



AUDIT AND PENSIONS COMMITTEE

30 June 2011

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP

Subject

**Internal Audit Quarterly report for the
period 1 January to 31 March 2011**

**WARDS
All**

This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2011 as well as reporting on the performance of the Internal Audit service.

RECOMMENDATION:

- a) To note the contents of this report
- b) To approve the amendments to the audit plan as outlined in Appendix B

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1. Introduction

- 1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2011 as well as reporting on the performance of the Internal Audit service.
- 1.2 In order to reduce the volume of paperwork being sent to Committee members, the appendices routinely included with this report in the past detailing outstanding recommendations and reports, as well as the full text of all limited or nil assurance reports have not been appended to this report. However, the information which would have been contained in these appendices has been made available to all members separately.

2. Internal Audit Coverage

- 2.1 The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner.
- 2.2 A total of 25 audit reports were finalised in the fourth quarter of 2010/2011 (see **Appendix A**). In addition 11 other management letters and 3 follow-up reports were issued.
- 2.3 One audit report issued in this period received limited assurance. All 8 of the recommendations made in the report on *Parking Pay and Display* have been reported as fully implemented and a follow-up audit will now be carried out. A copy of this report has been made available to members. Another report on *Personal Service Companies* received nil assurance and has been made available separately to members.
- 2.4 The Internal Audit department works with key departmental contacts to monitor the numbers of outstanding draft reports and the implementation of agreed recommendations.
- 2.5 Departments are given 10 working days for management agreement to be given to each report and for the responsible director to sign it off so that it can then be finalised. There are currently 2 reports still outstanding that were due to be signed off on or before 31 March and these are listed in **Appendix B** for information.

There is 1 report outstanding each for Environment Services Children's Services (non-schools). Neither of these reports will be over 6 months old at the time of the Committee meeting. We are pleased to report that there are no reports outstanding for Schools, Community Services,

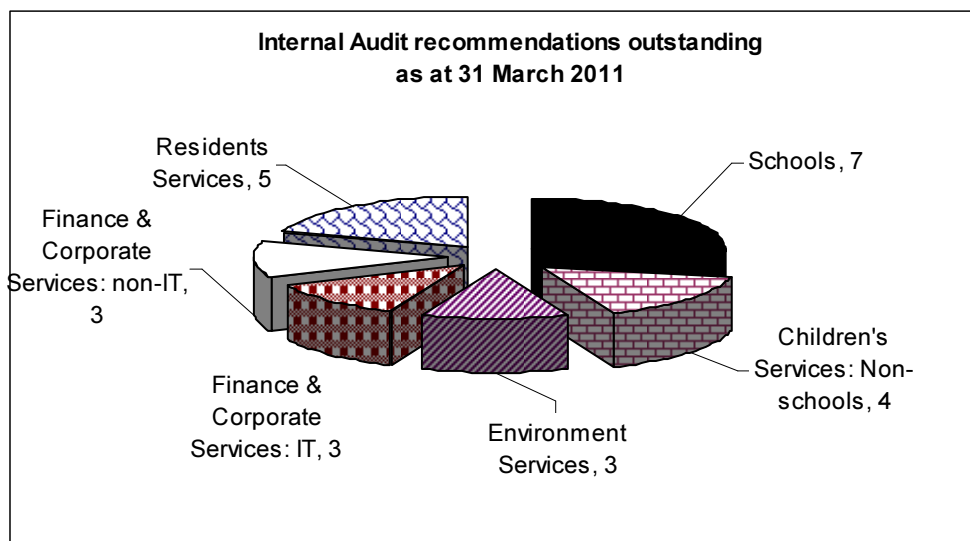
Finance and Corporate Services, Housing and Regeneration or Residents Services.

2.6 There are now 25 audit recommendations made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation. This compares to the 21 reported as outstanding at the end of the previous quarter and represents a slight deterioration in the overall position. We continue to work with departments and HFBP to further reduce the numbers outstanding.

2.7 The breakdown between departments is as follows:

- Schools – 7
- Children’s Services (non-schools) – 4
- Environment Services Dept – 3
- Finance & Corporate Services Dept – 6
- Residents Services - 5

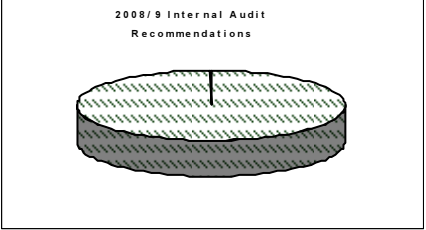
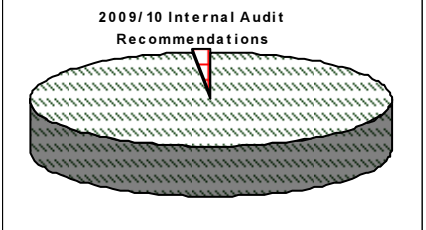
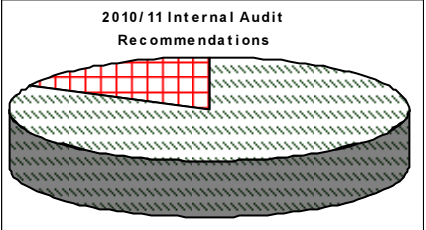
Three of these outstanding recommendations relate to HFBP. We are pleased to report that there are no recommendations outstanding in respect of Community Services or Housing and Regeneration



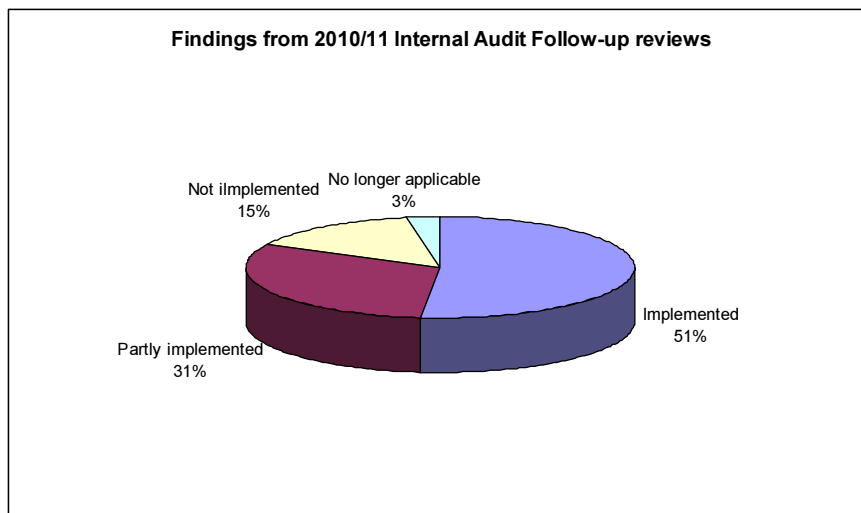
2.8 None of the 25 recommendations listed are over six months past its target date for implementation as at the date of the Committee meeting. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will be arranging meetings with the specific managers and Assistant Directors responsible for all recommendations overdue by more than 3 months as and when this occurs.

The breakdown of recommendations implemented as a proportion of the total raised in each audit year can be seen below.

100% of recommendations made prior to 2008/09 have been implemented

<p>Percentage of 2008/9 year audit recommendations past their implementation date that have been implemented.</p>	<p>99.75%</p>	<p>394 recommendations implemented out of a total of 395</p> <p>1 recommendation outstanding</p>	
<p>Percentage of 2009/10 year audit recommendations past their implementation date that have been implemented.</p>	<p>98.29%</p>	<p>344 recommendations implemented out of a total of 350</p> <p>6 recommendations outstanding</p>	
<p>Percentage of 2010/11 year audit recommendations past their implementation date that have been implemented.</p>	<p>82.35%</p>	<p>84 recommendations implemented out of a total of 102</p> <p>18 recommendations outstanding</p>	

2.9 We have been concerned to note an apparently disappointing level of recommendations for which full implementation can be verified when we carry out follow-up audits. A summary of our findings in 2010/11 is shown below.



We will continue to work with departments and senior management to improve the effectiveness of recommendation implementation. In addition we have introduced into the 2011/12 audit plan implementation verification of all priority 1 recommendations.

3. Internal Audit Service

- 3.1 Since the last report to the Audit Committee, there has been no structural change to the operation of the internal audit service. The in-house team consists of the Chief Internal Auditor (CIA) and Audit Manager. Deloitte Public Sector Internal Audit Ltd carries out individual audits and also periodically provides management information to support the reporting requirements of the in-house team
- 3.2 The previous contract with Deloitte expired on 31 March 2011. With effect from 1 April, the service is provided by Deloitte through the framework contract already in place between Deloitte and the London Borough of Croydon.
- 3.3 Part of the CIA's function is to monitor the quality of Deloitte work. Formal monthly meetings are held with the Deloitte Contract Manager and one of the agenda items is an update on progress and a review of performance against key performance indicators. The performance figures are provided for the period from 1 January to 31 March 2011 are shown below.

Performance Indicators 2010/11

Ref	Performance Indicator	Target	Pro rata target	At end of March	Variance	Comments
1	% of deliverables completed (2010/11)	95%	95%	97%	+2%	111 reports delivered out of a total plan of 115
2	% of planned audit days delivered (2010/11)	95%	95%	95%	0%	939 days delivered out of a total plan of 991 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	94%	-1%	67 audit briefs out of 71 issued within PI requirement
4	% of Draft reports issued within 10 working days of exit meeting	95%	95%	98%	+3%	54 draft reports out of 55 issued within PI requirement

- 3.4 The target of delivering 95% of the 2010/11 audit plan has been achieved.
- 3.5 At the end of the year, Internal Audit issues the following annual summary reports: -
- Annual Head of Internal Audit Assurance Report
 - Schools End of Year summary report
 - Finance End of Year summary report
 - IT End of Year summary report
 - Project Management End of Year summary report

- 3.6 The first two reports have been provided to members as separate items for discussion at this meeting. The main points of the remaining 3 reports are summarised below.
- 3.7 **Finance** – 14 finance related audits were carried out in 2010/11 which gave an assurance opinion. Of these, 13 were given a substantial assurance. The remaining audit received a nil assurance and members have been provided with a copy of this report.
- 3.8 Internal Audit undertook significant preparatory work with key officers to support testing for external audit in 2010/11. The results of this were disappointing and we continue to develop the ongoing support we offer in order to reduce external audit time required (and consequentially the audit fee).
- 3.9 On the basis of the Finance related audit work carried out in 2010/11 the Head of Internal Audit Annual Assurance Report provided an assurance that the system of internal financial control in place at the London Borough of Hammersmith and Fulham (LBHF) for the year to 31 March 2011 was in line with proper practice.
- 3.10 **IT** – Seven IT audits were carried out in 2010/11 which gave an assurance opinion. Of these, 5 were given a substantial assurance. The remaining 2 audits received limited assurance.
- 3.11 On the basis of the Internal Audit work undertaken in 2010/11 we are able to provide assurance for the areas audited that IT Governance for the 2010/11 financial year accords with proper practice, except for any details of significant internal control issues as documented in the full report.
- 3.12 **Project Management** - Internal Audit undertook 8 Project management audits and 1 follow up in 2010/11. Of these, one was given full assurance and 6 were given substantial assurance. The remaining audit received a limited assurance.
- 3.13 The main focus of project management audits in 2010/11 was benefits management. Although this was found to be well managed in most cases, with project benefits being defined at the outset, issues were identified with defining the measures and mechanisms to monitor delivery of benefits.

4. Audit Planning

- 4.1 Amendments that have been made to the 2011/12 Internal Audit Plan have been shown in Appendix C which the Committee is invited to approve.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS**

No.	Description of Background Papers	Name/Ext. of Holder of File/ Copy	Department/ Location
1.	Full audit reports from October 2004 to date	Geoff Drake Ext. 2529	Finance and corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

APPENDIX A

Audit reports Issued 1 October to 30 September 2010

We have finalised a total of 25 audit reports for the period to 31 March 2010. In addition, we have issued a further 11 management letters and three follow-up reports.

Audit Reports

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

Audit Reports finalised in the period:

No.	Audit Plan	Audit Title	Director	Audit Assurance
1	09/10	Laptop/Mobile Asset Management and Security	Jane West	Substantial
2	09/10	Parking Pay and Display	Nigel Pallace	Limited
3	09/10	BACS	Jane West	Substantial
4	10/11	PCI Compliance	Jane West	N/A
5	10/11	Wood Lane High School	Andrew Christie	Substantial
6	10/11	Phoenix High School	Andrew Christie	Substantial
7	10/11	Larmenier and Sacred Heart School	Andrew Christie	Substantial
8	10/11	Lena Gardens Primary	Andrew Christie	Substantial
9	10/11	Miles Coverdale School	Andrew Christie	Substantial
10	10/11	Asset Management	Nigel Pallace	Substantial
11	10/11	Smartworking Project Management	Nigel Pallace	Substantial
12	10/11	Management and Monitoring of Contractors	Nigel Pallace	Substantial
13	10/11	CAMSYS Application Audit	Nigel Pallace	Substantial
14	10/11	CHS Facilities Management	Andrew Christie	Substantial
15	10/11	Government Procurement Cards	Lyn Carpenter	Substantial
16	10/11	Pre Booked Transport and Accommodation	Andrew Christie	Substantial
17	10/11	William Morris Sixth Form	Andrew Christie	Full
18	10/11	Kenmont Primary School	Andrew Christie	Substantial
19	10/11	Departmental and Divisional Risk Management	Jane West	Substantial
20	10/11	St Thomas of Canterbury School	Andrew Christie	Substantial
21	10/11	Old Oak Primary School	Andrew Christie	Substantial
22	10/11	IT Work Requests	Jane West	Substantial
23	10/11	Queensmill School	Andrew Christie	Substantial
24	10/11	John Betts Primary School	Andrew Christie	Substantial
25	10/11	Personal Service Companies	Jane West	Nil

Audit Reports

Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
26	2010/11	Market Testing – Summary Report	Jane West
27	2010/11	Fulham Palace Project Management	Nigel Pallace
28	2010/11	Risk and Control Advice – Planning Applications	Nigel Pallace
29	2010/11	WCFM Payment – Risk and Control Advice	Jane West
30	2010/11	Vertical Contract Audit – 145-155 King Street	Nigel Pallace
31	2010/11	Vertical Contract Audit – Cobbs Hall	Nigel Pallace
32	2010/11	Debtors Key Financial Controls Testing	Jane West
33	2010/11	WCFM Salaries Monitoring – Risk and Control Advice	Jane West
34	2010/11	YPLA Funding – Lady Margaret School	Andrew Christie
35	2010/11	YPLA Funding – London Oratory School	Andrew Christie
36	2010/11	Attendance at BOIP Project Board – Summary Report	Jane West

Follow ups

No.	Audit Plan	Audit Title	Director	Findings on recommendations				Total
				Fully Implemented	No longer Applicable	Partly Implemented	Not Implemented	
37	2010/11	Parking PCNs	Nigel Pallace	1	0	6	0	7
38	2010/11	St Mary's Primary School	Andrew Christie	15	1	12	4	32
39	2010/11	Housing Options – Project Management	Mel Barret	5	3	1	0	9

APPENDIX B

Internal Audit reports in issue more than two weeks as at 31 March 2011

	Audit Year	Department	Responsible Director	Audit Title	Assurance	Draft report issued on	Responsible Officer	Target date for responses	Awaiting Response From
1	2010/11	Children's Services	Andrew Christie	Family Support Programme	Substantial	10/03/2011	Programme Manager	24/03/2011	Director
2	2010/11	Environment	Nigel Pallace	CRC Energy Efficiency Scheme	Substantial	22/12/2010	Carbon Reduction Manager	05/01/2011	Auditee and Director

Amendments to 2010/11 Audit Plan

	Department	Audit Name	Nature of amendment (e.g. added/ deleted/ deferred)	Reason for amendment
1	Finance & Corporate Services	Core Financials – completion of 2010/11 testing	Deleted	Removed from plan after consultation with External Audit
2	Residents Services	Council's arrangement with the Police	Deleted	Removed from plan after consultation with department