

London Borough of Hammersmith & Fulham

Report to: Audit and Pensions Committee

Date: 15/03/2021

Subject: Internal Audit Progress Report

Report of: David Hughes

Responsible Director: Director of Audit, Fraud, Risk and Insurance

Summary

Understandably, the Covid-19 pandemic delayed the start of the 2020/21 Internal Audit work, which is in line with internal audit teams across all London Boroughs. Good progress is now being made in undertaking the audits contained in the revised Audit Plan. Two further audits have been finalised, ongoing testing of key financial controls has been conducted, (under the RFE action plan), and one draft report issued since the last report to the Committee. No overall opinion is given at this time on the adequacy and effectiveness of the Council's governance, risk management and controls.

Recommendations

1. For the Committee to note and comment on the report.

Wards Affected: None

H&F Values

Please state how the subject of the report relates to our values – delete those values which are not appropriate

Our Values	Summary of how this report aligns to the H&F Priorities
<ul style="list-style-type: none">• Being ruthlessly financially efficient	The work undertaken by Internal Audit helps 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

Contact Officer:

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Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

Internal Audit Work November 2020 to February 2021

1. The Council's internal audit service is provided by the Shared Services Internal Audit Team which is managed by the RBKC based Shared Services Director for Audit, Fraud, Risk and Insurance. Audits are undertaken by the in-house audit team or through the external contractors to the service. The Audit and Pensions Committee are provided with updates at each meeting on progress against the Annual Audit Plan and on any limited or no assurance audits issued in the period.
2. The revised Audit Plan for 2020/21 was reviewed by the Audit and Pensions Committee in September 2020. Where significant changes in the coverage of the plan occur, these will be reported to the Committee and a full record of changes during the year is also reported within the Head of Internal Audit's Annual report.
3. Since the last report to Members, two school audits have been completed, both of which received a **Substantial Assurance** opinion.
4. In addition, an advisory review has been completed on the implementation of health and safety recommendations.

Internal Audit Opinion

5. As reported to the last meeting of the Committee, the Covid-19 pandemic has delayed the start of our work in 2020/21 and no overall assurance opinion can be given at this stage, although the S151 Officer and the Committee can be assured that sufficient internal audit work is in progress to ensure an appropriate assurance opinion can be provided by the end of the financial year.
6. In addition, the Director of Audit, Fraud, Risk and Insurance and his team are involved in supporting a number of elements of the Council's ongoing Covid response which will help to obtain assurances to feed into the annual opinion. Appendix 1 shows the finalised audits as at the end of February 2021 and the status of the remaining planned audits is shown in Appendix 2.

Ruthlessly Financially Efficient

7. As part of the Council's drive to be Ruthlessly Financially Efficient (RFE), an RFE Action Plan is being maintained and subject to periodic reviewed by SLT

and the Cabinet Member for Finance. To provide assurance on the progress of actions within the Plan, Internal Audit have been asked to undertake a continuous programme of testing of key financial controls.

8. Appendix 3 sets out the results of the RFE testing undertaken up to the end of December 2020. Further testing is being undertaken in the final quarter of the year and outstanding responses from previous testing periods will also be progressed. The overall outcome of the RFE testing will be taken into account in the annual assurance opinion.

Follow Ups

9. In the period up to the end of February 2021, 10 medium and five low priority recommendations, which were due to have been implemented, have been followed up by Internal Audit.
10. Follow up confirmed that 14 recommendations had been fully implemented with one medium priority recommendation partially implemented with appropriate reasons given for the delay in implementation.

Consultation

11. The report has been subject to consultation with the Strategic Leadership Team.

Legal Implications

12. 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.
13. 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.
14. There are no particular legal implications arising from this report.

Implications verified by Janette Mullins Chief Solicitor (litigation), tel: 020 8753 2744

Financial Implications

15. 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.

16. The proposals contained in this paper have no additional resource implications for the audit service.

Implications completed by Andre Mark, Finance Business Partner, 020 8753 6729 and verified by Emily Hill, Director of Finance, 0208 753 3145.

Risk Management

17. 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, telephone 020 8753 2587

List of Appendices:

- Appendix 1 Summary of Audit Reports finalised to end February 2021
- Appendix 2 Audit Plan 2020-21 - Status Report to end February 2021
- Appendix 3 RFE Testing to end of February 2021

APPENDIX 2
Audit Plan 2020-21 – Finalised Audits to end February 2021

Plan Area	Auditable Area	Issued	Assurance level given	No of High Priority Recs	No of Med. Priority Recs	No of Low Priority Recs	Reported to Committee
Cross cutting	PPE – Review of Process (Covid Support)	Jun-2020	Advisory	n/a	n/a	n/a	Dec 2020
	RFE – Compliance	Feb-2021	Advisory	n/a	n/a	n/a	Mar 2021
Finance	Pension Admin – Payments	May-2020	Advisory	0	5	0	Dec 2020
Resources - People & Talent	Pension Admin – Support and Process (Advisory)	n/a	On-going	n/a	n/a	n/a	Dec 2020
Economy	Housing H&S – Water Hygiene & Legionella	Oct-2020	Substantial	0	1	0	Dec 2020
	Housing H&S – Asbestos (draft)	Oct-2020	Satisfactory	0	2	0	Dec 2020
Children's Services – Schools	St Stephen's CE Primary	Feb-2021	Substantial	0	1	2	Mar 2021
	Woodlane High School	Feb-2021	Substantial	0	0	3	Mar-2021
Environment	Implementation of Health & Safety Recommendations	Dec-2020	Advisory	0	5	0	Mar-2021

Audit Plan 2020-21 – Status of Remaining Audits





Plan Area	Draft Report	In Progress	Defer/ Cancelled
Cross cutting		<ul style="list-style-type: none"> • RFE – Financial /HR Compliance (Q4) • DPO/ GDPR Support (Information Assets) • Procurement (governance) • Waivers • Contract Management 	<ul style="list-style-type: none"> • Business Continuity (to consider in 2021/22 as only recently entering information onto new system.)
Finance		<ul style="list-style-type: none"> • Treasury Management • Housing Rents • Income Compensation Scheme 	<ul style="list-style-type: none"> • Capital Programme (work to be planned in 2021/22)
Resources		Digital Services: <ul style="list-style-type: none"> • New Application Approval Process • Post-Implementation (Tech tonic) 	<ul style="list-style-type: none"> • Digital Services: Access & Asset Management • People & Talent: Sickness Absence (both to be undertaken in 2021/22)
Children's Services		<ul style="list-style-type: none"> • Supporting People Claims (on-going) • Placements – Advisory • Use of Spot Contracts • Use of Procurement Cards & Cash 	<ul style="list-style-type: none"> • Movement of Sharepoint Data (SEN) – Advisory (to be reviewed in 2021/22)
Schools	<ul style="list-style-type: none"> • St Mary's Primary • Queensmill School (f/up from previous review) 	<ul style="list-style-type: none"> • School Bursarial Service (VFM) • Recharging for SEN • Thematic Reviews (Health & Safety and IT Security/ GDPR) • Flora Gardens Primary • Avonmore Primary • (St John's XXIII) Pope John Primary • Cambridge Special 	
Social Care & Public Health	<ul style="list-style-type: none"> • Mosaic Financial Controls 	<ul style="list-style-type: none"> • Supervision (compliance) • Risk Workshops (advisory) • Test & Trace & Community Testing Funding (assurance) 	<ul style="list-style-type: none"> • PFI Programme (VFM) (request to review in 2021/22) • Risk Management Assurance (wait until completion of workshops)

Audit Plan 2020-21 – Status of Remaining Audits





Plan Area	Draft Report	In Progress	Defer/ Cancelled
Economy		<ul style="list-style-type: none"> • Corporate Health & Safety • Housing H&S – Electrical Compliance • Homelessness • Security – Resource Management • Service Charges 	<ul style="list-style-type: none"> • Workzone/ Local Business Support (re-consider in 2021/22 due to Covid-19) • Geometra Data Quality (no longer required as covered in H&S reviews) • Housing Allocations (Scoped but to start late March so consider as 2021/22 audit) • DLO Communal & Programmed Remedial Works (now included in 2021/22 plan) • Property Management Systems Information (now included in 2021/22 plan) • Major Works, Lessee and Service Charges (to consider additional work following focused review in 2020/21) • Long Term Repairs Model – (to be replaced with a review of Housing Information Management System in 2021/22)
Environment	<ul style="list-style-type: none"> • FOI/ SARs, Complaints & Members Enquiries (part 1) 	<ul style="list-style-type: none"> • CCTV – Contract Management • Grounds Maintenance – Contract Management • Council Tax • NNDR • Housing Benefits Parking – PRP Scheme 	<ul style="list-style-type: none"> • Parks Police – Patrols, Planning & Monitoring (ceasing from Jan 2021 – no longer required)

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SUMMARY OF FINDINGS TO DECEMBER 2020

Key Control Objectives	Process	Control Adequacy	Control Effectiveness	Findings
1. Expense Claims To ensure that supporting receipts are available for all expense claims.	<p>Up to £999 of expenses can be claimed by staff in a single expense claim. Staff have to confirm that they have a receipt, but there is no facility for uploading receipts.</p> <p>From August 2019 IBC have undertaken monthly monitoring of a sample of expense claims and write to managers to confirm the validity of claims. A list of sampled claims where a response is not received from the manager is sent to Strategic Director of Finance and Governance for investigation and action.</p>	Green 	Green 	<p>Monthly audits are completed by IBC. This process is monitored by the Risk Manager and RFE Lead. The Risk Manager and RFE Lead confirmed his last IBC expenses report in December 2020 indicated that:</p> <ul style="list-style-type: none"> Two expenses were outstanding for the period July 2020. The managers were new to the report and these were followed up. One respondent indicated they had already responded to IBC There were none outstanding from October or November and overall the levels of outstanding responses continue to be very low.
2. Additional Allowances (Honoraria, Acting up etc.) To ensure that there is evidence of a supporting rationale for the payment.	<p>Managers can move staff to “act up” into a role or set up secondments. There is no workflow or system controls.</p> <p>The line manager adds the additional allowance to an employee's pay through managers self-service on SAP.</p> <p>An honorarium or acting up payment will normally be paid for activities as outlined above which are required for between 4-26 weeks. Authorisation at Assistant Director/Director level is required. The agreement of the Director will be necessary for any honorarium or acting up payment that is intended to or is likely to exceed 26 weeks.</p> <p>An allowances report can be obtained from HR. Individual managers of selected staff should be contacted to ask for the information below:</p> <ul style="list-style-type: none"> The reason for the honoraria payment Evidence of management authorisation The start and end date of the payment 	Amber 	Amber 	<p>Monthly Additional Allowances report generated by Corporate Finance identifies officers who have had additional payments and the amounts. However, this report does not identify what the additional allowance is for without accessing SAP to find details of this. We therefore contacted line-managers for a sample of ten staff members who received honorariums between April and December 2020, to confirm the following:</p> <ul style="list-style-type: none"> The reason for the honoraria payment Evidence of management authorisation The start and end date of the payment <p>To date, responses have been received from eight line-managers. From these responses, one honorarium appeared to be an error, which the line manager is investigating, and further details are awaited. For the remaining seven honoraria:</p> <ul style="list-style-type: none"> In all seven cases, a start date was in place; In four cases, an end date was in place whilst in the remaining three cases an end date was not included; In all seven cases, the honorarium was extended beyond the 26-week period defined in the honorarium guidance. Discussions with line-managers established that an extension form was not submitted, instead the extensions were agreed by the Directors, Associate Directors and Head of Services. We were however not provided with evidence to support these assertions. <p>Reasons for the honorarium varied, they included acting up to a more senior role, to assist with transitional and managements arrangements during a restructure, managing an additional team of front-line social workers and the requirement for further officers.</p>

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Key Control Objectives	Process	Control Adequacy	Control Effectiveness	Findings
3. Promotions To ensure that there is a justification for the promotion.	There are no real promotions. Staff are either recruited to a post or are directly hired following internal process. Confirm with HR whether managers can move staff up the pay scale without authorisation. Is this monitored by budget monitoring reports.	NA	NA	Initial discussions with HR confirmed that there would not be any promotions and therefore this test can be removed.
4. Overtime To ensure that overtime payments can be supported by evidence of working additional hours.	Overtime rates are dependent upon the scale of the officer. Officer inputs overtime on system and this gets work flowed to manager for approval. Overtime payments can only be made once an employee has worked in excess of a 36 hours week and for hours which are outside of the standard hours of business i.e. 7.30 a.m. to 7.30 p.m. Overtime working should occur if it is necessary to maintain essential service provision, and the taking of flexi leave and time off in lieu is not conducive to the smooth running of the service, then overtime payments can be considered. Employees graded above PO10 are not eligible to claim overtime. Employees who have contractual overtime included in their contract of employment do not need to submit claims for these hours. However, overtime worked in excess of contractual overtime hours must be claimed e.g. if an employee works 42 hours in a week and is required to work 4 hours contractual overtime, only an additional 2 hours overtime must be claimed. Overtime claims are submitted to line managers for approval.	Green 	Amber 	For a sample ten overtime claims between October and December 2020 in nine cases evidence has been provided confirming they had been authorised by the appropriate line manager. The exception will be reported to the service. All claims were for officers under grade PO10. The reasons for the overtime claims varied however, included undertaking case reviews and well-being calls to customers in light of the pandemic, managing the mailbox for Adult Social Care to monitor urgent referrals to ensure the management of risk during the pandemic. Other reasons included weekend cover for the Registrar's office opening times as well as emergency cover for absent security officers, to undertake server migration testing of NNDR Academy database, regular overtime due to the impact of the pandemic and to assist with a backlog of penalty charges.
5. Journals To ensure that evidence is available to support the journal.	Journals are posted and approved by two different officers. SAP does not have a workflow for the approval of journals and therefore the approval process is logged on a journal and accrual log. All journals and accruals are logged via a link on SharePoint. A new journal request is created on SharePoint and approved by the line manager or Principal Accountant level or above. Working papers are attached to the journal request on SharePoint.	Green 	Green 	For a sample of twenty-five journals from April to December 2020, we were able to confirm all were posted and approved by two different officers and all were logged via SharePoint. All had evidence attached to support the journal (working papers).

Ruthlessly Financially Efficient

Key Control Objectives	Process	Control Adequacy	Control Effectiveness	Findings
6. Changes to Supplier Details To ensure that there is evidence to support the change to supplier details.	<p>Suppliers are responsible for ensuring that their own details are accurate and up-to-date via self-service. As part of being set up as a supplier, suppliers are required to register for self-service and provide their email address and mobile number in order to confirm that their details have been set up correctly.</p> <p>With regards to changes to supplier's bank details, IBC make changes to bank details based on a report received from the bank (AWACS report – Advice of Wrong Account for Credits Service). IBC do not obtain any further confirmation from the supplier prior to making the change as the change is on the basis of the AWACS report from the bank and this is taken as authorisation to manually update the bank details. A copy of the AWACS report is attached to the supplier record in SAP and the supplier is notified through supplier self-service that bank details have been changed.</p>	N/A	N/A	Performed as part of the ISAE 3402 audit undertaken by Hampshire County Council.
7. Non-order invoices To ensure that: (a) The volume of non-order invoices is monitored; (b) The payment has been created by an approved officer; (c) The order could not have been raised in advance.	<p>Ibex allows a list of approved officers to make one-off payments to customers/suppliers for items such as refund of permits, compensation payments. To be granted access, an Ibex New User Form must be completed.</p> <p>Non-order invoices are monitored by Finance Systems Team. If there are errors, the team will reject the payment and send an email with the reasons why.</p> <p>Request IBEX report from Finance. For the selected sample request evidence, who it was raised by, who it was approved by and whether it was raised by an IBEX authorised user.</p> <p>If a request for non-order invoices is input to Ibex it sits with the service area and is also approved by the finance team. The finance team check what the non-order invoices are being completed for and only approved staff have access to Ibex which is requested by their managers. Any Ibex payments that are over a £25k value must be backed up by an email so they can double check the details, approvals and values.</p>	Green 	Green 	<p>For a sample of twenty non-order transactions made from April to December 2020, in all cases we were able to confirm that the payment had been certified by an authorised user and that an order could not have been raised in advance.</p> <p>Four of the ten payments sampled between October and December 2020 were above 25K and were all backed up by an email to confirm the details and approvals.</p>
8. Emergency/Faster Payments To ensure that emergency/fast payment could not have been paid earlier through the normal method.	<p>A manual form is completed and authorised by a manager in accordance with the Scheme of Delegation before being sent to Corporate Finance for processing. The request is reviewed by Corporate Finance to ensure that it is valid and accurate prior to the payment being made via Bankline.</p> <p>For the selected sample, confirm whether a request form was provided, whether it was authorised and by who, whether the system amount matches the form amount and who it was processed by.</p>	Green 	Green 	For a sample of twenty-five emergency/faster payments made from April to December 2020, in all cases the request form was completed and appropriately authorised and confirmation provided that the payments could not have been made earlier through the standard payment method.
9. Petty Cash	There are 5 departments/services that currently use petty cash – Young	Green 	Amber 	<u>ALSS</u> – We confirmed monthly reconciliations have been undertaken in

APPENDIX 3

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Key Control Objectives	Process	Control Adequacy	Control Effectiveness	Findings
Reconciliations To ensure that petty cash accounts are regularly reconciled. To reconfirm the petty cash in hand balances.	People Service (Cobbs Hall); Community Needs Barclay (Sawley Road); Environment department; Coroners and ALSS department. Petty cash accounts should be reconciled on a monthly basis.			the period and no issues were identified in the reconciliations reviewed (01/10/2020 and 18/12/2020). <u>Environment</u> – We confirmed no reconciliations had been undertaken in the period April to December 2020 as no one is in the office. We were asked to note that the cash has not been physically counted but remains the same for both accounts as there has been no activity through the year. <u>Coroners</u> – We confirmed reconciliations had taken place for the period April to December 2020 and no issues were noted. <u>145 King Street & Sawley Road</u> – No response received.
10. Petty Cash Transactions To ensure that receipts are available to support the petty cash expenditure.	Receipts are kept by the individual departments/services. Request petty cash transactions for each department and test to confirm that receipts are available.	Green 	Amber 	<u>ALSS</u> – There were only two transactions between April and September 2020 with adequate details contained within the reconciliation spreadsheet. There were two further transactions in the period 01/10/2020 to 31/12/2020. We are waiting for evidence of receipts to support these two transactions. <u>Environment</u> – There were no transactions in the period April to December 2020. <u>Coroners</u> – For a sample of 10 petty cash transactions between April and December 2020 we were able to confirm the amount reimbursed to jurors by cheque matched the supporting expense claim and invoice. <u>145 King Street & Sawley Road</u> – No response received.
11. Credit Notes To ensure that evidence is available to support the credit.	Requests for credit notes are only processed where there is evidence of credit due and the request has been approved.	Green 	Green 	For a sample of twenty-five credit notes raised from April to December 2020, we confirmed in all cases evidence was available to support the credit and they were all approved. Credit notes were required due to invoices being raised in error or additional payment made by the supplier.
12. Refunds To ensure that evidence is available to support the refund.	A spreadsheet is completed by Service Areas with details of the refund together with bank details and the reason for the refund. Refund requests are authorised by a manager in accordance with the Scheme of Delegation before being sent to Corporate Finance for submitting to credit control in Hampshire for processing the refund. Once the refund has been processed, Hampshire will send a confirmation email to Corporate Finance.	Green 	Green 	For a sample of twenty refunds processed from April to December 2020, in all cases we confirmed that the refund requests had been appropriately authorised and that there was sufficient evidence to support the refund. The authorised amounts matched the refund amount in all cases.
13. Straight to Offer	Get Ahead Scheme is an internal process to promote and develop staff. Managers can direct hire on system provided there is a position within			Information is awaited to enable the testing to be undertaken.

Ruthlessly Financially Efficient

Key Control Objectives	Process	Control Adequacy	Control Effectiveness	Findings
To ensure that for appointments that went "straight to offer" that this was appropriate.	their responsibility. No approval is required.			
14. Start Dates To ensure that the start date has been input correctly.	Hire form is in place for each new starter which is pre-populated from IBC. This form details the start date amongst other details.	N/A	N/A	Performed as part of the ISAE 3402 audit undertaken by Hampshire County Council.
15. Leaving Dates To ensure that the leave date has been input correctly.	<p>For retirement/redundancy/dismissal, an e-form is completed by HR which will include the leave date. For all other leavers, the leave date is input onto the system by managers via self-service. A new process will be introduced in September 2019 whereby managers will be producing a leavers letter which will confirm the leave date.</p> <p>The manager should upload the letter on to the IBC EPF file (Electronic Personal file) for their team member at the time of receipt. Once the person has left the Council, the team member's details are no longer accessible to the manager to review.</p> <p>A leavers report can be requested from HR. We are clarifying whether HR are able to access the letters from their system or if a request for this information needs to be made to the IBC.</p>			Information is awaited to enable the testing to be undertaken.