

London Borough of Hammersmith and Fulham
Final Internal Audit Report
Highways Deposits and Refunds – Rechargeable
Works

September 2020



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1 Introduction

As part of the 2019/20 Internal Audit Plan, agreed by the Audit and Pensions Committee, we have undertaken an internal audit of Highways Deposits and Refunds in the London Borough of Hammersmith and Fulham. This work was requested by the Strategic Director for Environment.

Rechargeable street works are undertaken by the London Borough of Hammersmith and Fulham who then recharge the cost of the works back to a liable third party. This is done so that individuals requiring this work to be undertaken do not undertake the work themselves as there is the potential for the end result to not meet required safety and aesthetic standards.

The majority of works undertaken by the Council are based on applications made for works such as vehicle crossovers (dropped curbs); enabling works that allow the temporary relocation of entrances, bus stop and loading sites; trench works completed for utility companies; as well as other ad-hoc private rechargeable works. In addition to this, there are also enforcement works undertaken as a result of proactive inspections that identify areas where works are needed to be undertaken.

An estimate is prepared prior to commencement of work and the developer is required to pay the Council the value of the estimate before the work commences. Once works are completed a final account is prepared and either:


- The developer is sent an invoice if the final account is greater than the estimate; or,
- The Council refunds the developer the difference if the final account is less than the estimate.

The total number of new jobs created and completed for the last three years are stated in the following table:

Year	Number of New Jobs Created	Value of New Jobs Deposits £	Number of Jobs Completed	Value of Completed Jobs £
2017/18	59	383,960.44	98	312,561.14
2018/19	44	131,113.65	59	52,783.35
2019/20	44	146,244.52	38	78,956.11

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.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Policies and Procedures			0	1	0
Rechargeable Works Final Accounts and Refunds			2	1	0
Separation of duties			0	0	0
Total			2	2	0

Please refer to Appendix 1 for recommendations and Appendix 2 for a definition of the audit opinions and recommendation priorities.

3 Summary of Findings

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

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

Policies and Procedures

- Highways procedure notes were in place however, examination found that these were last reviewed in November 2010 and therefore do not include current processes such as the review and approval process of final accounts prior to issuing an invoice or refund.

Rechargeable Works Final Accounts and Refunds

- Completion of works is monitored via the Confirm Enterprise system where all highway works are recorded. Once work is completed, a final measurement report is produced by contractors and final account is prepared.
- Final accounts are created for all private works and identify where refunds are due or where additional payment is required by the client. A total of 14 refunds were processed between April and November 2019 and testing of these cases confirmed that final accounts were prepared and retained for each refund.
- A spreadsheet is maintained of all outstanding private works detailing, amongst other items, expenditure, deposit amount paid, whether expenditure exceeds deposit and the reason for works outstanding. Each private work is RAG rated on the basis of priority for it to be invoiced/refunded.
- Review of the spreadsheet identified 210 private works outstanding for reasons such as works not completed, final accounts not prepared, issues to be resolved by Finance Team or awaiting for bank account details from client. Of these 210 private works, 138 were older than 2016/17 with the oldest being 2009/10. It was also identified that there were 62 red rated items and 97 amber rated items outstanding. There was little evidence of there being sufficient oversight and monitoring of outstanding refunds/invoices to ensure that they are being completed on a timely basis. Discussions with the Project Engineer indicated that an additional resource has been allocated to clear the backlog of outstanding refunds/invoices. A target has been set to clear 15-20 accounts per month commencing from February 2020.
- Separation of duties between final account preparation and refund processing is in place. Testing of 14 refunds confirmed that final accounts were completed by Highways Team and were handed to Senior Finance Officer for a secondary check and approval.
- Journals of refund transaction are raised by the Senior Finance Officer through Corporate Accountancy log and approved by Finance Manager.
- In order for a refund to be made, clients are required to provide the Finance Team details of their bank account into which they want the refund to be made into. Whilst Finance have details of the bank account from which the client made the initial payment for the deposit, it is possible that this may have changed when the works are completed and hence the reason for bank details to be requested for again. It was however noted that no further verification checks are completed by Finance to confirm the legitimacy of bank details provided prior to processing the refund or to ensure that the correct details have been entered when processing the refund.
- The refunds issued should agree with the approved final account and the bank details provided by clients. Of the 14 refunds tested, the following was identified:

-
- Nine refunds were issued. However, in one case the amount refunded did not agree to the final account. The amount refunded was £1,846.72 instead of £2,171.72 as per the final account thus resulting in a shortfall of £325. The Senior Finance Officer stated that this discrepancy was due to the final account being adjusted to account for the application fee of £325, however the final account had not been revised to reflect this; and
 - Five refunds were not yet issued due to Finance still awaiting for clients to provide their bank details.
 - It was established that the target timescale to process refund is 21 days from the completion of final account. However, from the 14 refunds processed in 2019/20, it was identified that 11 cases were not processed within 21 days - three of these were from 2015. The processing timescales ranged from one month to three years. We were informed that the main cause of significant delays was due to delays in receiving confirmation of clients' bank details.
 - System access between Private Works Team and Finance Team are limited to their delegated roles. We were provided with the system access matrix and established that only Highways Team have access to Confirm Enterprise database whilst only Finance Team have access to Corporate Accountancy and SAP system. Information is passed from Highways to Finance team via email.

4 Acknowledgements

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

- Michael Masella – Project Team Manager
- Ming Wah Suen – Senior Finance Officer (Environment)
- Nicky Moodley – Project Engineer
- Margharitta Jenczelewska – Private and Rechargeable Works Officer

Appendix 1: Management Action Plan

1. Policies and Procedures

Priority	Issue	Risk	Recommendation
Medium	The procedure notes for private works were provided by the Highways Team however, these had not been reviewed since November 2010. Furthermore, the procedure notes did not contain the review and approval process for final accounts prior to issuing an invoice or refund.	Where procedure notes are not available or up-to-date, there is a risk that staff will not comply with the requirements expected by the organisation. This could lead to reputational damage where deposits and refunds are handled incorrectly or a service user is negatively affected as a result of non-compliance.	Procedure notes should be regularly reviewed to ensure they reflect current practice. In addition, these should be available to staff with guidance on the process for completing tasks.
Management Response			
<p>Agreed.</p> <p>An updated procedure is currently being prepared and will be completed by 31st August 2020. This will be reviewed annually thereafter.</p>			
Responsible Officer			Deadline
Michael Masella – Project Team Manager			31 st August 2020

2. Long Outstanding Job Accounts

Priority	Issue	Risk	Recommendation
<p>High</p>	<p>An estimate is prepared prior to commencement of work and the client is required to pay the Council the value of the estimate before the work commences. Once works are completed a final account is prepared and either an invoice is sent to the client where the final account is greater than the estimate or a refund is issued to the client for the difference where the final account is less than the estimate. A private works monitoring sheet is in place to show all outstanding accounts. An examination of the spreadsheet, as at November 2019, identified the following outstanding items:</p> <ul style="list-style-type: none"> • Items that require a final account – 45 jobs with a balance of £169,007.58 (since 2012); • Items that require Finance action – 33 jobs with a balance of £58,572.48 (since 2013); and • Other items – 38 jobs with a balance of £152,679.59 (since 2012). These other items include final accounts in query, returned final accounts, awaiting bank details from client, and job review needed. <p>Each job is RAG rated on the basis of priority for it to be invoiced/refunded. Of the 210 outstanding jobs, there were 62 red rated and 97 amber rated items outstanding. We were informed that extra resource has been appointed to help clear the backlog with a target to clear 15 to 20 accounts each month starting February 2020.</p>	<p>Where outstanding jobs are not investigated and cleared in a timely manner, there is an increased risk that errors or anomalies remain unidentified for an extended period of time, which may have an impact on Council’s financial records.</p>	<p>The Private Works Team and Finance Team should undertake action to clear the long outstanding jobs and ensure that the clients are either invoiced or refunded.</p> <p>The agreed timetable to clear the backlog should be monitored against on a regular basis to ensure that the required actions are being completed and clients invoiced/refunded.</p> <p>Going forward, management should ensure that once final accounts have been prepared, that an invoice or refund is issued promptly.</p>

Management Response	
<p>Agreed.</p> <p>The Private Works Team are engaged on clearing the backlog. We have set a deadline of completing the backlog by March 2021.</p> <p>The Service Manager has stated that previous Private Works Team members who still work for the Council will devote some of their time each week to help clear those jobs that they initiated.</p> <p>The Finance Team will monitor progress and provide updates on the number of jobs completed per month and will suggest actions that Private Works Team need to take to finalise either refunds or additional invoices.</p>	
Responsible Officer	Deadline
Michael Masella – Project Team Manager Giles Batchelor – Finance Manager (Environment)	31 st March 2021

3. Bank Details Verification




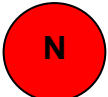
Priority	Issue	Risk	Recommendation
High	In order for a refund to be made, clients are required to provide the Finance Team details of their bank account into which they want the refund to be made. It was however noted that no further verification checks are completed by Finance to confirm the legitimacy of bank details provided prior to processing the refund or to ensure that the correct details have been entered when processing the refund.	Where bank details are not verified, there is an increased risk that incorrect or fraudulent refunds are made leading to financial loss and additional resources required to correct any errors.	<p>The Finance Team should undertake further verification of the bank details provided prior to issuing a refund, to confirm they are legitimate.</p> <p>Alternatively:</p> <ul style="list-style-type: none"> A separate officer should check the bank details applied to each refund, either before or after it has been sent for payment; or The Finance Team should contact the client to notify them of where the refund has been paid into thus confirming that it is the correct account. <p>The above process should be included in the procedure notes and compliance with this requirement should be monitored.</p>
Management Response			
<p>Agreed.</p> <p>As part of their communications with their clients, the Private Works Team will ask for supporting evidence of bank details in the form of copies of redacted bank statements or blank cheque or paying in books.</p> <p>These will be reviewed to ensure that name and address details, sort codes and account numbers match client information already held.</p>			
Responsible Officer			Deadline
Michael Masella – Project Team Manager			31 st August 2020

4. Refunds

Priority	Issue	Risk	Recommendation
Medium	<p>The refunds issued should agree with the approved final account and the bank details provided by clients. The target days to process refund is 21 days from the completion of final account.</p> <p>Of the 14 refunds tested, the following was identified:</p> <ul style="list-style-type: none"> • Nine refunds were issued. However, in one case the amount refunded did not agree to the final account. The amount refunded was £1,846.72 instead of £2,171.72 as per the final account thus resulting in a shortfall of £325. The Senior Finance Officer stated that this discrepancy was due to the final account being adjusted to account for the application fee of £325, however the final account had not been revised to reflect this; and • Five refunds were not yet issued due to Finance still waiting for clients to provide their bank details. • 11 refunds were not processed within 21 days – three of these were from 2015. The processing timescales ranged from one month to three years. We were informed that the main cause of significant delays was due to delays in receiving confirmation of clients’ bank details. 	<p>Where final accounts and refunds are not completed in a complete, accurate and timely manner, there is an increased risk that the Council will not identify cases where refunds are due and invalid and/or inaccurate refunds are issued and individual could potentially divert the refund away from the client.</p>	<p>Refunds should be issued based on the final account, but where there are amendments to be made, these should be returned for revision and approval should be obtained from Senior Finance Officer before refunds are processed, where appropriate.</p> <p>Refunds should be processed in a timely manner following completion of the final account. Performance against target for the processing of refunds should be monitored and reported on. Action should be taken where performance is below target.</p> <p>Management should agree an appropriate cause of action where clients do not provide confirmation of their bank details following repeated requests. This could be by making the account dormant after a defined period until the client makes contact with the Council. Guidance on this should be included within the procedure notes and compliance on adhering to the guidance should be monitored.</p>
Management Response			
<p>Agreed.</p> <p>Once a final account has been agreed and bank details obtained Finance Team will ensure that a refund is made within 21 days. If bank details are not forthcoming within 21 days, the account will be labelled as dormant until the client contacts the council.</p>			
Responsible Officer			Deadline
Giles Batchelor – Finance Manager (Environment)			31 st August 2020

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 the Highways Deposits and Refunds – Rechargeable Works and included the following areas:

Outline Scope		
Ref	Audit Area	Coverage
01	Policies and Procedures	All staff are aware of what is required of them and act consistently in compliance with legislative and management requirements and in an economic, efficient and effective manner.
02	Rechargeable Works Final Accounts and Refunds	Any refunds due are paid accurately promptly upon completion of the final account. Refunds are paid directly to the customer who originally paid for the works.
03	Separation of duties	An adequate separation of duties exists between those undertaking the works, preparing the final account and making any refund payments due.

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 will not be reviewed and are outside of the scope of this audit;
- This work will be focussed on refunds paid in relation to rechargeable works only. We were advised that bonds or deposits are not required for any other highways work. Bonds may be applied for Section 278 works in some circumstances; however, this rarely occurs; and
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist.

Inherent Risks

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

- The entire amount of the remaining balance is repaid where funds should be held back to rectify unsatisfactory work.
- Inaccurate refund payments are made to customers or are not made promptly.
- Refunds payments are fraudulently redirected to bank accounts other than the customer's.

Appendix 4: Timetable and Distribution List

Stage	Date
End of Fieldwork	05/12/2019
Draft Report Issued	15/06/2020
Responses Received	25/08/2020
Final Report Issued	01/09/2020

Audit Team
Client Engagement Manager – James Graham
Auditor – Carmela Alas
Auditees
Michael Masella – Project Team Manager
Giles Batchelor – Finance Manager (Environment)
Ming Wah Suen – Senior Finance Officer (Environment)
Nicky Moodley – Project Engineer
Margaritta Jenczelewska – Private and Rechargeable Works Officer
Client Sponsor
Sharon Lea – Strategic Director of Environment

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.