | Summary of how this report aligns to the H&F Priorities |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Building a shared prosperity | Internal audit work covers a wide range of services including those which are delivered in partnership with local and national companies. Assurance may be required over governance arrangements to demonstrate the benefit to residents of co-delivered services. |
| Creating a compassionate council | Internal audit provides assurance that the Council's resources are managed appropriately to provide the most effective support to the most vulnerable residents. |

| Our Values | Summary of how this report aligns to the H&F Priorities |
|-----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Doing things with residents, not to them | Where engagement with residents is part of service development, internal audit will consider how well co-production and resident access is embedded in a process. |
| 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. |
| Taking pride in H&F | Investment in public realm services such as waste collection, street cleaning and open/park spaces is significant. The internal audit strategy identifies services for cyclical review, including contract management for outsourced services and performance delivery for in-house services. |
| Rising to the challenge of the climate and ecological emergency | Internal Audit consider the impact of strategies, including, the Climate and Ecology Strategy, in a number of different reviews that form part of the Internal Audit Plan. |

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Background Papers Used in Preparing This Report

None.

DETAILED ANALYSIS

1. From the Internal Audit work undertaken in the financial year 2023/24, reasonable assurance can be provided that the systems of internal control are effective with 89% of the audits undertaken receiving a positive assurance opinion, with no Nil Assurance audits being reported for the eighth consecutive year (Appendix 1). The number of Substantial Assurance audits issued has remained consistent with previous years with 5 issued in 2023/24 (five issued in 2022/23, seven issued in 2021/22 and five in 2020/21). Given the way in which the Audit Plan is constructed, it is not unusual for some reviews to be given a Limited Assurance rating and this does not indicate that there are pervasive issues with the Council's control environment but that there are actions required in specific areas to improve controls.
2. There are some areas where control improvements are required and compliance with agreed systems could be improved. In each case, action plans are either in place, or have already been implemented, to remedy the weaknesses identified. These will be followed up by the internal audit team until they are completed.
3. The Council was found to be effective, in most areas, at implementing recommendations where concerns in respect of controls were identified.
4. The report is a key element of the evidence supporting the Annual Governance Statement (AGS), which will be presented separately to the Committee with the Annual Accounts.

Internal Audit Work 2023/24

5. The Audit and Accounts Regulations 2015 require the Council to conduct a review of effectiveness of the system of internal control. This contributes to the Council priority of being Ruthlessly Financially Efficient. Detailed reports on the performance and outcomes of the internal audit work undertaken, have been presented regularly to the Council's Section 151 Officer and at each meeting of the Audit Committee.
6. Wherever possible, when planned audits are postponed, alternative work is identified or alternative sources of assurance are sought. A small number of audits are shown as in progress in Appendix 1 and some audits were no longer appropriate or deferred until a future year, by agreement with the service, which are detailed in Appendix 2. The Internal Audit service has also liaised closely with the Council's senior managers to prioritise the audit work undertaken and to assist them in identifying other sources of assurance including the Directors' Assurance Statements which were completed at the end of the financial year.
7. The internal audit service has been provided in accordance with the UK Public Sector Internal Audit Standards (PSIAS). One of the requirements of the PSIAS is that the Head of Audit confirms to the Committee, at least annually, the organisational independence of the internal audit activity. The [Internal Audit Charter](#) reinforces this requirement.

Declaration of independence and objectivity

The reporting and management arrangements in place are appropriate to ensure the organisational independence of the Internal Audit activity. Robust arrangements are in place to ensure that any threats to objectivity are managed at the individual auditor, engagement, functional and organisational levels. Nothing has occurred during the year that has impaired my personal independence or objectivity.

Head of Internal Audit

8. The Public Sector Internal Audit Standards (PSIAS) require an external quality assessment be undertaken at least every five years, although more frequent assessments may take place. The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced. Standard 1312 states:

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

9. The standards and interpreting guidance go on to clarify that the external assessor must conclude as to conformance with the Code of Ethics and the Standards. The lead assessor must demonstrate competence in the professional practice of internal auditing and the external assessment process. Neither the lead assessor or any members of the assessment team should have an actual or perceived conflict of interest and they must not be a part of, or under the control of, the organisation to which the internal audit activity belongs. The scope of the assessment must be agreed with an appropriate sponsor, such as the Director of Finance or the Chair of the Audit Committee.
10. Across London, the London Audit Group has organised a system of independently validated assessments. It has been agreed that self-assessments will be completed and that these will be validated by suitably qualified individuals or teams from other members of the group. The review of internal audit's performance across the shared service was undertaken by Paul Rock who is appropriately qualified, independent and has no actual or perceived conflicts of interest. The scope and approach for the assessment was agreed by the Executive Director of Resources at Royal Borough of Kensington and Chelsea.
11. The external review concluded that:
- The self-assessment was very thorough and well evidenced and covered both the Public Sector Internal Audit Standards as well as the Local Government Application Note produced by the Chartered Institute of Public Finance and Accountancy.
 - Based on the self-assessment, supporting evidence and independent validation the internal audit services for Royal Borough of Kensington and Chelsea, City of Westminster and London Borough of

Hammersmith and Fulham **generally conforms with the Public Sector Internal Audit Standards. This is the highest available rating.**

| | |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Generally Conforms | The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects. |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

- The internal audit shared service is clearly delivering a high-quality service that is valued by all the authorities it serves. Of note is the approach to annual planning, which is agile and flexible. The service is recognised by stakeholders as extremely well led, respected and seen as supporting the organisations to achieve their respective objectives.
12. The external review, which includes definitions of the ratings available, and the recommended actions where areas were considered to partially conform to the standards, is contained in Appendix 5.
 13. In January 2024, the Institute of Internal Auditors published new Global Internal Audit Standards (GIAS). They will then replace the International Professional Practice Framework, the mandatory elements of which are the basis for the current UK public sector internal auditing standards (the PSIAS).
 14. The PSIAS are issued under the authority of the Relevant Internal Audit Standard Setters (RIASS) who are HM Treasury, the Scottish Government, the Department of Finance Northern Ireland and the Welsh Government, the Department of Health and Social Care and the Chartered Institute of Public Finance and Accountancy. Between them the RIASS determine what standards or other requirements are applicable to the practice of internal auditing in central government, local government and the health sector across the UK.
 15. The RIASS have agreed to use the new GIAS as the basis for internal auditing for the UK Public Sector and have asked the UK Public Sector Internal Auditing Standards Advisory Board (IASAB) to carry out a review of the new standards with a view to identifying and producing any sector specific interpretations or other material needed to make them suitable for UK public sector use.
 16. Development of IASAB material will be progressed with appropriate consultation with UK practitioners and other stakeholders in UK public sector internal auditing. Having regard to the points raised by respondents the IASAB will prepare final material for application in the UK public sector together with guidance on transition. Subject to approval by the RIASS, these will be issued later in 2024 to allow sufficient time for preparation for implementation.
 17. The effective date of the new material developed by IASAB will be 1 April 2025, to align with requirements for annual opinions and other relevant aspects of UK public sector governance which line up with the financial year. Until then, the existing PSIAS based on the old International Professional Practices Framework will continue to apply. The IASAB will review whether there are any issues in relation to assessment of conformance during the

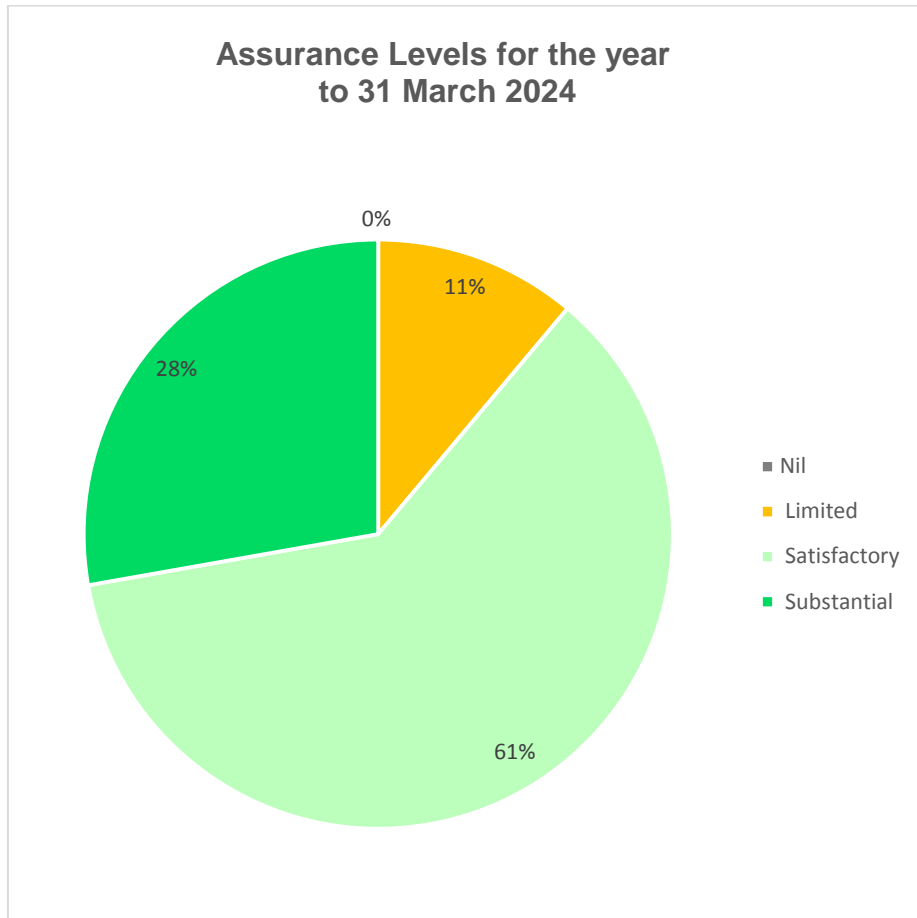
period from January to March 2025 and if needed will address these in the guidance on transition.

18. The Internal Audit Service is currently reviewing their Audit Charter and Strategy to consider recommendations raised in the External Quality Assessment and to ensure that they align with the new GIAS. The amended Charter will be presented to the Audit Committee prior to April 2025 once the IASAB review, referred to above, has been completed.

Internal Audit Opinion

19. As the provider of the internal audit service to the London Borough of Hammersmith and Fulham, the Director of Audit, Fraud, Risk and Insurance is required to provide the Section 151 Officer and the Audit Committee with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements. In giving this opinion, it should be noted that assurance can never be absolute. Even sound systems of internal control can only provide reasonable and not absolute assurance.
20. The opinion is that, at the time of preparing this report and based upon the work completed this year, the Council's governance, risk management and internal control systems in the areas audited were adequate with the exception of those areas detailed as Limited Assurance (see paragraph 23 below and Appendix 3). This is a positive opinion which means that the Council generally has effective internal control systems with 89% of audits receiving a positive assurance opinion (86% in 2022/23). No Nil Assurance reports have been issued again this year.
21. In the above context it should be noted that:
 - This opinion is based solely upon the areas reviewed and the progress made by the Council to action internal audit recommendations.
 - Assurance can never be absolute neither can internal audit work be designed to identify or address all weaknesses that might exist.
 - Responsibility for maintaining adequate and appropriate systems of internal control resides with Council management, not internal audit.
22. Issues arising from Internal Audit work which have significant implications for the Council's assurance framework, will be included in the Annual Governance Statement which is reported separately to this Committee. The Annual Governance Statement also ensures that follow up action is taken to remedy the key control weaknesses found.

Chart Showing assurance levels:



Limited Assurance Reviews

23. There were a few areas where improvements in compliance with controls were needed with a total of two audits being designated as limited assurance as set out in the table below:

| Service Area | Audited Area | Reported to Audit Committee |
|---------------------|---------------------|------------------------------------|
| Housing | Voids | July 2024 |
| Children’s Services | Adoption Services | July 2024 |

Substantial Assurance Reviews

24. As identified earlier in the report, five Substantial Assurance reviews were issued in 2023/24 which are set out in the table below:

| Service Area | Audited Area | Reported to Audit Committee |
|--------------|-------------------------|-----------------------------|
| Environment | Modern Slavery Strategy | November 2023 |
| Corporate | Council Tax | March 2024 |
| Corporate | Housing Benefit | March 2024 |
| Corporate | NNDR | June 2024 |
| Finance | VAT | June 2024 |

Managed Services – Finance, HR and Payroll Systems

25. The Council's Finance, HR and Payroll systems are provided by the Integrated Business Centre (IBC) within Hampshire County Council (HCC). During 2023/24, HCC commissioned a Type 2 Report on the suitability of the design and operating effectiveness of service organisation controls which was prepared in accordance with the International Standard on Assurance Engagements (ISAE) 3402. The Report covered a sample of business processes in the following areas:

- General Ledger
- Order to Cash
- Purchase to Pay
- Cash and Bank
- HR and Payroll
- IT General Controls.

The report was provided by HCC to the Executive Director of Finance and provided reasonable assurance that the control objectives would be achieved.

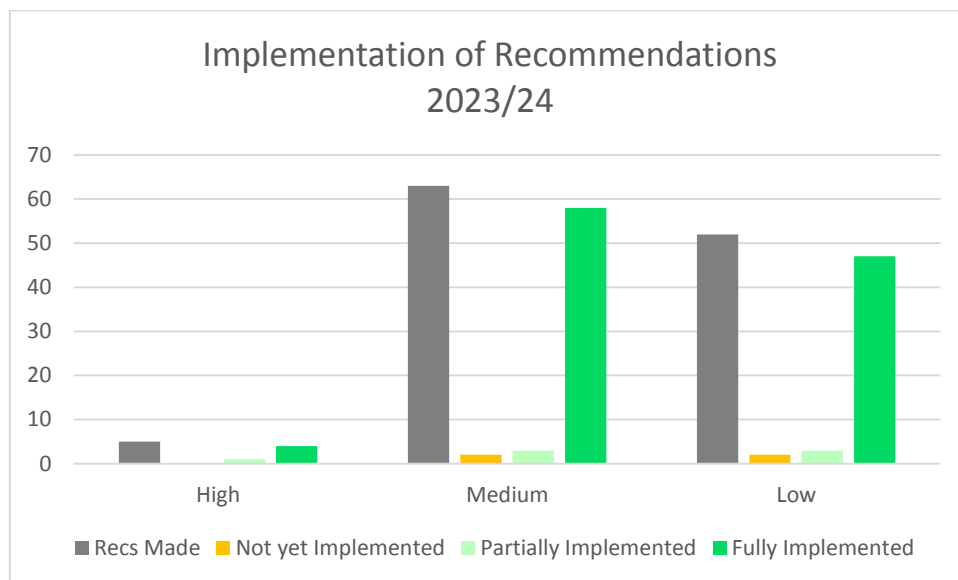
26. In addition to the assurances provided by HCC, the Council is required to apply complementary controls.

Follow up Audits

27. The implementation of audit recommendations is reported regularly to SLT Assurance and to the Audit Committee.
28. Follow up work is undertaken when most of the recommendations made are expected to have been implemented as indicated in an agreed management action plan. Sometimes recommendations cannot be fully implemented in the anticipated timescales. In these cases, where appropriate progress is being made to implement the recommendations, these are identified as partly implemented. Recommendations will be followed up until all high and medium priority recommendations are implemented or good progress in implementing them can be demonstrated. Where appropriate, the follow up is included in the next full audit of the area.

29. One-hundred and twenty (120) recommendations were followed up in 2023/24 and the implementation of medium and high priority recommendations had been consistently effective with 91% of all recommendations fully implemented, 6% partly implemented (1 high, 3 medium and 3 low priority) and 3% not yet implemented (2 medium and two low priority recommendations).

Chart showing Implementation of Recommendations:



30. Details of the recommendations not yet fully implemented are contained in Appendix 4.

Additional Sources of Assurance

31. In addition to assurance audits undertaken during the year, the service has provided support and guidance in several areas including:
- Contract Management (2022/23)
 - Pensions Administration
 - New Placements Team (2022/23)
 - Adult Services Risk Management
 - Disabled Facilities Grants (2022/23)
 - Out of Borough Placements

This type of engagement with the services is considered when determining the overall opinion of the Council’s governance, risk management and internal control systems together with outcomes provided from internal compliance and quality assurance checks, peer reviews and assessments from external bodies such Ofsted and the Care Quality Commission.

32. The Director of Audit, Fraud, Risk and Insurance, the Head of Internal Audit and the Risk and Assurance Manager, also attend meetings of groups across the Council where they contribute and provide advice and challenge where appropriate. During 2023/24, the following were attended:

- Contracts Assurance Board
- Residents and Building Safety Compliance Group
- Civic Campus Programme Board
- Procurement Act working group
- Fraud, Error, Recovery Hub Steering Group
- Health and Safety Board
- Service Resilience Group

Assurance on Risk Management

33. As an organisation the Council must ensure that it is delivering against priorities and requirements (political, community and statutory), that it is managing its processes effectively (finance, procurement, governance) and making best use of its resources (money, assets, people). This requires the Council to look both inwardly (to ensure we have effective governance and controls) but also outwardly at risk (e.g., to the risk to citizens, to protect citizens and build resilience).
34. The Senior Leadership Team (SLT) is responsible for providing sufficient assurance against risks and opportunities that affect (or impact upon) the Council and its citizens and communities. It sets the standards and ensures the Council has the right policies, practices and behaviours in place for effective assurance and risk management and is responsible for ensuring that new and emerging risks are identified, captured and appropriate mitigations are put in place.
35. The Council's Corporate Risk Register is reviewed by the Senior Leadership Team at least four times a year and the Register is reported at regular intervals to the Audit Committee for review and comment. SLT Assurance also undertakes deep dives into departmental risks registers, both to give assurance around departmental risk management arrangements and to identify potential additions to the Corporate Risk Register. During 2023/24 the Committee received a Risk Management Highlight Report and the Corporate Risk Register at their meetings on 26 July 2023, 27 November 2023 and 11 March 2024.

Assurance on Corporate Governance

36. Officers have undertaken an internal review to support the preparation of the draft Annual Governance Statement which will be reported to the Committee alongside the Council's draft Annual Accounts 2023/24 at its July 2024 meeting.
37. Each year, the Council's Directors complete an Assurance Statement which is an opportunity for them to assess the governance arrangements and sources of assurance within their department. Any significant issues should be identified and would feed into the Council's Annual Governance Statement. Internal Audit periodically test the content of Directors Assurance Statements, both to confirm their accuracy and to build upon our own picture of assurance across the Council.

38. The Council's corporate governance framework is considered to comply with the best practice guidance on corporate governance issued by CIPFA/SOLACE.

Consultation

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

Legal Implications

40. 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.
41. 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.
42. The Constitution gives the Strategic Director of Finance responsibility for complying with the Regulations. The Audit Committee has responsibility for advising on strategic processes for risk, control and governance and the Statement on Internal Control. This report fulfils the obligations in the Regulations and the Constitution.
43. There are no particular legal implications arising from this report.
- Implications verified by Grant Deg, Director of Legal Services on 23 June 2024.*

Financial Implications

44. The internal audit plan was delivered within the approved revenue budget for the service for 2023/24. 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.
45. Any resource implications from the implementation of the recommendations by services have to be contained within the relevant Directorate approved budgets.

Implications verified by Sukvinder Kalsi, Executive Director of Finance on 24 Jun 2024.

Risk Management

46. 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 on 20 June 2024.

List of Appendices:

- Appendix 1 Audits completed in 2023/24 and work in progress
- Appendix 2 Changes to the 2023/24 Audit Plan
- Appendix 3 Internal Audit Plan 2023/24 – Final Progress Report
- Appendix 4 Follow up of Implementation of Recommendations
- Appendix 5 External Quality Assurance (EQA) Report including Action Plan

Audit work completed in 2023/24

| Plan Area | Auditable Area | Issued | Assurance level given | High Priority Recs | Medium Priority Recs | Low Priority Recs | Reported to Committee |
|-----------------------------|-------------------------------------------------|--------|-----------------------|--------------------|----------------------|-------------------|-----------------------|
| Finance | VAT | May-24 | Substantial | 0 | 1 | 0 | Jul-24 |
| Housing | Housing Voids | Jun-24 | Limited | 2 | 7 | 2 | Jul-24 |
| Finance | Pensions Administration (on-going) | Mar-24 | Advisory | 0 | 0 | 0 | Jul-24 |
| Corporate Services | NNDR (draft) | May-24 | Substantial | 0 | 1 | 0 | Jul-24 |
| Children's Services | Supporting People's Claims (on-going assurance) | Mar-24 | Satisfactory | 0 | 0 | 0 | Jul-24 |
| Children's Services | Adoption Services | Nov-23 | Limited | 2 | 1 | 0 | Jul-24 |
| Children's Services | Local Safeguarding Children Partnership (draft) | Feb-24 | Satisfactory | 0 | 3 | 2 | Jul-24 |
| Schools | Cambridge School | Jun-24 | Satisfactory | 0 | 2 | 5 | Jul-24 |
| Social Care & Public Health | Compliments & Complaints (draft) | May-24 | Satisfactory | 0 | 4 | 2 | Jul-24 |
| Social Care & Public Health | Out of Borough Placements (draft) | May-24 | Advisory | 0 | 7 | 7 | Jul-24 |
| Environment | Trading Standards (draft) | Apr-24 | Satisfactory | 0 | 2 | 8 | Jul-24 |
| Environment | Licensing (draft) | Apr-24 | Satisfactory | 0 | 3 | 4 | Jul-24 |
| | | | | | | | |
| Cross-cutting | Contract Management | Feb-24 | Advisory | 2 | 5 | 0 | Mar-24 |

| Plan Area | Auditable Area | Issued | Assurance level given | High Priority Recs | Medium Priority Recs | Low Priority Recs | Reported to Committee |
|----------------------------------------|-----------------------------------------|---------------|------------------------------|---------------------------|-----------------------------|--------------------------|------------------------------|
| Corporate Services | Council Tax | Dec-23 | Substantial | 0 | 0 | 0 | Mar-24 |
| Corporate Services | Housing Benefit | Feb-24 | Substantial | 0 | 0 | 4 | Mar-24 |
| Corporate Services | Digital: New Systems Acquisitions | Feb-24 | Satisfactory | 0 | 1 | 1 | Mar-24 |
| Children's Services | New Placements Team (2022/23) | Nov-23 | Advisory | 0 | 5 | 0 | Mar-24 |
| Schools | Randolph Beresford Nursery School | Nov-23 | Satisfactory | 0 | 4 | 2 | Mar-24 |
| Social Care & Public Health | Disabled Facilities Grants | Feb-24 | Advisory | 0 | 5 | 0 | Mar-24 |
| Social Care & Public Health | Risks Deep Dive | Nov-23 | Advisory | 0 | 0 | 0 | Mar-24 |
| Environment | Community Safety: Anti-Social Behaviour | Nov-23 | Satisfactory | 1 | 3 | 4 | Mar-24 |
| Environment | Climate Change | Nov-23 | Satisfactory | 0 | 5 | 3 | Mar-24 |
| | | | | | | | |
| Children's Services | Direct Payments | Oct-23 | Satisfactory | 0 | 4 | 4 | Nov-23 |
| Environment | Modern Slavery Strategy (2022/23) | Jun-23 | Substantial | 0 | 0 | 0 | Nov-23 |

2023/24 Audit work in progress

| Plan Area | Auditable Area | Status |
|-----------------------------|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Corporate Services | Digital: Departmental Business Continuity | Commenced in Q4. Fieldwork in progress. |
| Children's Services | Fostering Service | Consider external review findings and progress made by the service on implementing recommendations and identify any areas for future audit consideration. |
| Social Care & Public Health | Public Health: Drug & Alcohol Service | Fieldwork complete and being reviewed prior to issue of the draft report. |
| Environment | Facilities Management | Initial work undertaken and discussed with the service. Agreed additional work required before reporting and this will be included in the 2024/25 audit plan. |

Changes to the 2023/24 Internal Audit Plan

The table below shows any audits removed from the 2023/24 plan, following discussions with management, or deferred to a future year.

| Plan Area | Auditable Area | Reason Audit work not Undertaken |
|-------------------------------|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Cross-cutting | Gifts & Hospitality – new system | New system to be agreed to replace existing system delayed due to other higher priority tasks. |
| Cross-cutting | Declarations of Interest | Reviewed priorities to consider in a future year. |
| Cross-cutting | Risk Management | Reviewed priorities to consider in a future year. |
| Finance | Partnerships | Reviewed priorities to consider in a future year. |
| Housing | Building Safety Act | Too early to review in 2023/24 and will include in a future year. |
| Housing | Housing Health & Safety | Follow up reviews of previous audits undertaken and implementation of recommendations verified. New cycle of H&S audits to be programmed in from 2024/25. |
| Housing | Leaseholder Charges Debt Management (new system) | Project to implement the new system delayed. Will be considered for inclusion in 2024/25 plan. |
| Housing | Housing Allocations | Due to other work in the housing area and addressing issues raised by the Housing Ombudsman, this audit was deferred and will be included in the 2024/25 audit plan |
| Corporate Services | Digital: Cyber Resilience | Additional review originally added to the plan but agree to carry forward to future year if required. |
| Corporate Services | Digital: IT Disaster Recovery | Agreed focus on departmental business continuity arrangements (separate review), then undertake this audit in future year. |
| Corporate Services | Digital: Revenues & Benefits Application | Reviewed priorities to consider in a future year. |
| Corporate Services | People & Talent: Right Work & DBS Checks | Reviewed priorities to consider in a future year. |
| Corporate Services | People & Talent: On-line appraisal system. | Consider in 2024/25 as not implemented in 2023/24. |
| Children's Services & Finance | Business Support Services | Need time to become established. Agreed to defer to a future year. |
| Children's Services & | Shared Service Governance | Reviewed priorities to consider in a future year. |

| Plan Area | Auditable Area | Reason Audit work not Undertaken |
|-------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------|
| Finance | | |
| Children's Services & Finance | Early Years | Reviewed priorities to consider in a future year. |
| Social Care & Public Health | Day Care Services | Reviewed priorities to consider in a future year. |
| Social Care & Public Health | Mental Health Services | Replaced by audit of Out of Borough Placements. |
| Social Care & Public Health | Performance Management and Governance | Reviewed priorities to consider in a future year. |
| Social Care & Public Health | Home Care | New contract awarded need time to be embedded. Defer to future year. |
| Environment | Planning / Building Control | Reviewed priorities to consider in future year when new regulations are properly embedded. |

Internal Audit Plan 2023/24 – Final Progress Report

1. Executive Summary

- 1.1 The work carried out by the Council’s Internal Audit Service since the last report to the Committee found that, in the areas audited, internal control systems were generally effective with two substantial and six satisfactory assurance reviews being completed in the period. In addition, two limited assurance reviews were reported in the period and these are detailed in paragraph 2.5.
- 1.2 The follow up reviews completed in the period on five audits confirmed that the implementation of recommendations has been generally effective with 100% of recommendations fully or partly implemented at the time of review. Those recommendations not fully implemented at the time of the follow up are contained in Appendix 4.

2. Audit Outcomes

- 2.1 Four assurance levels are used and when an audit is completed, an assurance opinion is provided. A description of each of the assurance levels is summarised below:

| Assurance Level | Description |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Substantial Assurance: | There is a sound system of internal control designed to achieve their objectives and the control processes tested are being consistently applied. |
| Satisfactory Assurance: | While there is generally a sound system of internal control, there are weaknesses which put some of the objectives at risk; and/or there is evidence that the level of non-compliance with some of the control processes may put some of the objectives at risk. |
| Limited Assurance: | Weaknesses in the system of internal control are such as to put the objectives at risk; and/or the level of non-compliance puts the objectives at risk. |
| Nil Assurance: | Control processes are generally weak, leaving the processes/systems open to significant error or abuse; and/or Significant non-compliance with basic control processes/systems open to error or abuse. |

2.2 Recommendations are categorised according to the table below:

| Priority | Description |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| High (Fundamental) | Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk. |
| Medium (Significant) | Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk |
| Low (Housekeeping) | Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk. |

2.3 Since the last report to Members, ten audits have been completed, eight of which did not identify any significant areas of concern:

| Audit | Assurance |
|-------------------------------------------|--------------------|
| Housing Voids – See para 2.12 | Limited |
| Adoption Services – See para 2.12 | Limited |
| Supporting People Claims | Satisfactory |
| Local Safeguarding Children’s Partnership | Satisfactory |
| Cambridge School | Satisfactory |
| Compliments and Complaints | Satisfactory |
| Trading Standards | Satisfactory |
| Licensing | Satisfactory |
| VAT | Substantial |
| NNDR | Substantial |

2.4 In addition, two advisory reviews/ support have been undertaken in the following areas:

- Out of Borough Placements
- Pensions Administration

Recommendations arising from advisory reports are followed up and the implementation of these recommendations will be reported in summary to the Committee.

Elections Readiness (work in progress)

- 2.5 As discussed with the Committee in March 2024, the 2024/25 audit plan includes a review of Electoral Services which was planned to be undertaken at the time of the Greater London Authority (GLA) Election (May 2024) with any learning applied when the General Election takes place later in the year. A particular focus would be on voter ID as this was the first time this was a requirement for those casting votes in person within the borough.
- 2.6 A review of processes in place was undertaken in the lead up to the GLA Election, with further discussions held with the Electoral Services Manager post-election to discuss what went well and what could have been done better.
- 2.7 The following areas were reviewed /discussed:
- Training for Polling Station officials
 - Voter ID and provision of Voter Authority Certificates
 - Postal Voting including handing in of votes and post-election notification of rejection of postal votes
 - Counting of votes (3-4 May)
 - Identification and confirmation of Polling Stations
 - Accounting for the costs of the election
 - Liaison with other boroughs
- 2.8 As responsibility for the GLA Election rests with the GLA Returning Officer, the Council worked with the three other boroughs in their designated constituency (West Central) and applied the training and accounting requirements of the GLA with the counting of votes undertaken for all three boroughs in the same location over 3 and 4 May. Whilst it was recognised that arrangements for the GLA Election was different in several ways from the Council's normal arrangements for managing an election, the principles and lessons learned would be useful particularly in respect of managing the Voter ID requirements within the Polling Stations.
- 2.9 The review commenced in mid-March and included discussions with the Electoral Services team plus audit participation in online and in-person training sessions which covered the roll of a Poll Clerk and Presiding Officer.
- 2.10 The post-election discussions were in mid-May and the work undertaken up to this point did not identify any concerns or significant challenges that had arisen during the GLA Elections. No specific issues were identified following the introduction of Voter ID and postal votes were carefully managed by the designated officer and a secure space provided for handling the postal votes. Whilst the voter participation in General Election is likely to be higher than in the GLA Elections, it has been a good opportunity for the staff and others involved in the election process to become familiar with the new rules on voter ID and how to manage this additional requirement efficiently and effectively.
- 2.11 Some additional work is expected to be undertaken in respect of the Electoral Services but this was paused due to the announcement on 22 May that the General Election will take place on 4 July and the need to allow the Service to prepare for this so soon after the GLA Election. As such a formal report on this review will not be issued until after the additional work has been completed which is likely to be during the summer.

2.12 Limited Assurance Audits

| Ref | Audit | Details |
|-----|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Housing Voids | <p>In August and September 2023, the Council undertook an internal ‘Voids Performance Rapid Review’ to understand issues and opportunities to improve void performance. At the time of the audit (October 2023) 310 properties were voids and the average re-let time in September 2023 was 20 days for minor voids. The scope of the audit included the following areas:</p> <ul style="list-style-type: none"> - Policies and procedures - Void process - Void standard - Void works - Void post inspection (partially reviewed) - Performance management (partially reviewed) <p>Two high and seven medium priority recommendations were made to address weaknesses identified. The weaknesses are summarised below and the agreed management action implementation date shown in bold text:</p> <ul style="list-style-type: none"> - NEC, the Council’s Housing Management Software, captures all the void events for each void property and allows event target dates and actual date of completion to be entered. Target dates and actual dates of completion were consistently not populated into NEC by staff, leading to a lack integrity of data held on voids performance (high). NEC All void and key to key milestones are now live on NEC and recorded with power Bi trackers on the housing system for all stages. Standardisation and training for housing management and repairs staff has been completed and aware of system completions and the of the dashboard. Weekly voids meetings are in place to monitor progression of key to key time scales. Tenant portals reviewed to monitor allocations and sign ups against lettings. Void rental losses and income is now mapped and tracked across the stock (January 2024). - The Voids Procedure sets milestones and targets for each stage of the voids process and defines the criteria for the average re-let time which is measured from the date the previous tenancy was terminated, up to and including the date the new tenancy agreement starts. Testing demonstrated that milestones were not being completed to their assigned target. Delays early in the process, such as obtaining an asbestos survey, caused a knock of effect to latter phases, which leads to delays in starting void works (high). Voids have been broken down into 4 stages (tenancy termination, void works, viewings & lettings and sign-ups and lettings). All void works and aged voids are monitored and reported on weekly. Minor voids are measured (20 working days), major voids are measured (35 working days) and major works voids are removed from the key to key process and added to the capital programme for all voids with works exceeding £100k (January 2024). - From a sample of 10 of the 86 minor voids undertaken between April to October 2023, in all instances a pre-inspection was not completed (medium). Pre-inspections are due to commence at the beginning of August 2024. <ul style="list-style-type: none"> - The Lettable Standard had not been subject to periodic review and lacked evidence that it has been reviewed and approved by |

| Ref | Audit | Details |
|-----|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Housing Voids (continued) | <p>tenants (medium).</p> <p>Benchmarking on the Lettable Standard has been undertaken with resident groups and neighbouring boroughs (March 2024 and a separate voids process and standard has been produced in respect of sheltered housing and people living with dementia is due to be introduced from September 2024.</p> <ul style="list-style-type: none"> - One out of 10 minor voids tested did not have a completed specification. Of the remaining nine, five specifications were not dated and we were unable to confirm the date the inspections took place. For all nine we were unable to ascertain whether the inspection was jointly undertaken with the contractor (medium). <p>Inspections are undertaken jointly with the contractor wherever possible. If the contractor cannot attend this is recorded and an inspection will take place without the contractor but the non-attendance will be recorded and monitored for each contractor (February 2024).</p> <ul style="list-style-type: none"> - Tenant feedback was not collected when a property was occupied (medium). <p>Currently all voids are post inspected with FRAG resident representatives and void / housing team members. Customer satisfaction and tenant post-void surveys are due to commence in September 2024.</p> <ul style="list-style-type: none"> - Review of the data reported to the Service Improvement Board and Directors found that performance on voids did not provide a breakdown between major and minor voids, despite having different targets. Furthermore, performance was not broken down between contractors (medium). <p>Indicator ‘flags’ are now completed on the housing system to identify the different types of void works. Voids and rental loss are monitored & reported weekly (January 2024). A financial tracker is due to be launched in June 2024.</p> <ul style="list-style-type: none"> - The voids dashboard is presented in Power BI which contains all voids data, however, the voids leadership group was not able to fully utilise the dashboard due to a lack of training in using Power BI (medium). <p>Training needs have been addressed and there are weekly reviews of system usage and a process in place to monitor usage and tracking of voids (February 2024).</p> <ul style="list-style-type: none"> - The actions for weekly meetings from September 2023 showed them to be high level and lacked direction on how to complete the action (medium). <p>Voids performance was reported to the Service Improvement Board (SIB) 4 times in Oct/Nov 23. In November the SIB asked for a different approach to be taken so they were provided with consistent, quality data showing average time taken for voids to complete each stage of the process and to set out an improvement plan. Reporting was changed in December 2023 to a Strategic Operational Board for voids and gaps in reporting identified and prioritised to ensure data was reliable and appropriate (February 2024).</p> <p>Two low priority (housekeeping/ best practice) recommendations were also made.</p> |
| 2 | Adoption Services | The Council are part of Adopt London which brings together four regional adoption agencies’ services for 24 local authorities. Adopt London West (ALW) is a specialist regional adoption agency partnership between Brent, Ealing, Hammersmith and Fulham and |

| Ref | Audit | Details |
|-----|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Adoption Services | <p>Hounslow Councils hosted by Ealing, that provides a shared adoption service to the four partner Local Authorities, ALW commenced operation on 1st September 2019. In the financial year 2021/22, the ALW costing model was reviewed and a new model was agreed in September 2021 for the financial years 2022/23 to 2025/26.</p> <p>The scope of the audit included the following areas:</p> <ul style="list-style-type: none"> - Costing model - Inter-agency fees - Record keeping and data management - Performance management and Scrutiny <p>Areas of good practice included:</p> <ul style="list-style-type: none"> - the governance and steps taken by the Council to select the costing model for the Adoption Service. - the Council agreed the costing model at the ALW Partnership Board meeting on 25 October 2021, and this was noted in the Partnership Board 'Actions and Decisions Log'. The proposed costing model was taken to a Council Internal Scrutiny Committee prior to agreement. - assurance was gained through the finance workshops that the approved costing model aligned to the service's budget for 2022/23. - the costing model aligned with the priorities of the Adoption Service as the majority of the services were within adoption support and activity. - access to cases tested was restricted to the adoption service team. - The Council had three entities in place that monitor and scrutinise adoption services performance: the Corporate Parenting Board (CPB), the Care and Resource panel, and the Performance Learning Board (PLB). <p>Two high and one medium priority recommendations were made to address weaknesses identified. The weaknesses are summarised below and the agreed management action and implementation date is shown in bold text:</p> <ul style="list-style-type: none"> - Our testing of all adoptions between April 2022 and June 2023 identified that two cases, totalling nearly £61k which were the responsibility of the Council but no invoice or agreement for payment had been received by the Principal Accountant (high). Finance will coordinate with the service team to draw up an inter-agency fee procedure including payment process mapping, monitoring requirements and payment procedures. It will also set out governance process and service level agreement between finance and the relevant stakeholders. In addition, the Principal Account will set up quarterly meetings with the Head of Services, the ALW Business and Performance Manager and the Finance Team to assist in budget forecasting. All payments will be processed in a timely manner and queries will be dealt promptly (June 2024). - Testing of the information and documents expected to be retained according to Section 5.2.11 of the Children's Services Procedures manual, found numerous instances where the specified documents were not retained (high). One minute guidance was implemented and shared with all team managers and social workers as a working tool to ensure file records meet the recording expectations in the procedures. This has been discussed at team meetings and management meetings (February 2024). A bi-annual audit of all children with Adoption Care Plans will be undertaken to verify recording (commencing June 2024). - For one case, a payment (£33,781) was made 213 days after an invoice was raised. For this case there was no Service Level Agreement (SLA) retained on file and we therefore could not confirm whether the SLA was signed prior to payment and that the |

| Ref | Audit | Details |
|-----|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | (continued) | <p>value specified within the SLA aligned with the invoice (medium).</p> <p>The service noted that the delay in payment in this case resulted from a number of issues including: the name of the Regional Adoption Agency on the SLA (inter agency form) did not match the name of the Local Authority who were sending the invoice; the inter agency form was sent to the incorrect Head of Service for signature; and the signed form was not uploaded on the child's record.</p> <p>Written procedures for processing inter agency fees and paying invoices on time have been prepared and agreed. It has also been agreed that ALW will send the inter-agency SLA form to a specified Head of Service to check and verify the agreement and the form will include the name of the agency and host local authority. Practice Assistants in Support Services have taken on responsibility for ensuring that the signed SLA is uploaded on the child's record. The improved process will enable Finance and Support Services to raise the correct purchase order, match the invoice received to the purchase order and SLA and ensure payment is made within 30 days (June 2024).</p> |

Implementation of Recommendations 2023/24

The high (1) and medium (5) priority recommendations not fully implemented at the time of the follow up are summarised in the table below and further follow up will be undertaken to confirm implementation.

| Ref | Audit | High Priority | Medium Priority | Recommendation(s) in progress/ not implemented and original implementation date | Status (end of May 2024) | Revised Implementation Date |
|-----|--------------------------------------------------------------------------------------|---------------|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| 1 | ASC Supervision (Satisfactory) Audit Issued: Aug-2021 Follow up: Sep-2023 | 0 | 2 | <p>1) Line managers should be reminded of the importance of completing and submitting their supervision monitoring form (due Nov-2021).</p> <p>2) The Council should seek to undertake reporting of supervision to senior management monthly. KPIs should be introduced, which can be used to measure current performance (due Oct 2021).</p> | <p>1) Plan to complete and submit monitoring forms was instigated, however put on hold due to the Principal Social Worker (PSW) post being vacant. Now a Principal Social Worker is in post the recommendation is due to be implemented.</p> <p>2) Plan for KPIs to build into monitoring & reporting systems was put on hold due the PSW vacancy. Now that a PSW is in post the recommendation is due to be implemented.</p> | <p>1) October 2023</p> <p>2) November 2023</p> |
| 2 | William Morris Sixth Form (Limited) Audit issued: Oct-2022 Follow up: Feb-2024 | 1 | 0 | <p>The Voluntary Fund Account(s) should be reconciled monthly with the reconciliation signed and dated by the appropriate officer. The reconciliation should be reviewed, by a second officer with this review evidenced.</p> <p>Voluntary Fund Accounts should be audited by a registered auditor on an annual basis and presented to the FGB for review and approval.</p> | <p>The reconciliation was implemented in Feb-2022 when the new SBM joined.</p> <p>The 19-20 accounts were presented to the Finance Staffing and Resources Committee in May 2021. The accounts for 21-22 and 22-23 are still with the external auditor as the school had trouble finding paperwork for the 21-22 accounts which delayed the audit.</p> | May 2024 |

| Ref | Audit | High Priority | Medium Priority | Recommendation(s) in progress/ not implemented and original implementation date | Status (end of May 2024) | Revised Implementation Date |
|-----|-----------------------------------------------------------------------|---------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| 3 | Libraries (Advisory) Audit issued: May-2023 Follow up: Oct-2023 | 0 | 2 | <p>1) The papers presented to Cabinet in February 2023 confirmed that the charges for 2023/24 were approved but did not detail the fees and charges for Libraries so they couldn't be reconciled with the fees and charges published on the website.</p> <p>2) All staff have different safe access codes. As the codes had only been place for a month at the time of the audit, monthly access reports had not yet been produced and the library staff do not have access to obtain this reporting.</p> | <p>1) The fees and charges for 2023/24 will be reconciled against the website to confirm the accuracy of the fees and charges published. Identified inaccuracies should be corrected.</p> <p>2) The software that allows reporting will be provided to library staff and regular reporting will be implemented.</p> | <p>1) September 2023</p> <p>2) November 2023</p> |
| 4 | Jack Tizard School | 0 | 1 | <p>The school should ensure that:</p> <ul style="list-style-type: none"> - a PO is raised through the school's financial management system. - The PO should be approved in line with the Scheme of Delegation prior to funds being committed. - A goods received check is completed and evidenced prior to the payment of an invoice. - Invoices are paid within 30 days of the invoice date. If the with any invoices received late or in dispute, noted accordingly. | <p>A vacancy since May 2022 has resulted in some of the processes and targets not achieving the school's usual high standards. The vacancy has been filled by a permanent officer who is undergoing training in the Spring Term which will enable them to support the School Business Manager with finance tasks.</p> | June 2024 |

Appendix 5 to the Head of Internal Audit
Annual Report to the Audit Committee
July 2024

**Internal Audit Shared Service
Royal Borough of Kensington and Chelsea
City of Westminster
London Borough of Hammersmith & Fulham**

**Internal Audit Performance
External Quality Assessment**

FINAL REPORT

Date: 18 October 2023

Report Author: Paul Rock – Assistant Director Internal Audit and Counter Fraud
London Borough of Lambeth

Introduction

The Public Sector Internal Audit Standards (PSIAS) require an external quality assessment be undertaken at least every five years, although more frequent assessments may take place. The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

Standard 1312 states:

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

The standards and interpreting guidance go on to clarify that the external assessor must conclude as to conformance with the Code of Ethics and the Standards. The lead assessor must demonstrate competence in the professional practice of internal auditing and the external assessment process. Neither the lead assessor or any members of the assessment team should have an actual or perceived conflict of interest and they must not be a part of, or under the control of, the organisation to which the internal audit activity belongs. The scope of the assessment must be agreed with an appropriate sponsor, such as the Director of Finance or the Chair of the Audit Committee.

Across London, the London Audit Group has organised a system of independently validated assessments. It has been agreed that self-assessments will be completed and that these will be validated by suitably qualified individuals or teams from other members of the group.

This review of internal audit's performance across the shared service has been led by Paul Rock who is appropriately qualified, independent and has no actual or perceived conflicts of interest. The scope and approach for this assessment was agreed by the Executive Director of Resources at Royal Borough of Kensington and Chelsea.

Conclusion

The self-assessment was very thorough and well evidenced and covered both the Public Sector Internal Audit Standards as well as the Local Government Application Note produced by the Chartered Institute of Public Finance and Accountancy.

Based on the self-assessment, supporting evidence and independent validation it is the view of the lead assessor that the internal audit services for Royal Borough of Kensington and Chelsea, City of Westminster and London Borough of Hammersmith and Fulham **generally conforms with the Public Sector Internal Audit Standards. This is the highest available rating.** Definitions of all the ratings are detailed in Appendix D.

The internal audit shared service is clearly delivering a high-quality service that is valued by all the authorities it serves. Of particular note is the approach to annual planning, which is agile and flexible. The service is recognised by stakeholders as extremely well led, respected and seen as supporting the organisations to achieve their respective objectives.

| | |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Generally Conforms | The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects. |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Stakeholder Survey

During this assessment, a survey of key stakeholders was undertaken, with 12 responses received. The results are very positive and a testament to the professionalism and expertise of internal audit service. In summary, the survey results have revealed that:

80% or more of the respondents confirmed they fully or generally agreed with majority of the statements (15 of 19) relating to the internal audit service.

The four statements that dropped below this level (but were still positive) related to:

- The adequacy of resources (67%) and whether internal audit enhanced organisation-wide understanding of governance, risk, and control (75%). The drop in agreement was driven by respondents stating they did not know.
- The remaining two statements related to communicating results (67%) and practical recommendations (75%). In both statements some respondents indicated they partially (rather than fully or generally) agreed with the statement.

None of respondents stated they did not agree with any of the 19 statements. The full results of the survey are shown at Appendix B.

Interviews with Key Stakeholders

In addition to the stakeholder survey, interviews were also held with the Executive Director of Resources (Royal Borough of Kensington and Chelsea) Director of Finance (London Borough of Hammersmith and Fulham) and Director of Finance (City of Westminster)

Overall, the interviewees were very positive about the internal audit shared service. Interviewees described the service as extremely well led, credible, responsive, respected, agile, as well as providing sound advice and guidance. The flexible approach to strategic and annual planning of internal audit activity was frequently mentioned as a positive. None of the interviewees raised any significant areas of concern or need for improvement.

Key Findings

Assessment against the Public Sector Internal Audit Standards and Local Government Application Note (LGAN) is a comprehensive approach and results in over 130 statements having been evaluated.

Out of these statements there are only eight areas of partial conformance (see Appendix A), and these are linked through common themes that can be quickly addressed by implementing the following recommendations.

Approval of Work Programmes

Standard 2240.A1 requires that work programmes (often referred to as testing schedules) must be approved prior to their implementation and any adjustments must be approved promptly.

The shared service has several experienced staff and as a result they can produce good quality work programmes with little supervision. However, the standards specifically require programmes to be reviewed and approved prior to commencement to ensure consistency and quality.

Recommendation:

All work programmes to be reviewed and approved by the supervising auditor prior to implementation.

Key Performance Indicators and Satisfaction Surveys

Standard 1311 states internal assessments must include ongoing monitoring of the performance of the internal audit activity and standard 1320 states the chief audit executive [or equivalent] must communicate the results of the quality assurance and improvement programme.

The service has documented its quality assurance and improvement programme (QAIP), but it does not include references to key performance indicators or satisfaction surveys. Including both and reporting performance at least annually will ensure there is a complete picture of internal audit's performance.

Recommendation:

Document key performance indicators and satisfaction surveys as part of the QAIP and report performance in the annual report. Consider introducing a 'cold review' process of internal audit files as part of annual self-assessment against the PSIAS.

Assessment and Limitations of Resources

Standard 2020 states the chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

The service routinely communicates the internal activity plans and significant changes but does not include an assessment of the resources required to

deliver the work. Based on the self-assessment the service does have adequate and capable resources that are supplemented when needed through co-sourcing arrangements. To fully comply with the standard the service simply needs to communicate the resources assessment to senior management and the audit committees.

Recommendation:

Include an assessment of the required internal audit resources in annual planning reports to senior management and the audit committees.

Documented Retention Periods

Standard 2330.A2 states the chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

The internal audit service understands its retention requirements and the variations between authorities but would benefit from clearly documenting these requirements in its audit manual or another appropriate document.

Recommendation:

Document retention and disposal requirements in the audit manual or another appropriate document.

Evaluating ethics-related objectives, programmes and activities

Standard 2110.A1 states the internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

The service has evaluated ethics through a range of internal audits across the councils but hasn't recently undertaken a targeted audit on this topic and does not include the outcome of its evaluation in the annual reports.

Recommendation:

Consider an audit or maturity assessment to evaluate the design, implementation and effectiveness of the council's ethics-related objectives, programmes and activities. Or, if evaluated through a broad range of audits, include an overall opinion of the design, implementation and effectiveness of the council's ethics-related objectives, programmes and activities in the annual report.

Internal Audit's Mission

Standard 1000 states the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework.

The Internal Audit Charter and Strategy taken together do show that internal audit's intention is to add value and provide risk-based assurance and advice

but for completeness these documents would benefit from including the specific internal audit mission included in the PSIAS.

Recommendation 6

Add the internal audit mission statement to each charter - 'To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight'.

File Review and Testing Limitations

During this assessment a sample of audit files were reviewed for compliance against the PSIAS. All the in-house internal audit files were well documented and complied with the standards (other than the consistent approval of work programmes as documented above). The internal audit service is supported through contractual arrangements with both Price Waterhouse Coopers and Mazars. Our testing did not extend to the provider's audit files and we have placed reliance on the contractual obligations to provide internal audit services that are compliant with the PSIAS, which must include their own external quality assessment arrangements.

Appendix A - Summary Assessment

| Statement | Generally Conforms | Partially Conforms | Does not Conform |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|------------------|
| Mission of Internal Audit | | | |
| Does the internal audit activity aspire to accomplish the Mission of Internal Audit as set out in the PSIAS? | ✓ | | |
| Definition of Internal Auditing | | | |
| Is the internal audit activity independent and objective? | ✓ | | |
| Does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation? | ✓ | | |
| Core Principles | | | |
| Does the internal audit activity conform with the PSIAS by demonstrating integrity? | ✓ | | |
| Does the internal audit activity conform with the PSIAS by demonstrating competence and due professional care? | ✓ | | |
| Does the internal audit activity fully conform with the PSIAS by being objective and free from undue influence (independent)? | ✓ | | |
| Does the internal audit activity fully conform with the PSIAS by being aligned with the strategies, objectives, and risks of the organisation? | ✓ | | |
| Is the internal audit activity appropriately positioned and adequately resourced? | ✓ | | |
| Does the internal audit activity demonstrate quality and continuous improvement? | ✓ | | |
| Does the internal audit activity communicate effectively? | ✓ | | |
| Does the internal audit activity provide risk-based assurance, based on adequate risk assessment? | ✓ | | |
| Is the internal audit activity insightful, proactive, and future-focused? | ✓ | | |
| Does the internal audit activity promote organisational improvement? | ✓ | | |
| Code of Ethics | | | |
| Do internal auditors display integrity? | ✓ | | |
| Do internal auditors display objectivity? | ✓ | | |
| Do internal auditors display due respect and care by maintaining confidentiality? | ✓ | | |
| Do internal auditors display competency? | ✓ | | |

| Statement | Generally Conforms | Partially Conforms | Does not Conform |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|------------------|
| Do internal auditors, whether consciously or through conformance with organisational procedures and norms, have due regard to the Committee on Standards of Public Life's <i>Seven Principles of Public Life</i> ? | ✓ | | |
| Attribute Standards | | | |
| Does the internal audit charter conform with the PSIAS by including a formal definition of the purpose, authority and responsibility of the internal audit activity? | ✓ | | |
| Does the internal audit charter conform with the PSIAS by clearly and appropriately defining the terms 'board' and 'senior management' for the purposes of the internal audit activity? | ✓ | | |
| Internal Audit Charter. | ✓ | | |
| Does the CAE periodically review the internal audit charter and present it to senior management and the board for approval? | ✓ | | |
| Does the CAE have direct and unrestricted access to senior management and the board? | ✓ | | |
| Are threats to objectivity identified and managed at all levels? | ✓ | | |
| Does the CAE report to an organisational level equal or higher to the corporate management team? Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities? | ✓ | | |
| Does the CAE's position in the management structure: Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board? Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management? | ✓ | | |
| Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent? | ✓ | | |
| Is the organisational independence of internal audit realised by functional reporting by the CAE to the board? | ✓ | | |
| Does the CAE communicate and interact directly with the board? | ✓ | | |
| Where the CAE has roles or responsibilities that fall outside of internal auditing, are adequate safeguards in place to limit impairments to independence or objectivity? Does the board periodically review these safeguards? | ✓ | | |
| Do internal auditors have an impartial, unbiased attitude? | ✓ | | |
| Do internal auditors avoid any conflict of interest, whether apparent or actual? | ✓ | | |
| If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties? | ✓ | | |
| Does review indicate that work allocations have operated so that internal auditors have not assessed specific operations for which they have been responsible within the previous year? | ✓ | | |
| If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity? | ✓ | | |
| Is the risk of over-familiarity or complacency managed effectively? | ✓ | | |

| Statement | Generally Conforms | Partially Conforms | Does not Conform |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|------------------|
| Have internal auditors declared interests in accordance with organisational requirements? | ✓ | | |
| Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties has this been declared and investigated fully? | ✓ | | |
| Does review indicate that no instances have been identified where an internal auditor has used information obtained during the course of duties for personal gain? | ✓ | | |
| Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements? | ✓ | | |
| If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted? | ✓ | | |
| Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted? | ✓ | | |
| Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent? Is the CAE suitably experienced? | ✓ | | |
| Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes? | ✓ | | |
| Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities? | ✓ | | |
| Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation? | ✓ | | |
| Do internal auditors have sufficient knowledge of key information technology risks and controls? | ✓ | | |
| Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques? | ✓ | | |
| Do internal auditors exercise due professional care? | ✓ | | |
| Do internal auditors exercise due professional care during a consulting engagement? | ✓ | | |
| Has the CAE defined the skills and competencies for each level of auditor? Does the CAE periodically assess individual auditors against the predetermined skills and competencies? | ✓ | | |
| Do internal auditors undertake a programme of continuing professional development? | ✓ | | |
| Has the CAE developed a QAIP that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated? | | ✓ | |
| Does the QAIP include both internal and external assessments? | ✓ | | |
| Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence? | ✓ | | |
| Do internal assessments include ongoing monitoring of the internal audit activity? | ✓ | | |

| Statement | Generally Conforms | Partially Conforms | Does not Conform |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|------------------|
| Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets? | | ✓ | |
| Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices? | ✓ | | |
| Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives? | ✓ | | |
| Has an external assessment been carried out, or is one planned to be carried out, at least once every five years? | ✓ | | |
| Has the CAE properly discussed the qualifications and independence of the assessor or assessment team with the board? | ✓ | | |
| Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive? | ✓ | | |
| Has the CAE reported the results of the QAIP to senior management and the board? | | ✓ | |
| Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report? | | ✓ | |
| Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this? | ✓ | | |
| Has the CAE reported any instances of non-conformance with the PSIAS to the board? | ✓ | | |
| If appropriate, has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced? | ✓ | | |
| Performance Standards | | | |
| Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals? | ✓ | | |
| Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks? | ✓ | | |
| Does the risk-based plan set out the: Audit work to be carried out? | ✓ | | |
| Does the CAE review the plan on a regular basis, and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls? | ✓ | | |
| Is the internal audit activity's plan of engagements based on a documented risk assessment? | ✓ | | |
| In developing the risk-based plan, has the CAE also given sufficient consideration to: Any declarations of interest (for the avoidance for conflicts of interest)? The requirement to use specialists, e.g. IT or contract and procurement auditors? Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary? The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion? | ✓ | | |

| Statement | Generally Conforms | Partially Conforms | Does not Conform |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|------------------|
| In developing the risk-based plan, has the CAE consulted with senior management and the board to obtain an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes? | ✓ | | |
| Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them? | ✓ | | |
| Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval? Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen? | ✓ | | |
| Has the CAE communicated the impact of any resource limitations to senior management and the board? | ✓ | | |
| Does the risk-based plan explain how internal audit's resource requirements have been assessed? | | ✓ | |
| Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise disruption to the functions being audited, subject to the requirement to obtain sufficient assurance? | ✓ | | |
| If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board? | ✓ | | |
| Has the CAE developed and put into place policies and procedures to guide the internal audit activity? | ✓ | | |
| Does the risk-based plan include an adequately developed approach to using other sources of assurance and any work that may be required to place reliance upon those sources? | ✓ | | |
| Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan? | ✓ | | |
| Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation? | ✓ | | |
| Does the internal audit activity assess and make appropriate recommendations to improve the organisation's governance processes? | ✓ | | |
| Has the internal audit activity evaluated the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities? | | ✓ | |
| Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives? | ✓ | | |
| Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes? | ✓ | | |
| Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems? | ✓ | | |
| Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk? | ✓ | | |

| Statement | Generally Conforms | Partially Conforms | Does not Conform |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|------------------|
| Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement? | ✓ | | |
| Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes? | ✓ | | |
| Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems | ✓ | | |
| Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes? | ✓ | | |
| Do internal auditors develop and document a plan for each engagement? | ✓ | | |
| Do internal auditors consider the following in planning an engagement, and is this documented: objectives, controls, risks, resources, operations, risk mitigation, adequacy, effectiveness, improvements? | ✓ | | |
| Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party? | ✓ | | |
| For consulting engagements, have internal auditors established an understanding with the engagement clients. | ✓ | | |
| Have objectives been agreed for each engagement? | ✓ | | |
| Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether organisational objectives and goals have been accomplished? | ✓ | | |
| Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client? | ✓ | | |
| Is the scope that is established for each engagement generally sufficient to satisfy the engagement's objectives? | ✓ | | |
| Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up? | ✓ | | |
| For each consulting engagement, was the scope of the engagement generally sufficient to address any agreed-upon objectives? | ✓ | | |
| Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of each engagement | ✓ | | |
| Have internal auditors developed and documented work programmes that achieve the engagement objectives? | | ✓ | |
| Do internal auditors generally identify (sufficient, reliable, relevant and useful) information which supports engagement results and conclusions? | ✓ | | |
| Have internal auditors generally based their conclusions and engagement results on appropriate analyses and evaluations? | ✓ | | |

| Statement | Generally Conforms | Partially Conforms | Does not Conform |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|------------------|
| Have internal auditors generally remained alert to the possibility of the following when performing their individual audits, and has this been documented: Intentional wrongdoing? Errors and omissions? Poor value for money? Failure to comply with management policy? Conflicts of interest? | ✓ | | |
| Have internal auditors documented the relevant information required to support engagement conclusions and results? | ✓ | | |
| Does the CAE control access to engagement records? | ✓ | | |
| Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed? | ✓ | | |
| Do the communications of engagement results include the following: The engagement's objectives? The scope of the engagement? Applicable conclusions? Recommendations and action plans, if appropriate? | ✓ | | |
| Do internal auditors generally discuss the contents of the draft final reports with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions? | ✓ | | |
| If recommendations and an action plan have been included, are recommendations prioritised according to risk? | ✓ | | |
| Subject to confidentiality requirements and other limitations on reporting, do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice? | ✓ | | |
| Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question? | ✓ | | |
| When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results? | ✓ | | |
| Where the CAE has been required to provide assurance to other partnership organisations, or arm's length bodies such as trading companies, have the risks of doing so been managed effectively, having regard to the CAE's primary responsibility to the management of the organisation for which they are engaged to provide internal audit services? | ✓ | | |
| Are internal audit communications generally accurate, objective, clear, concise, constructive, complete and timely? | ✓ | | |
| If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication? | ✓ | | |
| Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement? | ✓ | | |
| Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved? The reason(s) for non-conformance? The impact of non-conformance on the engagement and the engagement results? | ✓ | | |
| Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements? | ✓ | | |

| Statement | Generally Conforms | Partially Conforms | Does not Conform |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|------------------|
| Has the CAE communicated engagement results to all appropriate parties? | ✓ | | |
| Before releasing engagement results to parties outside the organisation, did the CAE: Assess the potential risk to the organisation? Consult with senior management and/or legal counsel as appropriate? Control dissemination by restricting the use of the results? | ✓ | | |
| Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board? | ✓ | | |
| Has the CAE delivered an annual internal audit opinion? | ✓ | | |
| Does the communication identify the following: The scope of the opinion, including the time period to which the opinion relates? Any scope limitations? The consideration of all related projects including the reliance on other assurance providers? The risk or control framework or other criteria used as a basis for the overall opinion? | ✓ | | |
| Does the annual report incorporate the following: annual opinion, summary of work, qualifications, impairments, comparisons, conformance with PSIAIS, results of the QAIP, progress against improvement plans, summary of performance? | | ✓ | |
| Where issues have arisen during the follow-up process (for example, where agreed actions have not been implemented), has the CAE considered revising the internal audit opinion? | ✓ | | |
| Does the internal audit activity monitor the results of consulting engagements as agreed with the client? | ✓ | | |
| If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management? | ✓ | | |

Appendix B – Survey Results



Appendix C – Action Plan

| | Recommendation | Management Comments and Timeline |
|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | All work programmes to be reviewed and approved by the supervising auditor prior to implementation. | <p>Management Response: Team to be advised and Manual updated to include reference to this requirement.</p> <p>Action Owner: M Mackie Implementation Date: End Dec 2023</p> |
| 2 | Document key performance indicators and satisfaction surveys as part of the QAIP and report performance in the annual report. Consider introducing a 'cold review' process of internal audit files as part of annual self-assessment against the PSIAS. | <p>Management Response: Performance indicators will be discussed and agreed for use in the 2024/25 financial year.</p> <p>Will consider introducing cold review of files as part of annual self-assessment.</p> <p>Action Owner: Moira Mackie Implementation Date: wef April 2024</p> |
| 3 | Include an assessment of required internal audit resources in annual planning reports to senior management and the audit committees. | <p>Management Response: Will include indicative resourcing requirements for annual plan which will be seen by Senior Managers prior to submission to Audit Committees (note audit committees do not approve the plan or resources required although any significant shortfall in resources would be identified to them).</p> <p>Action Owner: Moira Mackie Implementation Date: wef April 2024</p> |

| | Recommendation | Management Comments and Timeline |
|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4 | Document retention and disposal requirements in the audit manual or another appropriate document. | <p>Management Response: The audit manual will be updated to include this.</p> <p>Action Owner: Moira Mackie Implementation Date: End December 2023</p> |
| 5 | Consider an audit or maturity assessment to evaluate the design, implementation and effectiveness of the councils' ethics-related objectives, programmes and activities. Or, if evaluated through a broad range of audits, include an overall opinion of the design, implementation and effectiveness of the council's ethics-related objectives, programmes and activities in the annual report. | <p>Management Response: This will be considered for each Council and how this may be determined will be discussed by the Head of Internal Audit and the Director. If necessary, some time will be set aside in the audit plan to evaluate this.</p> <p>Action Owner: Moira Mackie / David Hughes Implementation Date: End March 2024</p> |
| 6 | Add the internal audit mission statement to each charter - 'To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight'. | <p>Management Response: The Charter will be reviewed and updated to include additional information as indicated.</p> <p>Action Owner: Moira Mackie Implementation Date: End March 2024</p> |

Appendix D – Definitions

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| Generally Conforms | The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects. |
| Partially Conforms | The internal audit service falls short of achieving some elements of practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit. |
| Does Not Conform | The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the objectives and practice statements within the section or sub-sections. These deficiencies will usually have a significant negative impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the Audit Committee. |