


<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p style="text-align: center;">23 July 2019</p>	
<p>HEAD OF INTERNAL AUDIT ANNUAL REPORT 2018/19</p>	
<p>Report of the Strategic Director of Finance and Governance</p>	
<p>Open Report</p>	
<p>Classification: For Information Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance</p>	
<p>Report Author: David Hughes, Director of Audit, Fraud, Risk and Insurance</p>	<p>Contact Details: Tel: 0207 361 2389 E-mail: David.HughesAudit@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This report summarises the work of Internal Audit in 2018/19 and provides the opinion of the Director of Audit, Fraud, Risk and Insurance on the adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion is provided for the use of the London Borough of Hammersmith and Fulham and is used to support its Annual Governance Statement.
- 1.2. The work undertaken by Internal Audit supports the Council's priority of being Ruthlessly Financially Efficient, helping to ensure that management have robust controls and practices in place to safeguard the Council's assets, controlling expenditure and maximising potential income to protect and invest in essential frontline services which are in place to meet the Council's priorities.
- 1.3. The report sets out a continuing trend of improvement in assurance being obtained and provided for 2018/19 through the work of internal audit. The reflects the commitment to a robust assurance framework being led by the Chief Executive, through monthly SLT Assurance meetings, and through the delivery of the Ruthlessly Financially Efficient programme led by the Strategic Director of Finance and Governance.

- 1.4. From the Internal Audit work undertaken in the financial year 2018/19, reasonable assurance can be provided that systems of internal control in place are effective with 88% of the audits undertaken receiving a positive assurance opinion (81% in 2017/18), with over one-fifth of all audits receiving the highest assurance rating of Substantial assurance (19% in 2017/18 and 8% in 2016/17).
- 1.5. There are some areas where control improvements are required and compliance with agreed systems could be improved. In each case, action plans are either in place, or have already been implemented, to remedy the weaknesses identified. These will be followed up by the internal audit team until they are completed.
- 1.6. The Council was found to be effective, in most areas, at implementing recommendations where concerns in respect of controls were identified.
- 1.7. The report is a key element of the evidence supporting the Annual Governance Statement (AGS), which will be presented elsewhere on the agenda with the Annual Accounts.

2. RECOMMENDATION

- 2.1. To note the contents of this report.

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

4. PROPOSAL AND ISSUES

Background

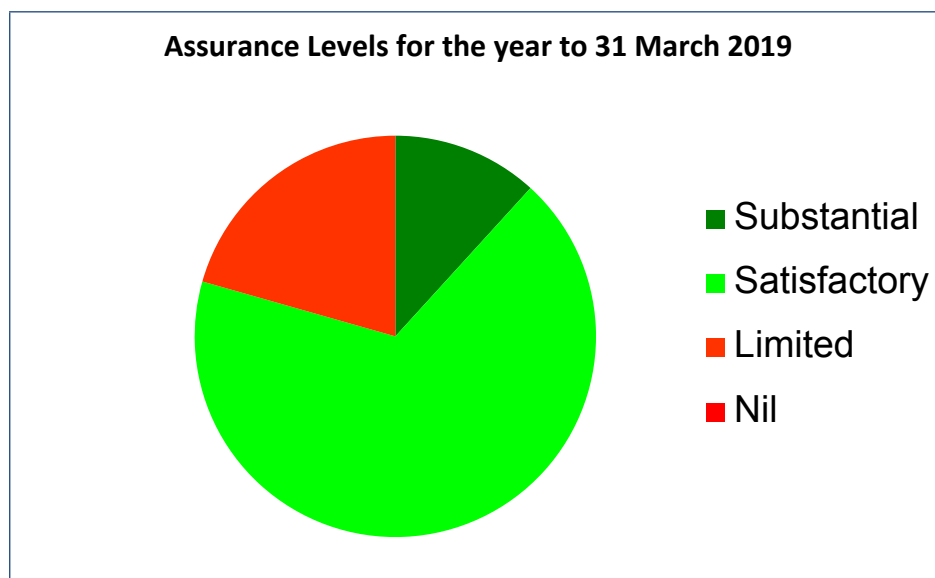
- 4.1. The Audit and Accounts Regulations 2015 require the Council to conduct a review of effectiveness of the system of internal control. This contributes to the Council priority of being Ruthlessly Financially Efficient. Detailed reports on the performance and outcomes of the internal Audit work undertaken, have been presented monthly to the Council's Section 151 Officer and at each meeting of the Audit Pensions and Standards Committee.
- 4.2. Wherever possible, when planned audits have to be postponed, alternative audit work is identified or alternative sources of assurance are sought, for example, through external inspections and reviews of Council services. During the past year, the Council has secured positive outcomes from a number of external inspections and reviews including the Community Independence Service and the Rivercourt Project Short Breaks Service both being rated Outstanding by the Care Quality Commission. The recent SEND inspection also highlighted a number of strengths in the leadership and delivery of services. The outcome of these and other inspections also supports the Annual Governance Statement.
- 4.3. The internal audit service has been provided in accordance with the UK Public Sector Internal Audit Standards (PSIAS). Under these Standards, internal audit services are required to have an external quality assessment at least once every

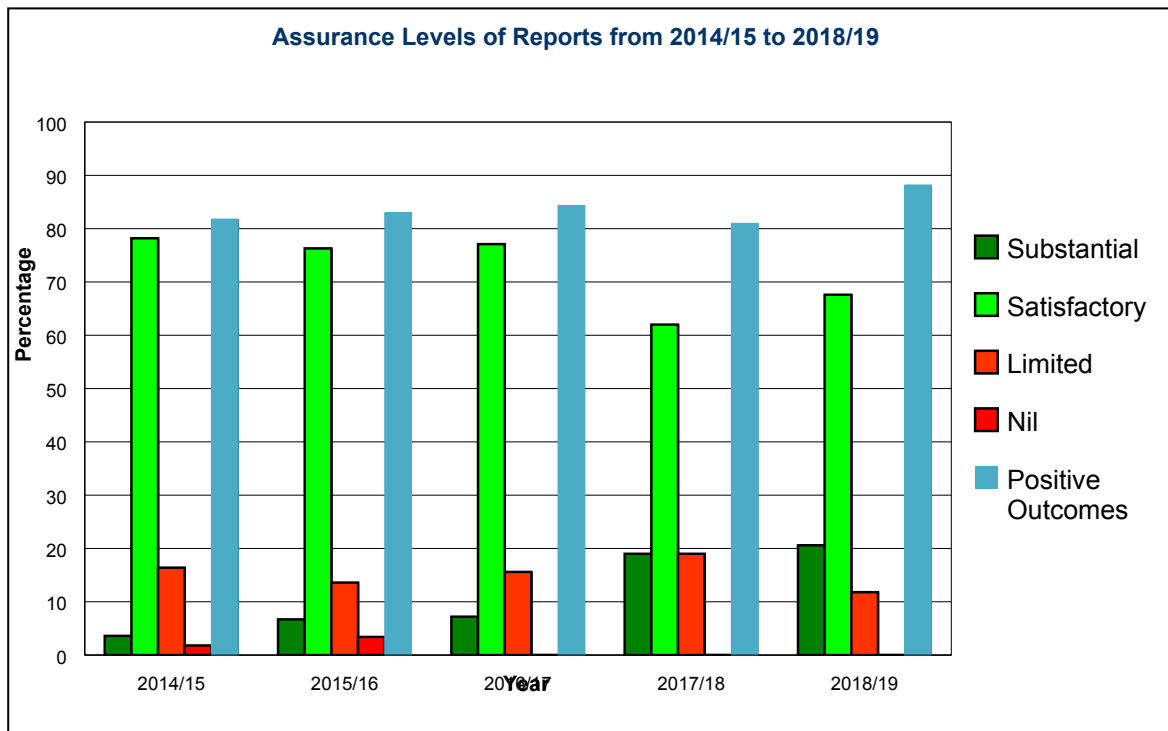
five years and this is likely to be undertaken during 2019/20. During 2018/19 the Internal Audit Service undertook a self-assessment to verify PSIAS compliance which has identified general compliance with the Standards with minor improvements which will be addressed during 2019/20.

- 4.4. As part of the 2018/19 internal audit plan, reviews of the role of both the Head of Internal Audit and Section 151 Officer against CIPFA standards were undertaken. The results of these reviews have been considered as part of this report.

Internal Audit Opinion

- 4.5. As the provider of the internal audit service to the London Borough of Hammersmith and Fulham, the Director of Audit, Fraud, Risk and Insurance is required to provide the Section 151 Officer and the Audit Pensions and Standards Committee with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements. In giving this opinion it should be noted that assurance can never be absolute. Even sound systems of internal control can only provide reasonable and not absolute assurance.
- 4.6. The opinion is that, at the time of preparing this report and based upon the work completed this year, the Council's governance, risk management and internal control systems in the areas audited were adequate with the exception of those areas detailed as Limited assurance (see paragraph 4.11 below), all of which have been reported to the Audit, Pensions and Standards Committee. This is a positive opinion which means that the Council generally has effective internal control systems with 88% of audits receiving a positive assurance opinion, including over 20% receiving a Substantial assurance rating. This is an improvement from 2017/18 when 81% of audits received a positive assurance opinion.





4.7. In the above context it should be noted that:

- This opinion is based solely upon the areas reviewed and the progress made by the Council to action internal audit recommendations;
- Assurance can never be absolute neither can internal audit work be designed to identify or address all weaknesses that might exist;
- Responsibility for maintaining adequate and appropriate systems of internal control resides with Council management, not internal audit.

Managed Services and replacement of Finance, HR and Payroll systems

- 4.8. Internal Audit has been actively involved in the programme since commencement, providing independent assurance and ongoing constructive challenge through the planning, delivery and governance/oversight of the programme and has been satisfied that the programme has been robustly planned, well-resourced to ensure delivery of plans, and has been subject to good programme governance and oversight.
- 4.9. Internal Audit undertook an independent review of programme governance which found that there was structured governance and control framework in place and the project was on track. The review found there was a good working relationship between all parties involved in the implementation.
- 4.10. Testing and review has been undertaken at key stages of the programme, including the Fit-Gap process, data migration and data verification, development of organisation structure and data required to enable work flow and approvals in the new system, system integration testing and user acceptance testing. No significant issues were identified in the processes established to undertake these activities or from testing of transactions to ensure that processes were being correctly applied.

4.11. Appropriate arrangements had also been put in place to establish and maintain an archive of data held on the BT Agresso system, to enable access to the external auditor and others in respect of historic queries.

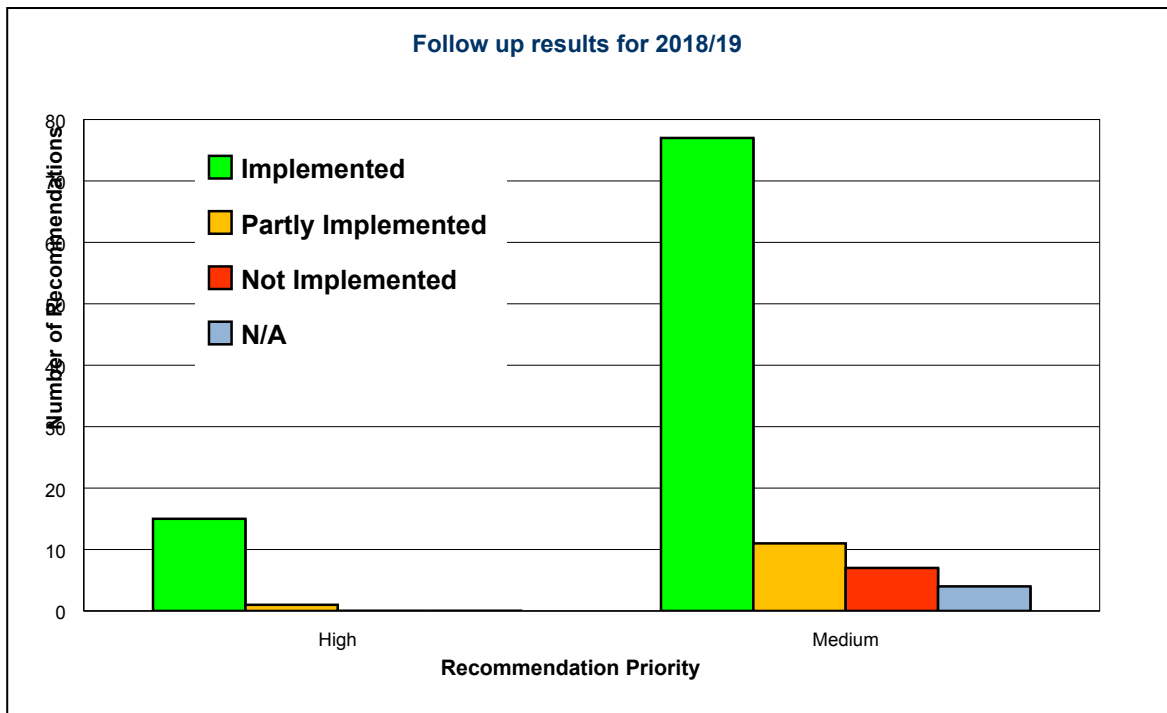
4.12. The Director of Audit was a member of the Sponsor Board which provided good oversight to the programme, including the development and implementation of programme plans, monitoring and tracking of key programme activities and the identification, management and mitigation of programme risks.

Follow ups

4.13. From December 2018, Internal Audit began reporting in more detail to Committee on the outcome of our follow up of recommendations raised and actions agreed with management. This followed on from increased focus by SLT Assurance and the wider business on implementation of recommendations and improvements in performance over the past 18 months.

4.14. 115 recommendations were followed up in 2018/19 and confirmed that the implementation of medium and high priority recommendations has been consistently effective:

- 80% of medium and high priority recommendations followed up in 2018/19 were fully implemented with a further 10% partly implemented.
- 94% of high priority recommendations followed up were found to be fully implemented with the remaining 6% partly implemented.



4.15. Issues arising from Internal Audit work which have significant implications for the Council's control assurance framework have been included in the Annual Governance Statement which is reported separately to this Committee. The monitoring process in respect of the Annual Governance Statement also ensures that follow up action is taken to remedy the key control weaknesses found.

Limited assurance reviews

- 4.16. There were a number of areas where improvements in compliance with controls were needed with a total of four audits being designated as limited assurance as set out in the table below:

Service Area	Audit	Reported to APSC
Public Services Reform	LBHF Ventures Ltd	September 2018
Public Services Reform	LBHF Joint Ventures Ltd	March 2019
Resident's Services <i>(now Environment)</i>	Members & MP Enquiries, Freedom of Information, Subject Access Requests and Complaints	March 2019
Growth and Place <i>(now Economy)</i>	Section 106 Agreements	July 2019

The findings from the first three of these audits have been reported to the Audit, Pensions and Standards Committee as indicated above and the implementation of recommendations arising from these audits will be reviewed during 2019/20. The fourth limited assurance review, Section 106 Agreements, is summarised in Appendix 4 of the report and the full internal audit report is also included as a separate report on the agenda.

5. OPTIONS AND ANALYSIS OF OPTIONS

- 5.1. Not applicable as the Head of Internal Audit is required to produce an annual report and opinion under the Public Sector Internal Audit Standards.

6. CONSULTATION

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

7. EQUALITY IMPLICATIONS

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

Implications verified by Fawad Bhatti, Social Inclusion Policy Manager.

8. LEGAL IMPLICATIONS

- 8.1. Regulation 3 of the Accounts and Audit Regulations 2015 sets out the Council's responsibility for ensuring that it has a sound system of internal control which:
- a. facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - b. ensures that the financial and operational management of the authority is effective; and,
 - c. includes effective arrangements for the management of risk.
- 8.2. Regulation 5 requires the Council to ensure that it undertakes an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 8.3 There are no particular legal implications arising from this report.

Implications verified by Rhian Davies, Assistant Director of Legal and Democratic Services.

9. FINANCIAL IMPLICATIONS

- 9.1 The Internal Audit Plan is delivered within the revenue budget for the service. Actions required as a result of audit work, and any associated costs, are the responsibility of the service managers and directors responsible for the areas which are reviewed.
- 9.2 The proposals contained in this paper have no additional resource implications for the audit service.

Implications completed by Andre Mark, Finance Business Partner and verified by Emily Hill, Assistant Director, Corporate Finance.

10. IMPLICATIONS FOR BUSINESS

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

Implications verified by Alben Karameros, Programme Manager, Economic Development.

11. COMMERCIAL IMPLICATIONS

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

Implications verified by Andra Ulianov, Procurement Consultant.

12. IT IMPLICATIONS

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

Implications verified/completed by: Veronica Barella, Chief Information Officer.

13. RISK MANAGEMENT

- 13.1 The Internal Audit Plan is developed and delivered to cover the key risks faced by the Council, to provide assurance on the key controls in operation and the effective management of key risks.

Implications verified by Michael Sloniowski, Risk Manager.

LOCAL GOVERNMENT ACT 2000 BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name of holder of file	Department/ Location
1.	Full audit reports covered in this report	David Hughes	Corporate Services, Internal Audit Town Hall, King Street Hammersmith W6 9JU

LIST OF APPENDICES:

- Appendix 1 – A summary of audits completed in 2018/19 with assurance opinions
- Appendix 2 – A summary of changes to the agreed 2018/19 audit plan
- Appendix 3 – A summary of the Internal Audit Service performance indicators
- Appendix 4 – Limited Assurance reports issued since the previous meeting

Audits completed in 2018/19 with assurance opinions

Department	Audit	Audit Opinion				Issued
		Nil	Limited	Satisfactory	Substantial	
FINAL REPORTS ISSUED						
Children's Services	Kenmont Primary School					26/03/2019
Children's Services	Leaving Care					08/06/2018
Children's Services	Frameworki to Mosaic Application Upgrade (Adults)					25/06/2018
Finance and Governance	H&F Bridge Partnership Dissolution					04/01/2019
Finance and Governance	ICT Procurement and Contract Management					18/02/2019
Finance and Governance	Office 365					22/08/2018
Finance and Governance	Network Security Compliance					19/09/2018
Growth and Place * (<i>now Economy</i>)	Cleaning and Caretaking Contract Management					27/03/2019
Growth and Place *	Section 106 Agreements (<i>See Appendix 4</i>)					01/04/2019
Growth and Place *	Community Infrastructure Levy					01/04/2019
Growth and Place *	Universal Credit Trusted Partner Status					09/10/2018
Growth and Place *	Implementation of the Homelessness Reduction Act					12/04/2019
Public Services Reform	LBHF Ventures Ltd					21/05/2019
Public Services Reform	LBHF Joint Ventures Ltd					11/02/2019
Residents Services # (<i>now Environment</i>)	Members/MPs Enquiries; FOI, SARs and Complaints					16/01/2019
Residents Services #	On-Street parking (Parking income)					01/02/2019
Residents Services #	Community Safety					31/11/2018
Residents Services #	Building Control					28/02/2019
Residents Services #	Business Continuity					16/05/2019
Residents Services #	Housing Benefit					05/06/2019
Residents Services #	Council Tax					05/06/2019
Residents Services #	NNDR					05/06/2019
Residents Services #	Emergency Planning					25/06/2019

Department	Audit	Audit Opinion				Issued
		Nil	Limited	Satisfactory	Substantial	
Social Care	Ellerslie Day Centre					18/09/2018
Social Care	Imperial Wharf Day Centre					20/08/2018
Social Care	Nubian Day Centre Contract Management					28/02/2019
Social Care	Shanti Day Centre Contract Management					01/04/2019
Social Care	Emergency Duty Team					10/04/2019
Social Care	Framework to Mosaic Application Upgrade (Adults)					25/06/2018
DRAFT REPORTS ISSUED						
Finance and Governance	Savings Management					20/11/2018
Finance and Governance	Coroners					w/c 8 July
Finance and Governance	BT and Agilisys Contract Management					13/03/2019
Resident's Services #	Cemeteries and Crematoria					w/c 8 July
Growth and Place *	Housing Rents					09/05/2019

Audits In Progress (to be updated prior to APSC in July)	
Children's Services	Engaging Support Workers Through Agencies
Children's Services	Departmental Risk Management
Finance and Governance	Corporate Debt Management
Finance and Governance	Bank Reconciliations
Finance and Governance	Capital Programme
Finance and Governance	Commercial Services
Finance and Governance	Budgetary Control
Growth and Place *	Departmental Risk Management
Growth and Place *	Health and Safety Compliance
Public Services Reform	Commissioning
Public Services Reform	Commissioning – Contract Management
Social Care	Departmental Risk Management

Audit work requested by departments (carried out as advisory reviews, where no assurance rating was provided)

Department	Audit	Issued
Children's Services	Queensmill School	In progress
Children's Services	Protecting Resident's Data	In progress
Corporate Services	MSP transfer to IBC solution	29/11/2018
Corporate Services	Desktop Strategy Programme Assurance	25/06/2018
Corporate Services	Family Support Service Programme Assurance	26/10/2018
Finance and Governance	GDPR Programme Assurance	08/08/2018
Finance and Governance	Role of the Head of Internal Audit	19/07/2018
Finance and Governance	Role of the Section 151 Officer	10/04/2019
Finance and Governance	Key Financial Controls Testing	In progress
Growth and Place *	King Street Programme Assurance	20/09/2018
Public Services Reform	Advertising Hoarding Income	21/06/2019
Resident's Services #	Parks Sports Facilities Bookings	23/05/2019
Resident's Services #	Revenues and Benefits	w/c 8 July
Social Care	Client Affairs	23/10/2018

Appendix 2 - Changes to the 2018/19 Internal Audit Plan

Audits added to the 2018/19 audit plan are included in the table in Appendix 1. The table below shows any audits removed from the 2018/19 plan, following discussions with management, or deferred to 2019/20.

Department	Auditable Area	Reason Audit not Undertaken
Children's Services	Family Support and Safeguarding	Deferred to 2019/20 due to internal reviews taking place
Children's Services	Early Help 6-9 months (including Youth Offending Team, Troubled Families)	Consolidated into the Family Support and Safeguarding review (above) to be undertaken in 2019/20. Good outcome from YOT inspection so assurance already obtained. Risk workshop to be run on Troubled Families due to uncertainties around continuation of programme.
Finance and Governance	Public Sector Network Compliance	To be covered in 2019/20 Cyber Security audit
Growth and Place	Regeneration – Earl's Court	Deferred until programme in a suitable position for audit coverage.
Public Sector Reform	Residents Commissions	Not considered high risk following discussion with management. Advisory work being done to ensure appropriate tracking of recommendations is in place for reporting to SLT/Members
Public Sector Reform	Health Intelligence and Joint Strategic Needs Assessment	Removed due to uncertainty of future funding from CCG.
Public Sector Reform	Partnership working with Health & CCGs	Removed due to uncertainty of future funding from CCG.
Public Sector Reform	Community Investment	Not considered high risk following discussion with management
Resident's Services	Hammersmith Bridge	Deferred until programme in a suitable position for audit coverage.
Social Care	Community Independence Service (CIS)	Removed due to uncertainty of future funding from CCG.
Social Care	Mental Health	Deferred to 2019/20 due to consideration of service delivery options – audit will be undertaken in Quarter 2

Appendix 3 – Internal Audit Performance Indicators

The majority of internal audit work for the London Borough of Hammersmith and Fulham is undertaken by Mazars. The performance of Mazars is summarised below against a range of performance indicators:

Performance Indicators	Annual Target	Performance	Variance	Notes
% of deliverables completed (2018/19)	95%	94%	-1%	31 out of 33 deliverables issued
% of planned audit days delivered (2018/19)	95%	96%	+1%	512 out of 533 days delivered
% of audit briefs issued no less than 10 working days before the start of the audit	95%	100%	+5%	14 out of 14 briefs issued on time
% of Draft reports issued within 10 working days of exit meeting	95%	91%	-4%	20 out of 22 draft reports issued on time
% of Final reports issued within 5 working days of the management responses	95%	94%	-1%	15 out of 16 final reports issued on time

Summary of Limited and Nil Assurance Reports since last meeting

APPENDIX 4

Audit and Scope	Details	Rating
<p>Section 106 Agreements</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Corporate Oversight • External Policy and Guidance • Development of S106 Agreements • Receipt of S106 Income • Monitoring and Completion/ Delivery of Non-financial Obligations • Enforcement of S106 Agreements • Utilisation and Monitoring of S106 Expenditure 	<p>S106 of the Town and Country Planning Act 1990 allows a local planning authority to enter into a legally-binding planning obligation with a developer in association with the granting of planning permission. The obligation is termed a S106 Agreement. Agreements under S106 are normally required to mitigate impacts arising from large scale developments and provide the means of ensuring the provision of necessary services and infrastructure, such as highways, recreational facilities, education, health and affordable housing to support new large-scale developments. Two high and five medium recommendations were raised as follows:</p> <ol style="list-style-type: none"> 1) Procedural guidance covering the whole process should be developed and made readily available to all officers/staff involved in operations relating to S106 agreements. Procedures should be version controlled and set out when and by whom they should be reviewed. 2) Roles and responsibilities should be defined and documented for all teams involved in the administration and oversight of S106 agreements. 3) Internal approval of S106 agreements should be obtained and clearly evidenced before the agreements are signed. 4) A reconciliation or review of payment records should be undertaken to confirm that payments are accurately allocated and that outstanding demand notices and payments can be identified. A single control document, containing sufficient detail, should be put in place to monitor when financial obligations are due and payments made. This will help ensure consistent recording of information and more effective monitoring of outstanding payments. 5) Non-financial obligations should be document, including key trigger dates, and tracked to enable effective monitoring of the completion/ delivery of non-financial obligations and to identify cases that require enforcement action. 6) The S106 spreadsheet should be updated and amended to clearly show allocations of funds to specific projects. This will help maintain an adequate audit trail to demonstrate that funds have been allocated to specific themes as per agreements and as approved by Cabinet. 7) Project owners should provide evidence of S106 funds expenditure to confirm that the funding has been spent as per agreed terms. Specific projects should be assigned to S106 funds (for each pot / financial obligation) to enhance transparency when documenting S106 spend and commitments. <p>All recommendations were agreed to be implemented by the end of November 2019. At the time of the final report being issued three recommendations had been confirmed by management as being implemented (1 High and 2 Medium).</p>	<p>Limited Assurance</p>
<p>Management Update:</p> <ul style="list-style-type: none"> • There has been a significant amount of work between planning and finance colleagues to ensure existing s106 data and information is improved and that record keeping of s106 clearer, including the recording of non-financial obligations; • Finance systems have now been put in place to reconcile individual s106 agreements with receipts; • The restructure is in place ensuring greater clarity about roles and responsibilities with job descriptions reviewed as per the management response. The recruitment process has begun to fill these key roles; • The s106 Board has been established, and has met, to provide appropriate governance and oversight; • Governance arrangements and procedural guidance are being established to effectively manage, in a clear and auditable way, the s106 process from start to finish, including: identifying the infrastructure needs of development (specific projects or pooled contributions towards a project); the negotiation of obligations from individual developments; standardised clause in agreements & triggers for payment; the recording of obligations; monitoring of triggers and payments; the issuing of demand notices or enforcement of obligations or payments; the receipt of payments; informing service areas of funding and delivery requirements; the monitoring and reporting of the completion of obligations; the reporting of balances including commitments; forecasting of future s106 monies; • The above will also clarify the role and responsibilities of the various Council services involved in the management of s106 agreements and the delivery of planning obligations; • Planning and finance teams are currently on track to deliver all improvements by November; • A series of workshops will be held with officers and members to improve the understanding of the legal requirements and management processes for the securing, use and spending of s106. The aim will be to be ensuring all parties are informed of the new governance arrangements to be put in place, including administration, authorisations and transparent reporting 		