



THE ROYAL BOROUGH OF  
KENSINGTON  
AND CHELSEA



City of Westminster

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

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

## ***Final Internal Audit Report***

### ***Legal Services Budget Management***

***March 2018***



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## 1 Introduction

At the urgent request of the Strategic Finance Director on 25 January 2018, we have undertaken internal audit work on Legal Services Budget Management within in the London Borough of Hammersmith and Fulham. This audit was requested by the Strategic Finance Director following a forecasted overspend of £380K being reported by Legal Services in period 9 of the Council's financial year forming part of an overall projected overspend across the Council of £6.181m. A similar situation occurred last year with an overspend of £223K reported.

Hammersmith and Fulham, like all Councils, have had significant reductions in funding, For Hammersmith and Fulham this has resulted in general Government grant funding reducing from £160m in 2010/11 to £90m by the end of 2018/19, a reduction of £70m (54% real terms and 43% cash). In addition, a further £8.6m reduction is expected by 2019/20. In response to this, Councils across the country are reorganising their services to reduce costs and focus on long term financial sustainability through prevention and demand management.

Responsibilities of Directors in relation to Budgetary control are set out in the financial regulations of the Council as follows:

- To maintain budgetary control within their departments, in adherence to the principles set out in these Financial Regulations, and to ensure that all income and expenditure is properly recorded and accounted for.
- To ensure that an accountable budget manager is identified for each item of income and expenditure under the control of the Director (an accountable budget manager may be responsible for a series of cost centres). As a general principle, budget responsibility should be aligned as closely as possible to the decision-making that commits expenditure.
- To ensure that spending remains within the department's overall control total, and that individual budget heads are not overspent, by monitoring budgets and taking appropriate corrective action where significant variations from the approved budgets are forecast.
- To ensure that expenditure is committed only against approved budgets.
- To assess the risk of overspending on budgets under their control on a monthly basis.
- To take any appropriate mitigating management action to contain overspends within existing budgetary provision. This may be within the particular service area, or another service area managed by the Director.
- To ensure that a monitoring process is in place to review performance levels and levels of service in conjunction with budget monitoring and to assure themselves that the process is operating effectively.
- To prepare and submit to the CFO for collation and onward transmission to Strategic Leadership Team and Members (monthly for revenue), in line with the Scheme of Delegation, reports on the department's actual, committed and projected expenditure compared with its approved budget in accordance with the format and deadlines specified.
- To ensure all officers responsible for committing expenditure comply with relevant guidance and these Financial Regulations.
- To ensure compliance with the scheme of virement as set out in the Financial Regulations.
- To consult with the relevant Director where it appears that a budget proposal, including a virement proposal, may impact materially on another department's responsibilities or Directors level of service activity.
- To review service codes and balance sheet codes every month to ensure that all revenue impacts are reported as promptly as possible.
- To advise the CFO of potential contingent liabilities for inclusion in the Revenue Monitor and to review these on a regular basis.
- To discuss each Revenue Monitor with the relevant Lead Cabinet Member.

All organisations must manage performance so that their financial and strategic objectives are achieved and stakeholders can be confident in the process. Effective budgetary control is central to this, and safeguards the organisation's viability and effective delivery of its objectives.


Organisations require a comprehensive financial planning and approval framework; consistent and rigorous processes for constructing budgets; sound methodologies for assessing the financial impact of proposed budgets; compatibility with other management and performance data, and a control system that sets clear responsibilities and produces prompt and accurate information on performance against budgets.

The total budget for Legal Services for 2017/18 is £780,700 (income). The structure of Legal Services is due to change with LBHF transitioning from a shared service across the three boroughs to a sovereign legal service.

In March 2017 Legal Services started working on a project to potentially merge with LGSS Law Ltd (subject to due diligence and final decision). In October 2017 LBHF decided not to proceed with the project and form a sovereign legal Service.

## 2 Executive Summary

### 2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
<b>Audit Opinion</b>				

The assurance opinion provided is based on the period from 1 April 2017 to 31 December 2017. It should be noted that a number of improvements have been made to the budget management process from late 2017 which are intended to improve the ability to prepare regular and accurate forecasts. We have been unable to fully test the effectiveness of the strengthened processes as they are not yet fully embedded. If processes are fully embedded we would expect them to significantly improve the budget management process.

### 2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. The Action Plan at Appendix 1 details the specific recommendations made, as well as the agreed management actions to implement them.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Budget Planning			0	1	0
Budget Monitoring, Variances, and Reserves			1	0	2
Verification of S113 Charges			0	0	1
Alterations and Virements			0	0	0
Management Reporting			0	0*	0
Management Control of Budget Drivers and Exception Reports			0	1	0
<b>Total</b>			<b>1</b>	<b>2</b>	<b>3</b>

\* Recommendations relating to Management Reporting have been raised in other areas.

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

### 3 Summary of Findings

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

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

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

- Budget setting forms part of the business planning and medium term financial planning processes. For the last 2-3 years, the Legal Services budget has been set by rolling forward the previous year's budget with minimum involvement with Legal Services. Evidence was not available to demonstrate the budget was reviewed to confirm it remained achievable, and savings targets can be achieved, prior to being approved. Savings targets were applied without discussion in the summer of 2017. It was noted that the 2016/17 budget was overspent by £223K.
- Following the decision in October 2017 to move away from a shared Legal Service across the three boroughs, the Council appointed an Assistant Director for the new Hammersmith and Fulham Legal Service in March 2018. As part of this move to a sovereign Legal Service, the 2018/19 budget is being reviewed to ensure that it can be delivered without additional growth.
- Budget monitoring reports are prepared by Corporate Finance on a monthly basis and sent to the Business Manager within Legal Services for review and inputting of forecasts. Budget monitoring meetings should be held between Corporate Finance and the Business Manager on a monthly basis to discuss the budget and forecasts. Whilst budget monitoring reports have been produced by Corporate Finance and sent to the Business Manager, there was no evidence of these reports having been reviewed and no overspend was forecast until January 2018 by Legal Services. An introductory meeting was held between the Director, Legal Services Budget Manager and Finance Business Partner & Corporate Projects on 5 May 2017, when it was confirmed that regular meetings would take place between Legal Services Budget Manager and Corporate Finance Team member to be recruited. For a number of reasons these meetings did not take place. No budget monitoring meetings have been held between Corporate Finance and Legal Services until January 2018 when the forecasted overspend was reported. It is understood that this has been due in part to Corporate Finance not having the capacity to meet up to October 2017, the Business Manager not being available to meet in one case in October, and a misunderstanding on the part of new staff in Corporate Finance about who was responsible for monitoring the budget in Legal Services. Responsibilities have since been clarified.
- The monthly monitoring reports include a section for recording action plans on budget overspends. Budget is monitored monthly but not all the elements were pulled together until process improvement work had been completed by January 2018 when the overspend was identified. Once the overspend of approximately £328K had been identified in P9, a mitigation plan was prepared by the Business Manager, which is forecasted to improve the adverse variance by £255K. It is acknowledged that Legal Services operates a trading account and therefore some variances would be expected throughout the financial year; however, identifying these variances at an earlier stage may allow them to be managed more effectively.
- We were able to trace the forecasted overspend back to source records to gain assurance it is accurate. In addition, the actions and values given in the recovery plan appeared reasonable and were supported by evidence. However, it should be noted that the accruals identified in the mitigation plan will need to be processed. Departments have agreed to accrue for March legal charges and a timetable which fits in with the overall accrual timetable is being

developed. Each accrual will need to be agreed by the receiving department and this has been identified as a risk.

- Various spreadsheets are maintained by the Business Manager to support the recharges. Examination of these spreadsheets and discussions with Corporate Finance indicated that these spreadsheets are complex and that the Business Manager appears to be the only officer that fully understands them. The steps required to maintain these spreadsheets are not documented.
- The Local Government Act 1972 under Section 113, provides for the placing of staff of local authorities at disposal of other local authorities. The three Councils currently operate a number of shared services with approximately 20 Section 113 agreements currently in place. Schedule 4 of the agreement describes how the costs of running the services will be apportioned across the three boroughs.
- The Legal Services Section 113 agreement states the following:
  - For managers who do not have chargeable hours, the full cost of that manager will be allocated a third to each council. All other managers in the management structure have allocated chargeable hours. The rest of their time is considered to be management time which will be re-charged to the other boroughs. The method of calculating this cost is either on a one third basis or based on number of staff managed depending on the seniority of the manager.
  - For the Senior Management Team (Chief Solicitors for Litigation and Social Care, and Chief Solicitor for Contracts, Employment, Planning and Property) the management costs will be allocated an equal third to each council.
  - The full staff cost of the 100 non-chargeable hours worked by Deputy Team Leaders will be allocated a third to each council annually.
- There are only records of time spent for each borough for chargeable time. Management time is split as per the S113 agreement and the management time spent on each borough is not recorded. As such we could not confirm how much management time was spent on each borough.
- For a sample of officers tested, we confirmed that the allocation of S113 charges was in accordance with the agreement. A further summary review of other recharges against Schedule 4 of the Section 113 agreement did not identify and cases where recharges had been applied incorrectly.
- Legal services fee-earning recharges to other LBHF departments have been raised on a quarterly basis. This facilitates accurate forecasting to be prepared each quarter. However, the data for these recharges is dependent on the timely inputting by each lawyer / fee-earner, of chargeable hours undertaken into the case management system, which is not always completed by the monthly deadline, as required. But there is a process for chasing on a monthly basis and managers given information on a weekly basis.
- It was noted that the recharges across the three boroughs' trading accounts (i.e. the management time) have not been raised on a quarterly basis with the first recharges being raised in January 2018 covering the period April 2017 to December 2017. It is understood that this was not done for the first two quarters due to resources being directed to projects to improve management information including ensuring income from legal services for property related cases was correctly allocated. This project was undertaken to address historic systemic problems. We were advised that this project would positively impact on the service's

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ability to prepare accurate forecasts and prioritising this project would reap longer term benefits.

- Outstanding debts are followed up by the debt recovery team and Corporate Finance circulate a monthly debt report along with budget monitoring reports.
- There has been one virement of £19K to the 2017/18 budget with regards to pension valuation.
- There are chargeable time targets in place for staff and timely recording of time is part of each lawyer's appraisal target. Monthly reminders are sent by business support to input time for the previous month by a certain date. Budget performance also forms part of one to ones and performance appraisals. There is a process for chasing on a monthly basis and managers given information on a weekly basis.
- Whilst the completion of time recording is monitored on a monthly basis, this was not strongly enforced by all team managers throughout 2017/18. We were informed that time recording by some lawyers was not being completed on a timely basis. This would also impact on the ability of the service to prepare accurate budget forecasts and take timely corrective action where variances are identified. In January, the Director of Law reiterated to staff the importance of completing timesheets promptly and each team manager is monitoring this closely.
- A monthly report is produced detailing the analysis of chargeable hours, which is reviewed by Legal Management Team (LMT). A weekly report of time recorded is also produced for LMT. However, the non-chargeable time is not generally recorded and hence utilisation of staff is not monitored in detail. Discussions established that it was not seen as productive to record non-chargeable time; however, in Internal Audit's opinion, more detailed information on the nature of non-chargeable time (such as team meetings, training, general administration, sickness absence) would allow the service to ensure chargeable time, and therefore income generation, is maximised.
- The trading account operates on the basis that if all fee-earners achieve their target then the service should recover its costs. This message has been reinforced to staff and each lawyer is expected to meet their target hours.

## 4 Acknowledgements

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

- Tasnim Shawkat – Director of Law
- Rhian Davies – Chief Solicitor
- Richard Cutbush – Business Manager
- Danielle Wragg – Finance Business Partner
- William Stevens - Principal Accountant



## Appendix 1: Management Action Plan

### 1. Budget Setting

Priority	Issue	Risk	Recommendation
Medium	<p>Legal Services operates a trading account and the budget for 2017/18 is a £781K credit budget.</p> <p>For the last three years, Corporate Finance have been setting the Legal Services budget by rolling it forward from previous years with minimal involvement with Legal Services. No evidence was available from either Legal Services or Corporate Finance to confirm the budget was reviewed to confirm it remained realistic prior to being approved.</p> <p>It was noted that the 2016/17 budget was also overspent by £223K.</p> <p>As part of this move to a sovereign Legal Service, the 2018/19 budget is being reviewed.</p>	<p>Where budget planning does not take into account lessons learnt from previous years or changes in the service that may impact on the budget, there is an increased risk of an unrealistic budget being set leading to budget overspends or objectives of the service not being achieved.</p>	<p>The Legal Services budget for LBHF should be reviewed by Corporate Finance with involvement from Legal Services annually to account for lessons learnt from previous years and confirm the budget is still achievable.</p>
<h4>Management Response</h4> <p>Recommendation accepted.</p> <p>An introductory meeting was held between the Director, Legal Services Budget Manager and Finance Business Partner &amp; Corporate Projects on 5<sup>th</sup> May 2017, when it was confirmed that all services including Legal Services would have a 7% savings target. Legal Services were working on a couple of projects which could have delivered the savings ie demand management and proposal to merge with LGSS Law Ltd. It was agreed that regular meetings would take place between Legal Services Budget Manager and Corporate Finance Team member to be recruited. Unfortunately, for a number of reasons these meetings did not take place until the period 9 forecast appeared. The regular meetings have now been re-instated. LBHF Legal are currently working with LBHF Finance to deliver this recommendation for the start of 2018/19.</p>			

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Responsible Officer	Deadline
Rhian Davies from 1 April 2018 but to 31 March it will be Richard Cutbush	End of April 2018

## 2. Budget Monitoring

Priority	Issue	Risk	Recommendation
High	Whilst budget monitoring reports have been produced by Corporate Finance and sent to the Business Manager within Legal Services for review and inputting forecasts, there was no evidence of these reports having been reviewed and no overspend was forecast until January 2018. It was also noted that no budget monitoring meetings have been held between Corporate Finance and Legal Services until January 2018.	Where budgets are not monitored on a regular basis and budget monitoring meetings involving Corporate Finance are not held on a monthly basis, there is an increased risk of overspend or underspends not being identified in timely manner. This may not allow sufficient time for an effective course of corrective action to be taken.	All elements of the budget should be monitored and reviewed on a monthly basis and a forecast prepared by Legal services with support from Corporate Finance. Senior Managers in Legal Services and staff from Corporate Finance must make themselves available on a monthly basis to review the budget and forecast.
Management Response			
<p>Recommendation accepted.</p> <p>Legal resources were directed to reviewing and updating internal processes to ensure that accurate forecasting could take place. Therefore, although the budget was monitored not all elements of the budget was reviewed. It was also expected that fee-earners would catch up with their time recording and there would not be an overspend. As mentioned before an introductory meeting was held between the Director, Legal Services Budget Manager and Finance Business Partner &amp; Corporate Projects on 5<sup>th</sup> May 2017, when it was confirmed that regular meetings would take place between Legal Services Budget Manager and Corporate Finance Team member to be recruited. Unfortunately, for a number of reasons these meetings did not take place until the period 9 forecast appeared. Regular monitoring meetings between Finance and Legal Services would have picked up a number of issues as well as the financial process improvement projects the Business Support Team was involved in. The regular meetings have now been re-instated. Legal will be working with finance to ensure that meetings are setup 18/19 and monthly forecasts produced.</p>			
Responsible Officer			Deadline
Sucheta Naik / Rhian Davies			Monthly

### 3. Recharges Across the three Boroughs trading accounts

Priority	Issue	Risk	Recommendation
Low	<p>Whilst we confirmed that departmental recharges have been raised on a quarterly basis, the recharges between the three boroughs' legal trading accounts had not been raised on a quarterly basis, with the first ones being raised in January 2018 covering the period April 2017 to December 2017.</p> <p>This was not prioritised as resources were diverted to a project to correct a historical system issue and other projects intended to improve management information.</p>	<p>Where recharges across boroughs are not raised on a timely basis, there is an increased risk of budget monitoring information not being accurate and up to date. This may impair the ability of the service to prepare accurate budget forecasts.</p>	<p>Recharges between the three boroughs should be raised on a monthly basis.</p>

#### Management Response

Recommendation accepted

Quarterly departmental recharges have been raised, so that client department are aware of the costs of legal services on a quarterly basis. What was not done quarterly was Legal Services internal recharges between the three trading accounts. This would not have had an impact on client departments and it was felt this was worth deprioritising this in order to allow the small team of Business Support officers to work on the project to review of the service's processes, set out below. This was completed in January 2018. Legal Services were then in a position to carry out all recharges and invoicing on a monthly basis. This started with journals and invoices to the end of February 2018. A further set of final journals and invoices will be completed at the start of April to cover March 2018. It should be noted that with LBHF Legal Services becoming a sovereign service from 1<sup>st</sup> April 2018, administration for recharging will be materially simplified and reduced. Management will be introducing performance targets for the preparation of data for monthly charges and also the completion of charges themselves in time for P1 208/19 billing. These reports will be made available to the Legal Management Team and finance monthly.

1. Introduced monthly reports showing time recording errors. These are sent to relevant fee earners and business support officers to make the required changes to their records. This ensures that data is of high quality when quarterly billing takes place.
2. Recategorised disbursements on our case management system so they are clearly labelled as being paid by legal services or by the client. This significantly speeds up the processing of disbursements during billing and minimises the possibility of any errors.
3. Redesigned processes for all property work to ensure that the correct work types are used and fee charged to the client. This is essential to ensure that work that is paid for by internal clients and those by external parties are clearly identified. Also for ensuring that client income is correctly categorised with the right analysis code. This was done by working closely with client department.

4. Worked with property client departments to ensure communications with the third parties makes clear that fees will cover the cost of providing legal advice.
5. Introduced invoicing as standard for all S106 and S278 income.
6. Had a big push in the middle of summer 2017 to close inactive (not worked on for three months) files. This ensures that correct cost centre data is used for recharging clients.
7. Introduced income allocation form with correct cost centres and analysis codes to be used by fee earners when receiving income. This goes to legal finance to check and ensures that income is correctly categorised eg S106 income, property income etc.
8. Produce weekly chargeable hours reports to assist managers monitor recoding compliance in their teams.
9. Identified areas where efficiency improvements can be made.

Responsible Officer	Deadline
Richard Cutbush to 31 March 2018 and thereafter this is not applicable.	31 March 2018

#### 4. Time Management System

Priority	Issue	Risk	Recommendation
Medium	Whilst the completion of timesheets on the time management system is monitored on a monthly basis, this has not been consistently enforced in 2017/18 and some fee earning staff had not completed timesheets on a timely basis.	Where the time management system is not up to date with staff timesheet entries, there is an increased risk of recharges and invoices being inaccurate, incomplete or not raised in a timely manner. Delays or inaccuracies in recharges may also impact on other departments' ability to effectively manage their budgets.	Senior managers in Legal services should ensure that the time management system is kept up to date and compliance with this should be monitored on a monthly basis. Action should be taken where staff continue to be behind in inputting their time.
<b>Management Response</b>			
<p>Recommendation accepted.</p> <p>We welcome this recommendation. The majority of fee earners meet their targets and some exceed their targets, which make up for the deficit created by those who do not meet their targets. Over the years a number of initiatives have been taken by the management team to ensure compliance. Business Support will continue to produce weekly and monthly summary reports showing performance against target. These will continue to be published on the service's Yammer page. Any individual fee earner that is below target (not due to annual leave, ill health etc) in any given month will be required to discuss any challenges they are experiencing with their Chief Solicitor. This audit and the recommendation that action should be taken should also assist.</p>			
<b>Responsible Officer</b>			<b>Deadline</b>
Rhian Davies, Angus Everett, Adesuwa Omoregie			Monthly

## 5. Staff Utilisation and Non-Chargeable Time

Priority	Issue	Risk	Recommendation
Low	<p>Whilst a monthly report is produced detailing the analysis of chargeable hours, which is reviewed by Legal Management Team, the non-chargeable time is not generally recorded and hence utilisation of staff is not monitored in detail.</p> <p>We were advised that the management team have discussed the option of recording non-chargeable time annually but have rejected this on the basis that recording non-chargeable time is not productive and that only work on special projects should be recorded.</p>	Where no chargeable time is not monitored and reported on, there is increased risk of inappropriate non-chargeable time being charged and that this is not identified. This may result in staff not maximising their chargeable hours.	Management should maintain more detailed records of non-chargeable time to enable them to monitor non-chargeable time of staff.
<b>Management Response</b>			
<p>Recommendation accepted.</p> <p>Legal Services have tried collecting non-chargeable time date historically and it was Legal Service's view that it became a non-productive exercise and reduced capacity to meet chargeable targets. A decision was taken by Legal management in 2015 to ask staff to record chargeable activities only except for special projects when staff are involved in time consuming projects which are not chargeable. However, as a single borough service LBHF trading account will trial this again.</p>			
<b>Responsible Officer</b>			<b>Deadline</b>
Rhian Davies			By July 2018




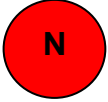
## 6. Recharges Spreadsheets

Priority	Issue	Risk	Recommendation
Low	<p>Various spreadsheets are maintained by the Business Manager to support the recharges. Examination of these spreadsheets and discussions with Corporate Finance indicated that these spreadsheets are complex and that the Business Manager appears to be the only one who fully understands them.</p> <p>It should be noted that we did not identify any errors within the spreadsheets through the course of our work and monthly meetings between the two services would help resolve this issue either by understanding of the complexity or by amending the spreadsheet.</p>	Where spreadsheets are complex and only understood by one officer, there is an increased risk of non-continuity in the event of staff absence. There is also the risk that any errors in the spreadsheets will not be identified.	Consideration should be given to simplifying the spreadsheets use for recharges. Training and / or written guidance should be provided to other officers in the maintenance and use of the spreadsheets.
<b>Management Response</b>			
<p>Recommendation accepted.</p> <p>Once P12 billing has been completed and in advance of P1 billing, the spreadsheets will be updated to reflect the disaggregated service. As LBHF will be a sovereign service from 1st April 2018, the whole billing process will be simplified as the need for cross authority spread sheets and invoicing will have been removed. However, the Legal Finance lead in LBHF will produce a guidance note for the completion and updating of the spreadsheets. Training will be provided to both the LBHF Legal systems and finance manager and the systems and finance officer to provide service resilience. NOTE: this will be a simpler process for a single borough services.</p>			
<b>Responsible Officer</b>			<b>Deadline</b>
Richard Cutbush to hand over to Sucheta Naik			30 April 2018



## Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

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

Rating	Description
 <b>Su</b>	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
 <b>Sa</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>L</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>N</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.

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

## Appendix 3: Audit Scope, Limitations, and Inherent Risks

This audit was a full risk based review of the arrangements for Legal Services Budget Management and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
01	Budget Planning	<p>Budgets are set and funds allocated so as to achieve the strategic and operational objectives of the organisation.</p> <p>Budget setting is coordinated with the business planning and medium term financial planning processes and is subject to scrutiny and challenge.</p> <p>Budget planning takes into account lessons learned from previous years, trend analyses, projections of costs and income, and profiling for the year.</p>
02	Budget Monitoring, Variances, and Reserves	<p>Budgets are regularly monitored and variances analysed and communicated so as to minimise the risk of budget under/overspend, and to allow prompt corrective action to be taken where overspends are forecast.</p> <p>Action plans are put in place and monitored, with roles and responsibilities clearly delegated, to help bring adverse variances in line with budget.</p> <p>The action plans set are achievable and viable in order to bring adverse variances in line with budget.</p> <p>Budget forecasts are based on useful and relevant supporting data and information.</p> <p>As part of this area we will also seek to determine what has caused the nil variance to increase significantly to £328k in period 9.</p>
03	Verification of S113 Charges and LGSS Fees and there is sufficient, adequate and reliable evidence to support a 1/3 allocation of all management costs.	<p>The allocation of S113 charges and LGSS fees is in accordance with relevant agreements and Charging policies, with documentation to support fees allocated being maintained.</p> <p>Recharges/invoices are correctly raised and paid in a timely manner.</p>
04	Alterations and Virements	Budget alterations and virements are completely, accurately and validly processed in a timely manner in line with all governance process.
05	Management Reporting	Financial information is completely, accurately, validly and timely produced to allow for effective monitoring and decision making as part of a comprehensive performance management system.

Ref	Audit Area Description	Comments on Coverage / Area Objectives
06	Management Control of Budget Drivers and Exception Reports	<p>We will seek to establish the following:</p> <ul style="list-style-type: none"> <li>• Do budget managers regularly monitor and manage their budget drivers. Is this cascaded and do these form a regular part of performance appraisals and one to ones?</li> <li>• Do budget managers regularly monitor, manage and action their exception reports. Is this cascaded and do these form a regular part of performance appraisals and one to ones?</li> <li>• Are accurate regular KPIs produced and looked at by operational management on a timely basis to allow for effective monitoring and decision making as part of a comprehensive performance management system?</li> </ul> <p>Do operational managers meet regularly to discuss the budget drivers and exception reports, Are SMART operational plans put in place to ensure performance is optimised and costs are therefore controlled?</p>

### Key risks

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

- The department having insufficient funds to carry out its planned expenditure.
- Budget overspends are not identified in time for an effective course of action to be taken.
- Amendments are made to the agreed budget without the delegated approval.

## Limitations to the Scope of the Audit

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

- This is a high level review and will be based on examination of documentation and interviews with key officers with limited testing undertaken;
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist.

Management should be aware that our internal audit work was performed in accordance with the Public Sector Internal; Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Our internal audit testing was performed on a judgemental sample basis and focussed on the key controls mitigating risks. Internal audit testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

Please note that, in relation to the agreed scope, whilst our internal audit will assess the efficiency and effectiveness of key controls from an operational perspective, it is not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions.

## Appendix 4: Timetable and Distribution List

Stage	Date
End of Fieldwork	12/02/2017
Draft Report Issued	27/02/2017
Responses Received	15/03/2018
Final Report Issued	15/03/2018

Audit Team
Client Engagement Manager: James Graham
Auditor: Kanta Patel
Auditees
Tasnim Shawkat – Director of Law
Rhian Davies – Chief Solicitor
Danielle Wragg – Finance Business Partner
Client Sponsor
Hitesh Jolapara - Strategic Finance Director

Report Distribution List
Tasnim Shawkat – Director of Law
Rhian Davies – Chief Solicitor
Danielle Wragg – Finance Business Partner
Copy Recipients of Report
Hitesh Jolapara - Strategic Finance Director

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

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