

***London Borough of Hammersmith &
Fulham***

Final Internal Audit Report

LBHF Joint Ventures Limited

February 2019

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1 Introduction

As part of the internal audit plan for 2018/19, agreed by the Audit Pensions and Standards Committee, we have undertaken an internal audit of LBHF Joint Ventures Limited at the London Borough of Hammersmith & Fulham.

In common with other councils in the UK, Hammersmith and Fulham charge for a range of services across most departments. Current legislation allows the Council to make charges either in line with statutory fees or on a cost recovery basis. The only exception to this is when dealing with other public bodies where there is no restriction on making a profit where the provision is for administrative, professional or technical services.

In order to trade commercially, other than with another public body, the Council must do so through a Trading Company. Establishing a local authority Trading Company assists the Council in delivering its corporate aims and priorities through the generation of profitable income.


The Local Government (Best Value Authorities) (Power to trade) (England) Order 2009 requires that before exercising the power to trade through a Trading Company, the Council is required to approve a business case in support of each venture when the power is exercised. The Council must approve the business case before trading through the Company starts.

Cabinet approved the procurement strategy for debt management on 17th January 2017 and delegated the award of a subsequent joint venture framework contract to the Commercial Director. After running a full OJEU competition and the evaluation of bids by a tender approval panel, 1st Credit Limited (now known as Intrum) were awarded the contract. The joint venture Company went live in July 2017 and the framework contract allows any public body, including H&F, to call off contracts to provide any service in scope of the original procurement.

The Joint Venture has already started taking over collections in the borough, for Housing Benefit Over-Payment (started January 18), Council Tax (April 2018), Parking (September 2017) and Former Tenant Arrears (July 2017) The Council has a 51% shareholding in the Joint Venture with Intrum holding the remaining 49%.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. 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
Formation			0	0	0
Governance Arrangements			0	5	0
Staffing and Resourcing			1	0	1
Assessment of Commercial Activities			0	1	0
Income and Expenditure			1	0	1
Performance Monitoring and Management Information			0	0	0
Risk Management			0	1	0
Financial Management			0	1	0
Total			2	8	2

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 Company is still in relatively early stages of development; however, should the Company grow and becomes more established, the recommendations raised will become increasingly important to ensure the Company is governed effectively.

The business case for the Joint Venture was under review at the time of audit. The Council's Ethical Debt Board, Ethical Debt working group, and Commercial Revenue Board are considering the future direction of the Company. Consequently, some elements covered in the of the audit fieldwork are subject to uncertainty.

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

- LBHF Joint Ventures Limited (hereafter referred to as 'the Company' or 'the Joint Venture') was incorporated on 9 June 2017 to trade commercially.
- The Council's Commercial Director presented a key decision report to responsible Cabinet members on 16 January 2017 outlining the business case for setting up the Joint Venture as a means of managing the borough's debt collections in line with ethical commitments, and generating income from external parties. The proposals were approved on the same date.
- A tendering process was carried out to identify suitable private sector partners to establish the Joint Venture. The Joint Venture's objectives were set out in the Invitation to Tender and the framework contract awarded to 1st Credit Limited, now trading as Intrum.
- The Company's Managing Director was, prior to his departure in April 2018, in the process of drafting a business plan for the company. The key points of this plan are set out in the Managing Director's update reports, however, a fully developed business plan had not been formally produced or approved by the Board and / or Commercial Revenue Committee as required on an annual basis by the Shareholders Agreement (Clause 9). We were informed that this was a work in progress at the time the previous Managing Director left, and would be produced pending the outcome of the working group's review.
- The Company's governance arrangements are set out in the Articles of Association and a signed Shareholders' Agreement. A Board of Directors is in place and is required to meet a minimum of four times a year. At the time of writing (August 2018), the last Board meeting was held in March 2018.
- Board membership requires a minimum of three Directors from both the Council and Intrum. A minimum of two from each is required for the meetings to be quorate. All meeting minutes reviewed recorded that the quorum was met.
- New Directors were being appointed at the time of the audit and the Council's Assistant Director, Corporate Finance was the only Council appointed board member. We unable to establish if an assessment of capacity and capability had been undertaken in order to appoint officers to the board or to more general management of the Joint Venture.
- The Articles of Association state that meetings must take place at least four times per year, with a maximum interval of sixteen weeks between meetings. We noted that no meeting was scheduled at time of audit. Due to the review of the Joint Venture, and the pending appointment of new directors, we were informed that this may not take place until late 2018. This could constitute an exception to the maximum (sixteen week) limit between board meetings set out in the Company's Articles of Association. The last board meeting took place 28 March 2018. Since March 2018 the Joint Venture has continued to operate without any board or shareholder decisions taking place.

- Clause 9 of the Company's Articles of Agreement, sets out the need for the Board to collectively impose terms to manage any conflict of an "interested" director, and for said director to abide by these terms. Clauses 9.9 & 9.10 emphasise the responsibility of directors to declare any interest in a transaction or agreement (proposed or existing). No signed declarations of interest are received, we were informed that instead conflicts of interest are discussed as part of Board meetings. From our examination of Board minutes we found no evidence of this. Following completion of our audit fieldwork Legal Advice has been sought and provided on conflicts of interest.
- The Company did not, at time of the audit, employ any staff. Staffing, and other resourcing has been arranged and funded by the Council or Intrum in order to maintain a good credit rating for the Joint Venture until it generates sufficient income to cover its costs. The Council and Intrum intend to recharge these costs to the Company when it becomes feasible for these to be repaid.
- No loans have been made to act as working capital.
- The Company's Managing Director left in April 2018 and was the Joint Venture's only full-time member of staff, having been primarily responsible for setting up and operating the Company. There is no staffing structure in place identifying the personnel that will be needed to meet the Joint Venture's objectives, nor assigning management and operational responsibilities. The Head of Commercial Operations informed us that this would form part of planning following the results of the Ethical Debt working group's review of the project. No recommendation has been raised as this forms part of the current review of the Joint Venture.
- Some Council staff, such as the Head of Commercial Operations, spend time working on Joint Venture tasks. We were advised that, due to the low time-demands of these, the costs of this are not recharged to the Joint Venture.
- The Company does not have a fully-developed and approved commercial strategy. It was noted from the Managing Director's reports and the Board meetings that work had been carried out to identify suitable commercial opportunities and produce a sales pipeline.
- A bank account has been set-up for the Joint Venture. At the time of the audit this held a balance of £4,840.98. The majority of this was a payment of £4,844.02 made by the Council to cover VAT. A signatory list is in place dividing users into "A" & "B" authorisations. It was noted that the current signatory list includes departed members of staff and requires updating.
- The Company did not, at time of the audit, generate income. Costs are currently covered by the Council and Intrum, though are to be re-charged in the future. No policies or procedures are in place for the Company to manage its financial processes once income begins to be generated.
- It was noted that a Payment Authority Instruction document was drafted in September 2017. This document sets out payment authorisation limits, although in some areas are incomplete. As expenditure is currently being processed by either H&F or Intrum this Payment Authority Instruction was not being followed. Each organisation was applying their own local procedures.
- The Joint Venture charges customers (at time of audit LBHF only) for direct costs of recovery. A further 7.5% profit element is charged against the "Net Benefit", the total amount recovered less the direct costs of its recovery.
- The Joint Venture's only operation at the time of the audit was debt recovery for H&F. Funds recovered have been returned to the Council, but, as at the time of our audit fieldwork, the Joint Venture had yet to invoice the Council to cover the associated costs and commission for this work. Following the conclusion of our fieldwork the Council have received invoices for the different debt recovery work undertaken. These have been checked by Heads of

Service and are being processed. Purchase Orders have been issued so that future invoices can be paid promptly.

- The Council receives monthly reports of key performance indicators from the Joint Venture. At present, these detail only performance for LBHF collections, rather than any overall Joint Venture performance. As the Joint Venture only performs work for H&F at present, no recommendation has been raised in respect of this finding. The Head of Commercial Operations informed us that a full suite of KPIs would be developed when the Joint Venture took on wider commercial activities in order to fully reflect the Company's performance.
- The Council has implemented a new in-house governance structure for ethical debt and commercial revenue. The meetings of the Ethical Debt Working Group & Board serve to provide updates on Joint Venture actions and performance. Both bodies were newly established at the time of audit.
- An Ethical Debt Risk Register was in development at time of audit and covers Joint Venture risks facing the Council as well as corresponding owners and management actions. At time of the audit, this listed seventeen key risks, though most are yet to be assigned to officers or have mitigating actions recorded.
- No formal operating budget was in place for the Joint Venture. Income targets and cost projections were made by the Managing Director for discussion at Board meetings.
- Financial reports were provided to the Board and the Council setting out performance against expectations.
- At present, the Company's risk management is undertaken as part of the Local Authority's risk management arrangements. As the Joint Venture develops, we would expect the Company to have its own risk management arrangements, maintaining a risk register that is subject to periodic review.

4 Acknowledgements

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

- Jem Kale – Head of Commercial Operations

Appendix 1: Management Action Plan

1. Governance Arrangements – Business Plan

Priority	Issue	Risk	Recommendation
Medium	<p>The Shareholders' Agreement states that the Company must prepare an annual business plan covering: a cashflow statement, projected profit & loss, operating budget and balance sheet forecast, a management report on business objectives, and a financial report on the previous year's performance. The Head of Operations informed us that work had gone into drafting a business plan. This was interrupted by the departure of the Company's managing director. While much will likely remain relevant, it was noted that this would need to be completed, and revised in response to the ongoing project review. The board meetings make reference to the draft business plan and business plan, however no standalone document separate to the Managing Director's proposals was found. We were subsequently informed that there was no standalone business plan produced, however the financial updates set out future plans and targets.</p>	<p>Where no business plan is in place, or plans are not formally defined and approved, there is a risk that ambiguity of objectives and proposed actions could undermine the Company's effectiveness.</p>	<p>A formal business plan should be drafted for the Board's approval.</p>

Management Response

Noted that a Business Plan is required. The Business Plan will be based on the work undertaken in 2018/19.

The first half of 2018/19 focussed on establishing pilot ethical debt solutions with LBHF and learning from these pilots. This work was required as products for the LBHF JV Ltd were not tested prior to the establishment of the JV. This involved regular review meetings between debt owners and Intrum where performance of the pilots was monitored. This meant for the first half of the year LBHF was the sole customer of the JV. These pilots are currently being evaluated and are due to conclude at the end of this financial year. This work also fed into the development of a draft Ethical Debt Strategy and the creation of an Ethical Debt Strategic Group.

Once the pilots were established and underway focus turned to putting in place a framework which would support the marketing and delivery of these new products to other local authorities. This phase of work began in September. Review meetings were held between senior officers in PSR and Intrum regarding the development of a product portfolio for the JV that could then be marketed to other Local Authorities. Alongside these review meetings work was undertaken with LBHF solicitors to put in place a robust legal framework to allow LBHF JV Ltd to trade with other local authorities and therefore generate income for LBHF. This resulted in 3 local authorities requesting pilots with LBHF JV Ltd from late January 2019.

A review meeting of LBHF JV Ltd was held on January 21st 2019. This meeting was chaired by Hitesh Jolapara, Strategic Director of Finance, and was attended by senior officers from LBHF, the Managing Director of Intrum and his senior team. This meeting went through the audit recommendations and agreed actions to address them. The following actions were agreed in order to develop and agree a Business Plan:

- A task and finish group led by LBHF will agree the resources required for LBHF JV Ltd in 19/20 and 20/21. This will be based on the learning from 2018/19, the current and pipeline sales and the aspirations each JV partner has for the venture. This group will report to the next review meeting which is scheduled for March 4th;
- The resources for the JV will be agreed, in principle, at the March review meeting and a Business Plan will then be developed.
- A Business Plan will be submitted to the first Board meeting of 2019/20 for sign off which will include all of the elements identified by audit (cashflow statement, projected profit & loss etc). This meeting will be held before the end of June 2019. This meeting will also review a financial report for 2018/19.
- The Board will review the progress against the Business Plan at all Board meetings.

Responsible Officer	Deadline
Clare O'Connor, Strategic Lead, Public Services Reform	31 May 2019

2. Assessment of Commercial Activities – Commercial Strategy

Priority	Issue	Risk	Recommendation
Medium	<p>The Head of Commercial Operations informed us that, at time of audit, only LBHF debts are being collected under the framework contract awarded to the Joint Venture. Nonetheless, other business opportunities have been identified and the ultimate intention of the venture is to bring in outside business. This will focus on debt collection services in the public sector.</p> <p>Elements of commercial planning are present in the (departed) Managing Director's fortnightly financial reports. This shows a sales pipeline and records early expressions of interest shown by potential clients. However, there is no detailed strategy for commercial expansion in place. This issue is in part due to the fact that a full business plan has not been drafted and approved.</p>	<p>Where a developed strategy for identifying commercial opportunities, evaluating the potential of each option, and acting upon these opportunities is not recorded, there is a risk that the Company may fail to bring in appropriate business, or may accept unsuitable opportunities.</p>	<p>When the Joint Venture's business plan is produced, this should include full details of how the Company proposes to identify and evaluate commercial opportunities, and how these will be pursued in order to maximise potential income streams.</p>
Management Response			
<p>Noted that the Business Plan should include full details of how LBHF JV Ltd proposes to identify and evaluate and pursue commercial opportunities and convert pilots to commercial contracts. This was agreed with Intrum at the meeting of January 21st 2019.</p> <p>An initial plan for developing commercial opportunities for LBHF JV Ltd was developed by Intrum. Since the audit fieldwork was completed this commercial plan has resulted in LBHF signing three Access Agreements with public authorities who are now piloting ethical debt solutions with LBHF JV Ltd. A further 2 local authorities have formally requested Participating Authority Packs as they are also keen to pilot ethical debt solutions with LBHF JV Ltd. A Local Authority Ethical Debt conference was organised by Intrum in order to raise the profile of LBHF JV Ltd and build a strong pipeline of business into 19/20. This event was held on 7th February 2019 and had 120 attendees signed up to attend as compared to a target of 80. Keynote speakers included Cllr Schmid and Rushanara Ali MP, member of the Treasury Select Committee. Once feedback from this event has been collated, consideration will be given to a similar event being organised in the North of England.</p>			
Responsible Officer			Deadline
Clare O'Connor, Strategic Lead, Public Services Reform			31 May 2019

3. Financial Management – Operating Budget

Priority	Issue	Risk	Recommendation
Medium	The Joint Venture Shareholders' Agreement (Section 9.1.3) requires the Company to produce an operating budget as part of its annual business plan including all capital expenditure requirements and balance sheet forecast. While cost projections and sales targets were produced by the Company's Managing Director (now departed), these were not agreed as part of a full annual budget to be agreed by the Board.	Where an operating budget is not produced in clear detail and subject to approval from the Board, there is a risk that expectations regarding income and expenditure may be misjudged. Where estimates are not agreed as part of a formal budget, there is a risk that monitoring activities will be unable to promptly identify variances against expected performance, and consequently unable to undertake corrective action.	Annual budgets should be produced for the Joint Venture, clearly detailing expected income and expenditure along with any additional financial performance targets. This should be reviewed and approved by the Board. As is set out in Section Nine of the Shareholders' Agreement this may form part of the annual business plan.
Management Response			
<p>Noted that an annual operating budget is required. This will be based on the work that will be undertaken to agree the resources required for LBHF JV Ltd in 19/20 and 20/21 (see management response to Recommendation 1)</p> <p>Analysis of expenditure incurred by LBHF and Intrum in 2018/19 has been undertaken as part of the preparatory work for a 2019/2020 operating budget. This includes the costing of LBHF Officer time referred to in Recommendation 8.</p>			
Responsible Officer			Deadline
Clare O'Connor, Strategic Lead, Public Services Reform			31 May 2019

4. Governance Arrangements – Board and Shareholder Decisions

Priority	Issue	Risk	Recommendation
Medium	<p>The Articles of Association state that meetings must take place at least four times per year, with a maximum interval of sixteen weeks between meetings. We noted that no meeting was scheduled at time of audit. Due to the review of the Joint Venture, and the pending appointment of new directors, we were informed that this may not take place until September 2018 (which has since passed). This could constitute an exception to the maximum sixteen week limit between board meetings set out in the Company's Articles of Association. The last board meeting took place 28 March 2018.</p> <p>Since March 2018 the Joint Venture has continued to operate without any board or shareholder decisions taking place.</p>	<p>Where board meetings do not take place on a regular basis and decisions regarding the business are not ratified by the board and shareholders there is a risk that decisions may be made, and activity undertaken, that is not in the interests of all board members and shareholders.</p>	<p>Board meetings should be reinstated. Decisions should then be submitted to the board or shareholders for approval as required.</p> <p>Consideration should be given to giving retrospective consideration and approval to decisions made since 28 March 2018.</p>
Management Response			
<p>Noted that Board meetings should be reinstated. This was agreed with Intrum on January 21st. A Board meeting has been scheduled for April 1st. The annual programme of Board meeting dates will be agreed at this meeting. Throughout 2018/19 there has been regular, informal contact between Intrum and LBHF Officers regarding the business of LBHF JV Ltd, including work on the external sales pipeline. The focus of 2018/19 has been on the LBHF pilots. Alongside regular Board meetings regular review meetings were re-instated in January and will now continue on a bi-monthly basis which will more than satisfy the requirement for four meetings per annum going forward.</p>			
Responsible Officer			Deadline
Clare O'Connor, Strategic Lead, Public Services Reform			1 April 2019.

5. Governance Arrangements – Capacity and Capability Assessment

Priority	Issue	Risk	Recommendation
Medium	New Directors were being appointed at the time of the audit and the Council’s Assistant Director, Corporate Finance was the only Council appointed board member. We were unable to establish if an assessment of capacity and capability had been undertaken for the board or for other officers involved in the management of the Joint Venture.	Where a capacity and capability assessment has not been undertaken there is a risk that the board members and other officers involved in management of the Joint Venture may not have sufficient time to dedicate running the company or may have skills gaps that need to be addressed in order to discharge their duties effectively.	The capacity and capability of board members and other officers involved in management of the joint venture should be assessed. This should be compared to an assessment of the capacity and skills required to manage the company effectively. Any gaps in either capacity to discharge responsibilities or required skills should be addressed.
Management Response			
<p>Noted that new LBHF Directors need to be appointed to the Board. Two new Board Directors have been identified and will attend the Board meeting on April 1st. These are Sharon Lea, Director for Resident Services, and Matthew Sales, Programme Manager for the Chief Executive.</p> <p>Since the audit fieldwork was completed, work has been undertaken by Public Service Reform and the Head of Legal Services to identify options for an over-arching governance structure for LBHF companies. This will ensure that LBHF nominated Director on Boards are supported and have the skills and capacity to manage companies effectively. Initial proposals were discussed by the Senior Leadership Team and agreement was given to explore further the implications and advantages of putting in place a group structure for LBHF companies. Alongside this work a recruitment exercise is underway to build up a pool of officers who can sit as Board Directors on LBHF companies. This will ensure that in the future any vacancies are appointed to quickly and that officers on Board are supported .</p>			
Responsible Officer			Deadline
Clare O’Connor, Strategic Lead, Public Services Reform			30 June 2019

6. Governance Arrangements – Register of Interests

Priority	Issue	Risk	Recommendation
Medium	<p>Clause 9 of the Company's Articles of Association, sets out the need for the Board to collectively impose terms to manage any conflict of an "interested" director, and for said director to abide by these terms. Clauses 9.9 & 9.10 emphasise the responsibility of directors to declare any interest in a transaction or agreement (proposed or existing).</p> <p>The Head of Commercial Operations informed us that Board members do not make a signed declaration of interests upon joining, but instead declare interests at each board meeting.</p> <p>We were informed that, as existing staff had been Council employees, they were covered under the Council's declaration of interests policy. However, it is not clear if the relevant interests of the individual could be considered the same in both roles.</p> <p>The Head of Commercial Operations informed us that declarations of interest would be required when the Joint Venture began hiring and employing its own staff.</p>	<p>Where signed declarations of interest are not required at the time of joining (and for periodic renewal), there is a risk that the wider implications of any conflict of interest outside of meetings may not be managed appropriately.</p>	<p>Signed declarations of interest should be requested from all Board members and senior Joint Venture employees at the time of their joining the Company, becoming aware of any new conflict, and upon periodic renewal. A register of any declared interests should be maintained highlighting any actions necessary to manage a conflict or perceived conflict of interest.</p>
Management Response			
<p>Curently there are no direct employees of LBHF JV Ltd. When senior staff are appointed a declaration of interest will be required. This has been agreed with Intrum.</p> <p>At the April Board Members will be asked to sign declarations of interest. In addition at every Board meeting Board Members will be asked to declare any conflict of interest. This will be formally minuted. Signed declarations of interest will be requested from all new Board Members going forwards.This has been agreed with Intrum.</p> <p>Following completion of the audit fieldwork legal advice on conflicts of interest was sought. This advice will be taken into account when selecting LBHF officers to sit on the board of LBHF JV Ltd and other LBHF companies.</p>			
Responsible Officer			Deadline
Clare O'Connor, Strategic Lead, Public Services Reform			01 April 2019

7. Governance Arrangements – Conflicts of Interest at Board Meetings

Priority	Issue	Risk	Recommendation
Medium	<p>The Head of Commercial Operations informed us that conflicts of interest are discussed at every board meeting.</p> <p>We reviewed the board minutes to determine how declarations of interest are declared and managed. None of the three board meetings examined showed declarations of interest as a standing item in the agenda.</p>	<p>Where there is no minuted record of conflicts of interest being discussed, there is a risk that directors may act against the interests of the Company due to said conflict.</p> <p>Even where no conflict is present, perceived conflicts or lack of transparency could undermine board decisions.</p>	<p>Declarations of interest should be added to the agenda of all board meetings, prior to any discussion or decision-making, and recorded in the minutes. Should any declaration of interest be made, the actions taken at the meeting to mitigate it should also be recorded.</p> <p>Any declaration of interest made at a board meeting should also be recorded in the Company's register of interests as set out in recommendation 2.</p>
Management Response			
As set out above conflict of interests will be a standing agenda item on all future Board meetings and this item will always be formally minuted. This has been agreed with Intrum			
Responsible Officer			Deadline
Clare O'Connor, Strategic Lead, Public Services Reform			01 April 2019

8. Staffing and Resourcing – Council & Intrum Spending

Priority	Issue	Risk	Recommendation
High	<p>At the time of audit, the Joint Venture did not have cash assets of its own. The Council and Intrum were managing income and expenditure in order to prevent the Company from building a poor credit record. We were informed that the Council and Intrum have both recorded their expenditure. It was noted that re-charging of operating expenditure to the Joint Venture would only take place when the Company became profitable.</p> <p>The Council did not have a clear record of costs accrued by Intrum awaiting recharge to the Joint Venture. Furthermore, it had not been formally agreed which costs by each party would be considered set up costs (and therefore not recharged) and which costs should be recharged once the company becomes profitable.</p> <p>As such the financial position of the Joint Venture, and when the Council will be able to recharge expenditure, was unknown.</p>	<p>Where there is not a clear understanding between the Council and Intrum of costs incurred by each party in supporting the Joint Venture, there is a risk that these costs could be miscalculated or misrepresented when re-charged to the Joint Venture.</p>	<p>The Council and Intrum should agree a means of recording and agreeing the expenditure committed related to the Joint Venture that they intend to recharge to the company (at such time as this becomes feasible).</p>
Management Response			
<p>As part of the work set out in the management response to Recommendation 1, the costs incurred by Intrum in relation to LBHF JV Ltd will be recorded. The Council’s costs (including staff time) have already been quantified. The task and finish group will use this baseline information to establish the on-going resources required to run LBHF JV Ltd effectively and will agree how these costs will be apportioned. The March review meeting will go through these proposals in detail and will take forward those agreed thorough the appropriate governance processes. This will ensure that for 2019/20 and onwards there are agreed methods of recording and agreeing expenditure. The June deadline reflects the need to ensure that any agreements regarding resources allocated to LBHF JV Ltd are subject to scrutiny and follow the appropriate governance procedures.</p>			
Responsible Officer			Deadline
Clare O’Connor, Strategic Lead, Public Services Reform			31 May 2019

9. Staffing and Resourcing – Council Officers Work on Joint Venture Tasks

Priority	Issue	Risk	Recommendation
Low	<p>The Company's Managing Director was seconded to the Company from the Council and their cost is to be recharged to the Joint Venture (total salary & expenses). Costs incurred in the 2018/19 financial year have yet to be calculated and agreed with Intrum, but will also be recharged.</p> <p>We were informed that other staff time, such as the Board Members and the Head of Commercial Operations was low-level, and therefore is not logged and recharged.</p>	<p>Where Council employees carry out responsibilities relating to the Joint Venture alongside their standard duties, there is a risk that the Council will subsidise the Joint Venture by absorbing the costs of this work. There is also a risk that other tasks could suffer due to any increased focus on Joint Venture work.</p>	<p>The Council should consider recording the time employees spend working on behalf of the Joint Venture, for example through timesheets, and re-charging this to the Company. If demands on Council staff to contribute to the Joint Venture increase in future, this should be taken into account.</p>
Management Response			
<p>All time allocated to the JV by LBHF resources is now being recorded. Between September and December 2018 Public Service Reform resources were allocated to supporting the Joint Venture in terms of reviewing the contract documentation and setting up a legal Framework and process for public bodies to join the Framework and procure services from the JV. Going forward LBHF staff time on the JV will be re-charged</p>			
Responsible Officer			Deadline
Sarah Bright, Assistant Director, Public Services Reform			Implemented

10. Income and Expenditure – Joint Venture Policies & Procedures

Priority	Issue	Risk	Recommendation
High	<p>There are no policies or procedures in place for LBHF Joint Ventures Ltd. As payments are currently being processed by either the Council or Intrum in order to maintain a satisfactory credit rating, no costs were therefore being approved by the Company independent of Council or Intrum oversight.</p> <p>A Payment Authority Instruction document was drafted in September 2017, but remains incomplete. Furthermore, the authorisation limits refer only to responsibility delegated by the Joint Venture Board to employees of either LBHF or First Credit (now Intrum) rather than to any employees of the Joint Venture itself. As expenditure is currently being processed by each organisation and not through the Joint Venture this Payment Authority Instruction is not being followed.</p> <p>Although ethical debt recovery is referred to in the tender and planning documents, the Joint Venture does not have its own debt recovery policy. It is our understanding that Intrum follow their own debt recovery procedures when recovering debt for the Joint Venture.</p> <p>This will become of importance when the Joint Venture beings to provide services to other organisations. At time of audit, no work has been carried out for clients other than LBHF.</p>	<p>Where written policies and procedures are not in place, there is a risk that, when the Company becomes responsible for transactions, these will be made without appropriate oversight and approval.</p> <p>Where expenditure is being processed by each organisation and not through the Joint Venture there is a risk that the joint authorisation process is being bypassed and each organisation does not have control over spend incurred by the other.</p> <p>Where the costs of recovery actions are not understood by the Joint Venture, this could result in the Company losing income through inaccurate billing.</p>	<p>The Joint Venture Company should agree policies and procedures for the procurement of goods & services, making payments to suppliers, invoicing customers and managing debts.</p> <p>Until expenditure is processed through the Joint Venture, consideration should be given to how the Council monitors and controls expenditure incurred by Intrum and vice versa.</p> <p>A debt recovery policy should also be developed for the Joint Venture to define the Company’s approach to debt recovery. Where the JV adopts Intrums approach to debt recovery this should be formally ratified.</p> <p>The Council and Intrum should agree a means by which the recovery costs can be calculated in order to facilitate regular billing by the Joint Venture, identifying total amounts recovered, recovery costs, and percentages owed to the Joint Venture as commission.</p>
Management Response			
<p>Noted that policies and procedures for the procurement of goods & services, making payments to suppliers, and the invoicing customers and managing debts are required. This was discussed at the meeting of January 21st and it was agreed that these would be developed and signed off by the JV Board as a priority. Until now LBHF has been the sole client of the JV and therefore all invoicing etc has been agreed between the JV partners.</p>			
Responsible Officer			Deadline
Clare O’Connor, Strategic Lead, Public Services Reform			31 May 2019

11. Income and Expenditure – Bank Signatories




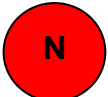
Priority	Issue	Risk	Recommendation
Low	<p>A bank account was set up for the Joint Venture's use.</p> <p>The bank account was set up with authorised signatories. This sets up separate signatory lists (A & B) as well as setting out the circumstances under which combinations of signatories may approve bank transfers.</p> <p>Some of the persons listed have since departed from their role on the Joint Venture, including the Managing Director.</p>	<p>Where bank signatory lists are out-of-date, there is a risk that improper financial transactions may be processed.</p> <p>There is also a risk that legitimate Company officers may not be eligible to authorise payments.</p>	<p>The bank signatory list should be updated to reflect current Board members and officers. The list should be periodically reviewed and updated.</p>
Management Response			
<p>Noted that the bank signatory list should be updated to reflect current Board members and officers. This was discussed and agreed at the meeting of January 21st and will be actinned at the April Board meeting and regularly reviewed throughout 2019/20.</p>			
Responsible Officer			Deadline
Clare O'Connor, Strategic Lead, Public Services Reform			01 April 2019.

12. Risk Management – Company Risk Register

Priority	Issue	Risk	Recommendation
Medium	The Joint Venture has no risk register in place to identify risks, assign responsibilities, or implement mitigating controls.	Where there is no structure for the identification and management of risk, there is an increased likelihood that the Company will not achieve its objectives.	A risk register should be produced for the Joint Venture, and risk management strategies adopted. This should be periodically reviewed and updated.
Management Response			
Noted that a risk register is required. This was discussed and agreed at the review meeting of January 21 st . The risk register will be reviewed at the April Board meeting and thereafter regularly reviewed.			
Responsible Officer			Deadline
Clare O'Connor, Strategic Lead, Public Services Reform			01 April 2019.

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
 Su	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.
 Sa	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.
 L	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.
 N	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

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

Appendix 3: Audit Scope, Limitations, and Inherent Risks

This audit was a full risk based review of the arrangements for LBHF Joint Ventures Limited and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
01	Formation	The Company was formed based on a valid and viable business case for doing so with alternative options first being explored. New Trading Company's operations are line with the Council's aims, objectives, and risk appetite.
02	Governance Arrangements	<p>There is a clear strategic vision for the Company which is aligned with the Council's aims, objectives, values and risk appetite. This is translated into a business plan.</p> <p>Effective governance arrangements are in place to oversee the activities of the Company. There is a Board in place which has appropriate membership and organisational oversight.</p> <p>Governance arrangements provide reassurance over the propriety of the business, and that the agreed strategic direction is being followed.</p> <p>An agreed decision making structure is in place detailing how the Company will take forward its activities in order to pursue its objectives. Arrangements ensure that the Company does not bypass relevant Council policies and rules e.g. financial delegations and procurement. Conflicts of interest are either avoided or managed effectively.</p> <p>Roles and responsibilities of key officers are defined and documented.</p> <p>The arrangements/mechanisms for paying dividends to the Council are clearly documented.</p>
03	Staffing and Resourcing	<p>Staffing and resourcing arrangements and ownership of assets of the Trading Company are clearly defined, documented and agreed.</p> <p>Any applicable Council staff or resource costs are re-charged completely, accurately and promptly, with clear records held to support time charged / resources input, to avoid the Council subsidising the Company.</p>
04	Assessment of Commercial Activities	<p>A process is in place to identify and assess new commercial opportunities. This involves gathering supporting data to support a business case and meeting a set criteria that is aligned with the Company's aims, objectives and risk appetite.</p> <p>The Joint Venture's capacity to undertake proposed ventures is also included as part of the assessment process, with staff having the required availability, skill set and commercial knowledge to ensure compliance with Council and legislative requirements.</p>
05	Income and Expenditure	<p>Only valid payments are made to contractors and suppliers and that these are made correctly, in a timely manner.</p> <p>Income due to the Company is completely, accurately, validly and promptly identified, levied, collected and banked. Prompt and proportionate action is taken to recover overdue income.</p> <p>Cash and bank accounts are properly administered, safeguarded and monitored to timely detect and correct any errors and omissions.</p> <p>Any Council financing for the set up or support of the Trading Company in the form of one off payments or loans is subject sufficient scrutiny and approval. Conditions of any financing are agreed in advance and monitored against to ensure compliance.</p>

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
06	Performance Monitoring and Management Information	Expected benefits (and/or agreed outcomes) and levels of expected performance have been defined and link to Council plans and targets. Measures and timescales to monitor performance and delivery of benefits have been agreed and are monitored against. Performance of the Joint Venture is reported back to the Council.
07	Risk Management	Risks to the achievement of objectives are identified, assessed, monitored and reported to input into decision making.
08	Financial Management	Services are delivered within agreed financial constraints. Variances are identified promptly through robust budget monitoring. The impact of any variances is assessed fully and that corrective action is identified, agreed and implemented.

Limitations to the Scope of the Audit

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

- The work will be undertaken using a risk based approach and testing will be on a sample basis to verify compliance;
- The records maintained by third parties to the Council (other than those of the Trading Company) will not be reviewed and are outside of the scope of this audit; and
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist. The audit review does not provide absolute assurance that material error, loss or fraud does not exist.

The internal audit approach was developed through an assessment of risks and management controls operating within the agreed scope. The following procedures were adopted:

- Identification of the role and objectives of each area;
- Identification of risks within each area which threaten the achievement of objectives;
- Identification of controls in existence within each area to manage the risks identified;
- Assessment of the adequacy of controls in existence to manage the risks and identification of additional proposed controls where appropriate; and
- Testing of the effectiveness of key controls in existence within each area.

Inherent Risks

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

- Governance is ineffective and lacking a clear direction which could result in ineffective working and an inability to achieve the Company's agreed strategic aims.
- Staffing and other resourcing arrangements are not clearly defined which may result in the Council subsidising the activities of the business, and providing an inaccurate assessment of Company resources and financial position.
- Inappropriate ventures are entered into resulting in commercial activities that are unprofitable or not in line with the Council's aims and values.
- Safeguards are not in place to protect the Council from excessive risk taking or poor performance which may result in financial and reputational loss to the Council.

Appendix 4: Timetable and Distribution List

Stage	Date
End of Fieldwork	19/09/2018
Draft Report Issued	11/10/2018
Responses Received	30/01/2019
Final Report Issued	01/02/2019

Audit Team
Client Engagement Manager: James Graham
Auditor: Sam Lowe
Auditees
Jem Kale - Head of Commercial Operations
Client Sponsor
Lisa Redfern – Startegic Director for Social Care and Public Services Reform

Report Distribution List
Lisa Redfern – Startegic Director for Social Care and Public Services Reform
Jem Kale – Head of Commercial Operations
Sarah Bright – Assistant Director, Public Services Reform

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

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