


<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p><b>17 JULY 2018</b></p>	
<p><b>HEAD OF INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2017/18</b></p>	
<p><b>Report of the Director of Audit, Fraud, Risk and Insurance</b></p>	
<p><b>Open Report</b></p>	
<p><b>Classification: For Information</b>  <b>Key Decision: No</b></p>	
<p><b>Wards Affected: None</b></p>	
<p><b>Accountable Director: David Hughes, Director of Audit, Fraud, Risk and Insurance</b></p>	
<p><b>Report Author:</b> David Hughes, Director of Audit, Fraud, Risk and Insurance</p>	<p><b>Contact Details:</b>  Tel: 0207 361 2389  E-mail: <a href="mailto:David.HughesAudit@lbhf.gov.uk">David.HughesAudit@lbhf.gov.uk</a></p>

## 1. EXECUTIVE SUMMARY

- 1.1. The Head of Internal Annual Assurance report summarises the work of Internal Audit during the 2017/18 year and provides an opinion on the overall system of internal control across the council.

## 2. RECOMMENDATIONS

- 2.1. To note the contents of the annual summary report.

## 3. REASONS FOR DECISION

- 3.1 To inform the Committee of the Director of Audit, Fraud, Risk and Insurance's overall opinion on the Council's system of internal control for 2017/18 and the sources of assurance which support that opinion.

## 4. PROPOSAL AND ISSUES

- 4.1. The report lists all the work undertaken by Internal Audit in the 2017/18 year and summarises the results of that work. It then provides the opinion of the Head of Internal Audit on the council's overall system of internal control.
- 4.2. The opinion of the Head of Internal Audit is stated as follows:

'From the Internal Audit work undertaken in 2017/18, it is our opinion that we can provide reasonable assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham for the year ended 31 March 2018 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 8.'

- 4.3. Section 8 of the appended report provides details of the main limited assurance audit reports issued during the 2017/18 year.

## **5. OPTIONS AND ANALYSIS OF OPTIONS**

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

## **6. CONSULTATION**

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

## **7. EQUALITY IMPLICATIONS**

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

## **8. LEGAL IMPLICATIONS**

- 8.1. Internal Audit is a statutory requirement as set out in the Accounts and Audit Regulations 2015.

## **9. FINANCIAL IMPLICATIONS**

- 9.1. The Internal Audit Plan is delivered within the service budget. Actions required as a result of audit work, and any associated costs, are the responsibility of the service managers and directors responsible for the areas which are reviewed.

## **10. IMPLICATIONS FOR BUSINESS**

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

## **11. COMMERCIAL IMPLICATIONS**

- 11.1. There are no commercial implications arising from this report.

## **12. IT IMPLICATIONS**

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

### **13. RISK MANAGEMENT**

11.1 The Internal Audit Plan is developed and delivered to cover the key risks faced by the Council, to provide assurance on the key controls in operation and the effective management of key risks. The Plan is developed to enable the Director of Audit, Fraud, Risk and Insurance to provide an annual report and opinion on the Council's system of internal controls.

### **14. BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of holder of file/copy</b>	<b>Department/ Location</b>
1.	Full audit reports referred to in this report	David Hughes 0207 361 2389	Corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

#### **LIST OF APPENDICES:**

*Appendix 1 –2017/18 Head of Internal Audit Annual Assurance Report*



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

***2017/18 Head of Internal Audit  
Annual Assurance Report***

AUDIT PENSIONS AND STANDARDS COMMITTEE

July 2018

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## **1. Executive Summary**

- 1.1. From the Internal Audit work undertaken in 2017/18, it is our opinion that we can provide reasonable assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham (LBHF) for the year ended 31 March 2018 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 8.

## **2. Introduction**

- 2.1. The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. This opinion statement is provided for the use of the LBHF and is used to support its Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

## **3. Scope of Responsibility**

- 3.1. The LBHF is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 3.2. In discharging this overall responsibility, the LBHF is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

## **4. The Purpose of the System of Internal Control**

- 4.1. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the LBHFs policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

## **5. The Internal Control Environment**

- 5.1. The Public Sector Internal Audit Standards defines the control environment as providing the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:
- Integrity and ethical values.
  - Management's philosophy and operating style.
  - Organisational structure.
  - Assignment of authority and responsibility.
  - Human resource policies and practices.
  - Competence of personnel.

## **6. 2017/18 Year Opinion**

- 6.1. From the Internal Audit work undertaken in 2017/18, it is our opinion that we can provide reasonable assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham for the year ended 31 March 2018 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 8.
- 6.2. In reaching this opinion, the following factors were taken into particular consideration:
- a) The programme of internal audit work undertaken by Mazars LLP between 1 April 2017 and 31 March 2018;
  - b) Internal Audit work undertaken by the Royal Borough of Kensington and Chelsea and Westminster City Council as part of the shared services;
  - c) The outcome of audit work for which no assurance level was previously provided. A summary of work undertaken and key findings can be found in Annex C; and
  - d) Follow up of audits undertaken previously. A summary of the outcome of these follow up visits can be found in Annex D.
  - e) Other sources of assurance available as set out in section 7.2 below.

### **Internal Control**

- 6.3. The system of internal control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council, in particular the system includes:
- Codes of practice and Financial Regulations;
  - Standing Orders, Standing Financial Instructions and Schemes of Delegation;
  - Comprehensive budgeting systems;
  - Regular reviews of periodic and annual financial reports which indicate financial performance against the forecast;
  - Setting targets to measure financial and other performance;
  - Clearly defined capital expenditure guidelines; and
  - A formal programme and Project Management discipline.

### **Managed Services and Transfer to a new Finance System**

- 6.4. The London Borough of Hammersmith and Fulham currently has a contract with BT for the provision of HR, Payroll and Finance services using the Agresso IT platform. As a result of various issues with the contract's performance, the London Borough of Hammersmith & Fulham need an alternative solution in place prior to the expiry of the current arrangement in May 2019 to ensure a smooth transition to the new provider and solution and to mitigate the risk of the managed service provision being wound down by BT.
- 6.5. Of the various options assessed, a public-to-public partnership model with Hampshire County Council ('HCC') was selected as the preferred option against guiding principles informed by lessons learned from the BT arrangement. The HR, Payroll and Finance Transformation Programme is designed to manage a safe exit from the current BT arrangements and

successful transition to the HCC Partnership model.

- 6.6. Mazars LLP have been engaged to provide work with the Programme team and identified stakeholders to understand, validate and challenge their view of Programme performance. This approach is designed to ensure key risks have been identified, evaluated and plans / measures put in place to manage them. 'Deep dive' reviews will be undertaken in 2018/19 for specific risk areas as the programme develops.
- 6.7. To provide the Council with assurance over key financial and HR systems, a number of internal audits have also been undertaken during 2017/18 including:
  - Accounts Payable (Satisfactory Assurance);
  - Payroll (Limited Assurance);
  - Pension Administration – contract management & performance monitoring (in progress); and
  - Accounts Receivable Follow up (2 recommendations implemented, 2 partly implemented).
- 6.8. Further audits in respect of managed services and the transfer to the new model will be undertaken in the 2018/19 financial year.

#### **Governance**

- 6.9. In my opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on the work of Internal Audit as described in Annex A.

#### **Risk Management**

- 6.10. One risk management audit has been completed as part of the 2017/18 audit plan. Namely an audit of risk management of the Libraries Service.
- 6.11. A Satisfactory assurance opinion was provided for the Libraries Risk Management audit. Recommendations were raised that related to:
  - Reviewing the risk register on a regular basis; and
  - Correcting inconsistencies in risk scoring and distinguishing between existing and planned actions to manage risks.
- 6.12. Following the introduction of monthly SLT Assurance meetings instigated by the Chief Executive, the means by which the corporate risk register is compiled, reviewed and reported to SLT and the Audit Pensions and Standards Committee has been reviewed and updated.

#### **Qualifications to the opinion**

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

#### **7. Basis of Assurance**

- 7.1. We have conducted our audits both in accordance with the mandatory standards and good practice contained within the Public Sector Internal Audit Standards and additionally from our own internal quality assurance systems.
- 7.2. Our opinion is primarily based on the work carried out by Internal Audit based upon the internal audit plan. We have considered the work of other internal and external assurance providers including the following:



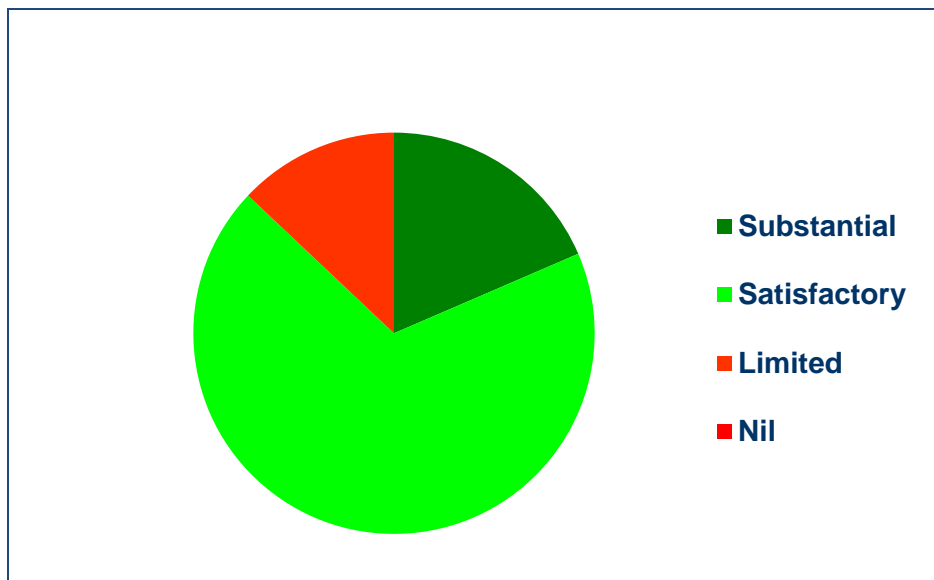
- Environment Services - a PSN inspection of information management to enable the council to access the DWP/DVLA networks;
- Corporate Finance - External Audit approval of accounts work and an HMRC PAYE / NICS / NMW audit of the planned replacement to Agresso;
- Adult Social Care - CQC Inspections of Community Independence Reablement Service (Good), and Residential Care Home Block Placements (2 Good, 6 Require Improvement);
- Children's Services - OFSTED reviews of schools, Children's Social Services and the Haven. There was also a multi-agency inspection of child protection arrangements.

7.3. The internal audit work that was completed for the 2017/18 financial year is listed in Annexes A, C and D. Annex A lists all the audits where assurance opinions are provided. The departmental designations shown relate to the structure which was in place in 2017/18.

7.4. The pie chart below shows the levels of audit assurance achieved for the 2017/18 year for all internal audits undertaken on behalf of London Borough of Hammersmith & Fulham, so that it covers all audits that support delivery of LBHF services.

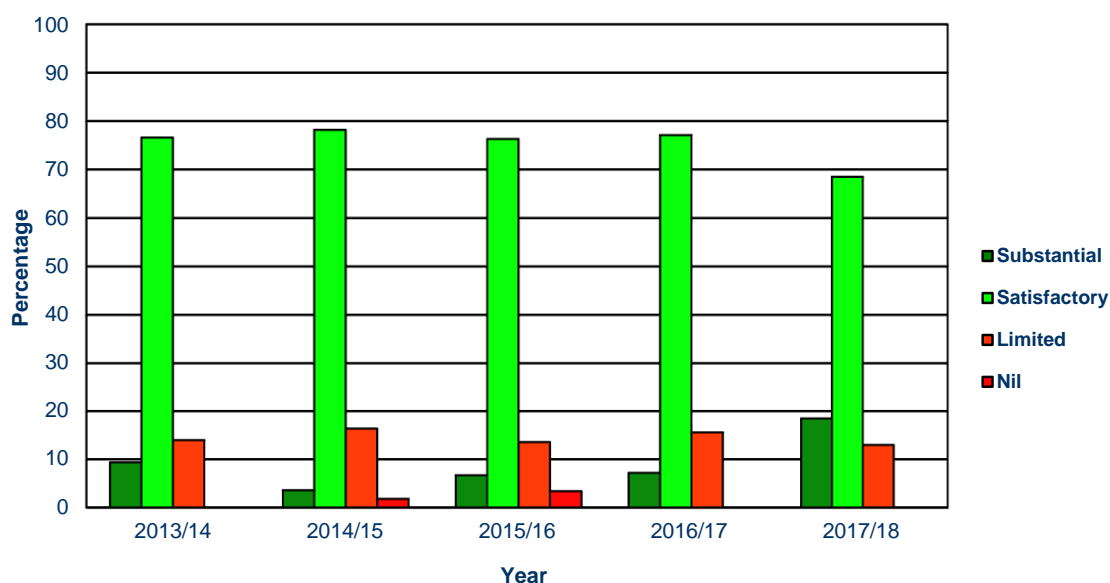
7.5. 87% of the systems audited achieved an assurance level of Satisfactory or higher, of which 10 (20%) received Substantial Assurance. 13% received a Limited Assurance and no Nil Assurance reports were issued in 2017/18.

**Assurance Levels for the year to 31 March 2018**



7.6. To help put the results into context, the bar chart below shows the levels of assurance provided for all systems audited since the 2013/14 financial year. The distribution of assurance opinions shows a relatively stable position over the last three years with an increase in Substantial Assurance reports and Limited Assurance Reports. The table at Annex A also shows that in all cases the direction of travel where the audit has been undertaken previously is either the same or an improved audit assurance.

### Assurance Levels of Reports from 2013/14 to 2017/18



### Acceptance and implementation of Internal Audit recommendations

- 7.7. Almost all of the recommendations made during the year were accepted by management. The exception being one Medium Priority recommendation arising from the 2016/17 Bridge Maintenance audit, a Satisfactory Assurance audit, where it was recommended that the service should review information collated from inspections and any other sources of information to devise a collated programme of reactive and proactive maintenance. We were advised that planned maintenance would be based on asset condition so works would only be completed where required and these are picked up by either regular general or principal inspections.
- 7.8. Whilst 12 reports remain at the draft report stage, we have been provided with assurance by management as part of the debrief meeting process that the recommendations made will be implemented.
- 7.9. The table below shows the number of audit recommendations raised each year that have been reported by management as implemented. This helps to demonstrate the role of Internal Audit as an agent of change for the Council.

Year	Number of recommendations due	Number of recommendations implemented
2015/16	254	254
2016/17	219	216
2017/18	50	44

- 7.10. In total, 25 recommendations arising from Nil and Limited Assurance reports have been followed up by internal audit, of which 17 were either fully implemented or no longer relevant, representing 68% of all those tested. If partially implemented recommendations are added this totals 88% of all those tested. This is in line with 2017/18 and provides reasonable confidence that recommendations reported as implemented have been effectively actioned. The results of our full follow up visits can be seen in Annex D. Further follow up work is being undertaken on 2017/18 audit recommendations in 2018/19.

- 7.11. In 2016/17, Internal Audit introduced an additional light touch regime of follow ups for all High and Medium priority recommendations not covered by the above follow up regime once confirmed as implemented. 109 2016/17 recommendations have been followed up since 31 March 2017 with 87 (96%) being confirmed as implemented and four (4%) no longer applicable. Follow up of the remaining 2016/17 recommendations and those raised in 2017/18 is in progress
- 7.12. All recommendations found not to be fully implemented during a follow up review are marked as not implemented and will then continue to be tracked for implementation, after which a further follow up undertaken.

## **8. Significant Control Weaknesses**

- 8.1. Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2017/18, the following significant issues were identified:
- Weaknesses were found within the Contractor Resilience audit. The controls and procedures in place with regards to resilience were found to be satisfactory; however, a significant degree of non-compliance with these procedures was identified. Procurement and managing supplier resilience in the Council is decentralised to a large extent and greater assurance should be obtained that departments are complying with the Council's requirements.
  - Weaknesses were found in the Budget Management process for Legal Services. It should be noted that a number of control improvements have been made to the process from late 2017, which are intended to improve the ability to prepare regular and accurate forecasts. These include producing reports showing time recording errors, redesigning property work processes to ensure fees are charge, and producing weekly chargeable hours reports to assist managers monitor recoding compliance in their teams. If processes are fully embedded, we would expect them to significantly improve the budget management process. The service also became a sovereign service under new leadership in April 2018.
  - The Procurement of the Property Services Framework received a Limited assurance opinion. A number of documents were not provided during the audit and therefore we were unable to provide assurance in these areas. A number of weaknesses were found in the management of Housing Planned and Capital Works. Meetings were not always documented, a number of reviews and approvals required through the life of the projects were not recorded and a number of records relating to projects could not be located at the time of the audit. In addition, completion certificates were signed off for one of the projects reviewed despite works still remaining outstanding.
- 8.2. In all cases all the Priority 1 and Priority 2 recommendations were accepted by management and target dates for their implementation were agreed. These recommendations will be tracked until departments confirm their implementation after which a follow up audit will be undertaken. At this time none of these reports have had all recommendations reported as implemented.

## **9. Annual Governance Statement**

- 9.1. The Council's Annual Governance Statement states:

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

“Matters reported below in the 2016-17 Annual Governance Statement, with the exception of those related to the BT Managed Services Programme, and Contract Management have been addressed during 2017-18 and are considered resolved.”

- 9.2. One significant governance issue is identified in the 2017/18 Annual Governance Statement as follows:

**Health and Safety, compliance with statutory inspections**

An issue arose during the period following greater scrutiny of compliance with health and safety regulations. This found that the statutory inspections of corporate property maintained by Amey, the facilities management provider, was unacceptably low. This was reported by the Council’s Corporate health and safety team to the Audit, Pensions and Standards Committee in September and December 2017. A recovery plan was agreed which sees the Council’s Corporate Property team directly overseeing the management of statutory inspections of 31 of its buildings on an interim basis. Contractual discussions between the Council, the facilities management provider and the Link (contract management providers undertaken by Royal Borough of Kensington & Chelsea for that council and Westminster City Council) are ongoing. Additional assurance is provided through an independently commissioned piece of work using an external consultant to review the remaining portfolio across all areas of health and safety compliance.

Over the last 12 months, the Regeneration, Planning and Housing Directorate has fundamentally reviewed how it delivers health and safety compliance for HRA properties. Contracts are in place to deliver all statutory inspections, which report performance regularly to a departmental Senior Management Team. In 2017, a number of detailed assessments on specific activities were undertaken, for example an Asbestos Health Check. This audited how statutory duties and inspections are being discharged. This produced an action plan for areas that will be further developed in 2018/19.

The Regeneration, Planning and Housing Directorate has introduced a new compliance management system called Geometra which holds all compliance data in one central place. This has reporting functionality enabling access to real-time data to provide an overview of performance. The Directorate has strengthened its approach to duty holders, under the health and safety regulations, which in turn has promoted a pro-active contractor management regime with clear accountability for compliance standards and targets.

**10. ICT**

- 10.1. Internal Audit undertook nine ICT or ICT related audits in 2017/18. Five audits received a Satisfactory Assurance opinion and four audits are in progress.
- 10.2. We found the areas audited in 2017/18 to be generally well controlled, including the transfer from HFBP to the new IT Service, assigning access rights to application users.

**11. Finance**

- 11.1. Of the 11 finance related audits in the 2017/18 financial year, three received Substantial assurance, three received Satisfactory assurance, two received Limited assurance and one was an extended follow up and therefore no assurance opinion was provided. This represents a slight deterioration when compared with 2016/17 where only one Limited Assurance report was issued. Two audits remain in progress.
- 11.2. No significant error or fraud against the Council was detected as a result of our audit work.

## **12. Procurement and Contract Management**

- 12.1. Of the nine procurement and contract management related audits undertaken in 2017/18, one received Substantial Assurance, three received Satisfactory Assurance and three received Limited Assurance. Two were still in progress at the time of writing.
- 12.2. This shows a decline when compared with 2016/17, where out of 23 applicable audits, five Limited assurance opinions were provided. Common issues identified in these audits mainly related to information not being available to support the procurement or contract management process. The arrangements for procurement have changed from April 2018 with the introduction of a centralised service in Public Service Reform for most council procurement activity This information has been shared with that service.

## **13. Schools**

- 13.1. Overall, the results from the 2017/18 year are improved compared to the previous year with eight schools receiving a Satisfactory Assurance opinion and three schools receiving a Substantial Assurance opinion. This compares to eleven schools receiving Satisfactory Assurance opinion, two schools receiving a Substantial Assurance opinion and two schools receiving a Limited assurance opinion in 2016/17. Also, three high priority recommendations were raised as a result of the 2017/18 schools audits in comparison to five raised in 2016/17.
- 13.2. The main issues identified from across all the audits undertaken (as identified in the table at Annex A) were:
- Adequacy of income records and the audit trail between income collected and cash banked;
  - Retaining evidence of Right to Work and DBS checks for new starters;
  - Undertaking and retaining tax status checks of self-employed individuals; and
  - Not obtaining and retaining evidence of value for money for high value purchases & contracts, via quotes and an appropriate tender process.

## **14. Key Issues for 2018/19**

- 14.1. There are a range of key issues that are likely to be of significance for the 2018/19 year and beyond that Internal Audit need to be aware of. These include:
- In February 2017, the Department for Communities and Local Government announced the second year of its settlement offer, continuing the planned reductions. This is coupled with other factors such as the impact of Brexit on local authorities, the likely increases in demand for services, and the performance levels and financial stability of organisations the Council works with.

- As austerity continues to be felt, the opportunities presented by shared services, outsourcing, joint ventures and other alternative delivery models are increasingly being considered. With enabling legislation now in place and a push to make savings and increase income, there is a greater appetite for these alternative delivery models.
- The creation and implementation of sovereign services as part of the Moving on Programme has largely been completed without significant cost; however, the challenge continues to sustain this change successfully without impacting negatively on finances or service delivery.
- The HR, Payroll and Finance Transformation Programme is aiming to manage a safe exit from the current BT arrangements and successful transition to the Hampshire County Council Partnership model.
- With austerity, local government has been forced to significantly cut its workforce through a combination of staff cuts, joint working and outsourcing. As councils have been re-organised and delivery models have changed, staff are required to change their skill sets, deliver more with less and manage higher workloads. In particular, manager workloads are a lot higher within flatter management structures.
- The Grenfell Tower disaster occurred on 14 June 2017 in RBKC, when the 24-storey block of public housing flats caught fire causing 71 deaths and leaving hundreds homeless. While the Grenfell Tower Inquiry held its first hearing on 14 September 2017, it will be many years before the conclusion of the investigations and Public Inquiry. The Grenfell disaster is a landmark event, which challenges conceptions relating to fire safety as well as to a range of wider issues, including Building Control, insurance, emergency planning and whether regulations or statute should always determine minimum acceptable standards. LBHF was conducting a review of fire safety before the Grenfell Tower tragedy, though this expanded following the fire. The council responded by launching the £20m Fire Safety Plus programme, which is exploring adding sprinklers in tower blocks and has provided residents with free fire safety checks, new fire doors and replacement appliances. A residents' advisory group has also been formed to work on improvement plans.
- With increasing volumes of data being collected, generated and handled, local authorities face new challenges in protecting this information and deriving value from it. The General Data Protection Regulations (GDPR) came into force in the UK on 25 May 2018 and, while a number of the GDPR's main concepts and principles are much the same as those in the current Data Protection Act 1998, there are amendments including new requirements that the Council meet and greater penalties for breach of regulation (not just data breaches).
- Government has rated 'cyber attacks' as one of the top four risks to UK national security. The National Cyber Security Centre, which brings together MI5 and GCHQ, was launched in October 2016 and has already in its first year responded to 590 significant attacks, ranging from those on the NHS to small businesses and other organisations.

## **15. Internal Audit Performance**

### **Audit Plan**

- 15.1. The Operational Plan for the 2018/19 year draws on corporate and departmental risk registers and other issues brought to the attention of Internal Audit, as well as the use of an audit universe that identifies all organisational activities that can be considered for audit coverage.

We agreed and discussed the audit plan with Directors and Heads of Service. We also consulted various other sources and coordinated the plan with those of the Royal Borough of Kensington and Chelsea and Westminster City Council.

- 15.2. Our operational planning is designed to provide an even flow of work throughout the year, and to allow us to monitor progress. As a result, this information can be used as a key benchmark against which progress on individual assignments can be measured.
- 15.3. The level of Internal Audit resources is considered adequate for the 2018/19 year. Also, the Internal Audit service continued to maintain its independence from the day to day operations of the organisation, the chief mechanisms for this were the use of external contractors to deliver the core audit service plus the use of the audit services from RBKC and WCC to deliver parts of the audit programme.

#### **Internal Audit Assurance Levels**

- 15.4. Annex A sets out the level of assurance achieved on each system audit and the change in assurance opinion, where the audit has been undertaken since 2014/15. No areas audited this year have shown deterioration in control since the last time they were audited. However, one remained at Limited Assurance: Contractor Resilience.
- 15.5. Of the eight audits that received a Limited Assurance opinion (five final and three draft), five related to Corporate Services, one to Adult Social Care, one to Environment Services, and one to Regeneration, Planning & Housing Services. In all cases, audit recommendations were agreed with management at the time of the audit along with an action plan to address the identified weaknesses. Follow up audits will be undertaken in each case to review the adequacy and effectiveness of the corrective action taken.
- 15.6. In total, 25 recommendations arising from Nil and Limited Assurance reports have been followed up by internal audit, of which 17 were either fully implemented or no longer relevant, representing 68% of all those tested. If partially implemented recommendations are added this totals 88% of all those tested. This is in line with 2017/18 and provides reasonable confidence that recommendations reported as implemented have been effectively actioned. The results of our full follow up visits can be seen in Annex D.
- 15.7. In 2016/17, Internal Audit introduced an additional light touch regime of follow ups for all High and Medium priority recommendations not covered by the above follow up regime once confirmed as implemented. 109 2016/17 recommendations have been followed up since 31 March 2017 with 87 (96%) being confirmed as implemented and four (4%) no longer applicable. Follow up of the remaining 2016/17 recommendations and those raised in 2017/18 is in progress.

#### **Internal Audit Performance**

- 15.8. Annex B sets out pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against targets. Overall performance of Internal Audit for the majority of indicators is broadly in line with 2016/17, with all targets being achieved or narrowly missed. Delivery of the plan has been impacted by a period of change in the Council, resulting in audits being delayed or deferred.
- 15.9. Focus will be given to maintaining or improving these performance standards in 2018/19.

#### **Compliance with Public Sector Internal Audit Standards**

- 15.10. Internal Audit has comprehensive quality control and assurance processes in place and we

can confirm that we comply with the Public Sector Internal Audit Standards. Our assurance is drawn from:

- a) Quality reviews carried out by both the Hammersmith and Fulham Internal Audit section and Mazars LLP; and
- b) An internal self-assessment review in March 2018 against the new enhanced PSIA Standards, an exercise that is undertaken annually.

### **Working with External Audit**

15.11. The Council's external auditors do not intend to place reliance on the work of internal audit at this stage; however, they have requested copies of a number of audit reports issued in 2016/17 and 2017/18. We have been in liaison with External Audit and will continue to offer information and support where required.

### **Internal Audit Provision Going Forward**

15.12. The following aspects will impact on the future delivery of the Internal Audit service:

- As regeneration and transformation projects and changes to service delivery continue to be undertaken, along with a zero based budgeting approach, there is likely to be continued requirement for Internal Audit involvement in providing assurance on key programmes and projects and new initiatives at an early stage to provide both assurance and support but with the minimum of disruption.
- Moving from shared services arrangements for adult and children's social care and public health, along with the recent introduction of a new senior management structure, including the creation of the Public Services Reform directorate, will assist the Council in delivering its objectives and further enhancing its assurance arrangements. Internal audit will work alongside management to ensure appropriate arrangements and controls are put in place.
- Shared internal audit working with Westminster and RBKC has led to increased coordination of the planning process across the three boroughs. This approach has increased the level of assurance received by each Council as well as better coordinating audit work across the three boroughs. The internal audit teams will continue to liaise and coordinate their work relating to the remaining shared services, while recognising and tailoring our work to maximise the value and assurance from our work for the sovereign services created.



## ANNEX A - Assurance Levels 01/04/2017 – 31/03/2018

The table below provides a summary of the assurances assigned to each of our audits and the direction of travel where the audit has been undertaken previously. Where the direction of travel column is blank, no similar audit has previously been conducted since 2014/15.

Department	Audit	Audit Opinion				Issued
		Nil	Limited	Satisfactory	Substantial	
<b>Final reports issued</b>						
Adult Social care	Supporting People: Housing related support contracts			↔		23/02/2018
Children's Services	Randolph Beresford - Nursery School			↔		27/10/2017
Children's Services	Addison - Primary School			↔		30/10/2017
Children's Services	Flora Gardens - Primary School				→	25/09/2017
Children's Services	Melcombe - Primary School			→		27/09/2017
Children's Services	Normand Croft - Community School			↔		03/10/2017
Children's Services	St John's C of E Walham Green Primary School			↔		01/11/2017
Children's Services	The Good Shepherd RC - Primary School			→		24/07/2017
Children's Services	Wormholt Park - Primary School				→	06/12/2017
Children's Services	Jack Tizard School			→		25/09/2017
Children's Services	St Peter's C of E - Primary School			↔		14/03/2018
Children's Services	Holy Cross RC - Primary School				↔	21/05/2018
Children's Services	Leaving Care					04/06/2018
Corporate/Finance	Procurement: Contractor resilience		↔			15/12/2017
Corporate/Finance	Pensions Investments					07/03/2018
Corporate / Finance	Legal Services Budget Management					15/03/2018
Corporate / Finance	Accounts Payable (including manual payments)					15/03/2018
Corporate / Finance	Council Tax				→	07/03/2018
Corporate / Finance	NNDR				↔	07/03/2018
Corporate / Finance	Payroll					28/03/2018
Corporate / Finance	Occupational Health					27/03/2018
Corporate / Finance	Trading company					21/05/2018

Department	Audit	Audit Opinion				Issued
		Nil	Limited	Satisfactory	Substantial	
Corporate / Finance	Housing and Council Tax Benefits				→	27/06/2018
Environment Services	Leisure centres					26/07/2017
Regeneration, Planning & Housing Services	Housing Stock Options					19/07/2017
Regeneration, Planning & Housing Services	Estate Parking					13/06/2018
IT	IT Service Governance					14/02/2018
IT	ICT Service Transformation Programme					08/02/2018
IT	Managed Services - Data & Information security					19/10/2017
IT	Cashless Parking Application - RingGo					20/12/2017
IT	Disaster Recovery and Business Continuity					13/06/2018
Environment Services	Parking Enforcement					03/08/2017
Environment Services	Residents Parking Permits			↔		25/07/2017
Environment Services	Car Pound			↔		19/01/2018
Environment Services	Utilities					27/02/2018
Environment Services	Procurement: Property Services Framework					06/03/2018
Libraries	Departmental Risk Management					26/05/2017
Public Health	Commissioning Planning and delivery: Preventions					21/05/2018
Public Services Reform	LBHF Joint Ventures Ltd					21/05/2018
Regeneration, Planning & Housing Services	Gas Safety - Transfer from Gassys to iWorld					16/04/2018
Regeneration, Planning & Housing Services	Council Homes Utilities Management					29/05/2018
Regeneration, Planning & Housing Services	MITIE walkthrough: Planned and capital works					13/11/2017
<b>Draft reports issued</b>						
Adult Social care	Direct payments			→		01/06/2018
Adult Social care	Reablement					18/05/2018

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
Children's Services	Fostering and Adoption					24/05/2018
Children's Services	Supplier Resilience					24/05/2018
Corporate/Finance	Daytime Contact Centre					14/05/2018
Corporate/Finance	Out of hours contact centre					14/05/2018
Environment Services	Parking suspensions					09/03/2018
IT	Framework upgrade Adults					02/07/2018
IT	IT - Framework upgrade Children's					02/07/2018
IT	Procurement and Contract Management					02/07/2018
Libraries	New Libraries Operating Model					22/06/2018
Regeneration, Planning & Housing Services	Govt Policy: Universal Credit & the Council's use of preferred partner status					29/06/2018
<b>In Progress</b>						
Corporate / Finance	Corporate Governance – Role of HIA and S151 Officer	Fieldwork in progress				
Corporate / Finance	Pension Administration – contract management & performance monitoring	Fieldwork in progress				
Corporate / Finance	Consultancy services (IR35)	Fieldwork in progress				
Corporate / Finance	Transparency Data	Fieldwork in progress				
Adult Social care	Safeguarding adults	Fieldwork in progress				
Environment Services	Procurement: Highways contract	Fieldwork in progress				
IT	GDPR Readiness	Fieldwork in progress				
IT	Network Security Compliance	Fieldwork in progress				
<b>Total</b>		0	7	37	10	

<b>Total Reports (including those not yet issued)</b>	62
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## Assurance Levels

We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls.

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

## Direction of travel

→	Improved since the last audit visit. Position of the arrow indicates previous status.
←	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
↔	Unchanged since the last audit report.
<b>No arrow</b>	Not previously visited by Internal Audit.

## ANNEX B - Internal Audit Performance – 2017/18

At the start of the contract, a number of performance indicators were formulated to monitor the delivery of the Internal Audit service to the Authority. The table below shows the actual and targets for each indicator for the period.

	<b>Performance Indicators</b>	<b>Annual Target</b>	<b>Performance</b>	<b>Variance</b>
1	% of deliverables completed (2017/18)	95%	94%	-1%
2	% of planned audit days delivered (2017/18)	95%	96%	+1%
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	100%	+5%
4	% of Draft reports issued within 10 working days of exit meeting	95%	91%	-4%
5	% of Final reports issued within 5 working days of the management responses	95%	96%	+1%

### **ANNEX C: Internal Audit work for which an assurance opinion was not provided**

The table below provides a summary of the scope and key findings of audit work for which no overall assurance opinion was provided.

<b>Department</b>	<b>Audit</b>	<b>Issued</b>
Regeneration, Planning & Housing Services	Planning Performance GDCR	18/10/2017
Corporate / Finance	Gas safety	07/03/2018
Corporate / Finance	Accounts Receivable Extended Follow Up	27/02/2018
Corporate/Finance	Staff Absence Management	19/12/2017
Environment Services	Parks Sports Facilities Income	04/05/2018

These reports include audit recommendations that were prioritised, tracked and followed up as for other audit reports

## ANNEX D - Follow up Audits

Follow up visits were undertaken in 2017/18 on the following audits that received a 'Limited' or 'Nil' assurance opinion in their audit visit. The number of recommendations found to be implemented was as follows:

Department	Audit	Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
Regeneration Planning and Housing Services	Garages	12	9	2	1	0
Regeneration Planning and Housing Services	Service Charges	3	3	0	0	0
Environment Services	Premises Licensing	5	5	0	0	0
Corporate Services	Trading Accounts	5	0	3	2	0
	Total	25	17	5	3	0
	%		68	20	12	0