

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 15/03/2022

Subject: Internal Audit Plan 2022/23

Report of: David Hughes, Director for Audit, Fraud, Risk and Insurance

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

Summary

The Strategic Audit Plan has been reviewed to document significant, persistent risks that the Council faces and the business areas to be covered over a five-year period. The Strategic Plan will support the annual planning process and ensure that internal audit continues to provide assurance over the breadth of the Council's operations.

The Plan has been prepared following consultation with Directors and takes into account the Council's corporate risks and priorities.

To ensure that the Annual Audit Plan is more responsive to changing risks and challenges, it has been developed as a '3 plus 9-month' plan. This approach allows for the first three months to be identified in detail with the remaining nine months being more flexible to suit the needs of the Council at the time. The Plan will be reviewed and updated following discussions with Directors, taking into account changing risks and priorities. The revised Plan will be reported to the Committee on a quarterly basis.

Recommendations

1. The Committee review the draft Strategic Audit Plan, as set out in Appendix 1, and consider whether it covers the persistent risks that the Council faces and outlines the business areas or themes that need to be considered as part of a five-year plan.
2. The Committee review the draft of the Annual Audit Plan, as set out in Appendix 2, and comment on the audit work due to undertaken in the first quarter of 2022/23 and identify any specific audits to be considered during the coming year.

Wards Affected: None

H&F Values

Our Values	Summary of how this report aligns to the H&F Priorities
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

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Background Papers Used in Preparing This Report

None.

DETAILED ANALYSIS

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, in accordance with the Internal Audit Charter. The Audit 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. A primary role of internal audit is to provide assurance that the Council has robust systems of governance and control in place to achieve its priorities and meet its statutory responsibilities. The Council's internal and external environment continues to evolve and the way in which the Internal Audit Service is delivered must change to keep pace with this. The traditional audit approach of planning a full year of audits in advance has become unsuitable as the original plan fails to keep pace with the organisation's needs.
3. As a result, we have implemented the following changes to the way in which we deliver the Internal Audit Service:
 - A Strategic Audit Plan has been developed which documents the significant, persistent risks that the Council faces and outlines, in broad terms, themes to be covered over a five-year period. This will help to ensure that internal audit does not become a purely reactive function. The Strategic Audit Plan is attached as Appendix 1.
 - We will work with a '3 plus 9' Annual Audit Plan – planning out the next three months in detail, meeting on a quarterly basis with Directors to take into account key risks and priorities, whilst keeping the remaining nine months more flexible. The Plan will then be revisited each quarter to confirm the following quarter's work and will include sufficient audit coverage to enable an overall annual opinion to be reached on the Council's control framework.
 - New reporting formats have been developed which are more appropriate to the work being undertaken, such as succinct reports for short/focused reviews.
 - The option of faster paced audit work, through more focused coverage or less formal reporting, will be available where the traditional approach would not provide assurance as quickly as needed; and
 - We will seek to increase attendance on 'working groups' to provide advice and constructive challenge where real time input to projects and initiatives can add value.
4. The draft '3 plus 9' Internal Audit Plan for 2022/23 is attached as Appendix 2 to this report. It should be noted that this Plan is an early draft, based on discussions with Directors, and

is intended to focus on the work planned in the first quarter of 2022/23. Some changes may be required once all of the audit planning meetings have been held.

5. The Audit Strategy, Annual Plan and audit work is undertaken in line with the expectations of the Public Sector Internal Audit Standards (PSIAS). The Standard incorporates a code of ethics governing the integrity and conduct of internal auditors and the requirement for objectivity, confidentiality, and competency, including regard to the seven principles of public life.
6. There is also a requirement for regular review and assessment of Internal Audit's conformance with the Standard and this is done as part of the Annual Report of the Shared Services Director for Audit, Fraud, Risk and Insurance which is reported to the Audit Committee.
7. A peer review process has been established by the London Audit Group (LAG) to externally validate self-assessments of compliance with the PSIAS across the London Boroughs. It has been agreed that self-assessments against the Standards, and where appropriate the CIPFA Local Government Application Note (LGAN) will be completed and that these will be externally validated by suitably qualified individuals or teams from other members of LAG. An externally validated assessment of the Internal Audit Service is due to be undertaken in the final quarter of the 2021/22 financial year and the outcome of this assessment will be reported to the Committee.

Consultation

8. The '3 plus 9' approach to the Plan has been operating during 2021/22 and requires ongoing engagement with Departments throughout the year to identify and scope audits and more frequent discussions regarding emerging and changing risks and priorities. The quarterly meetings with the Council's Senior Leadership Team have been successful and Management are supportive of the changes to the way we have delivered our work and this will continue into the new financial year.

Legal Implications

9. 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.
10. 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.
11. There are no particular legal implications arising from this report.
12. *Implications verified by Grant Deg, Chief Solicitor (litigation & employment), tel: 07798 588 766.*

Financial Implications

13. 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.

14. The proposals contained in this paper have no additional resource implications for the audit service.
15. *Implications completed by Andre Mark, Finance Business Partner, tel: 020 8753 6729 and verified by Emily Hill, Director of Finance, tel: 0208 753 3145.*

Risk Management

16. 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. The audit of services is a crucial component of the Council's approach to Being Ruthlessly Financially Efficient. A plan contributes considerably to the ongoing mitigation and management of financial and significant standing service risks as required by the Account and Audit Regulations and as outlined in Appendix 1 of the report.
17. *Implications verified by Moira Mackie, Head of Internal Audit, tel: 07800 513 192*

List of Appendices:

- Appendix 1 Draft Strategic Internal Audit Plan
- Appendix 2 Draft Internal Audit Plan 2021-22

Strategic Internal Audit Plan

The Strategic Audit Plan sets out the medium-term direction of the Internal Audit service. This five-year plan outlines the priorities of the service and how Internal Audit can continue to provide an adequate level of assurance whilst taking account resource limitations and the changing risk landscape.

The Strategic Plan is supported by the Audit Charter, which sets out the roles and responsibilities of Internal Audit, and the Annual Audit Plan which outlines the internal audit work which will be undertaken each year.

All Local Authorities have faced significant financial reductions in recent years and increasing demand for services. All Council services have seen a reduction in the resource available to them and this in turn has an impact on the control environment. In addition, local authorities are taking more risks as they explore innovative solutions in order to bridge the funding gap and transform the organisation. It is important that the Internal Audit service continues to evolve to ensure that it remains an effective assurance provider.

This Strategic Audit Plan has been prepared to document significant, persistent risks that the Council faces and outlines, in broad terms, themes to be covered. The intention of the five-year period of this plan is to ensure that, in becoming more agile, internal audit does not become a purely reactive function and continues to provide assurance over the entire breadth of the Council's operations.

Area of Review	Significant Persistent Risks	Five-year Approach
<p>Corporate Resources Back office and support functions including Finance, HR, Pension Fund, business continuity, risk management, health and safety and procurement</p>	<ul style="list-style-type: none"> • Internal and external fraud • Poor Financial management • Risks to staff safety and welfare • Value for money not achieved in commissioning, procurement and contract management • Failure to provide robust and compliant pensions administration service • Council/Pension Fund funds not invested effectively • Staff do not have the skills, resources or support to discharge their roles effectively • Council unable to cope with business disruption or emergencies. 	<p>At least one full audit of each key financial system and ongoing testing of key controls every year.</p> <p>Cyclical Coverage of Revenues and Benefits over a three-year period.</p> <p>At least one full audit on Pension Fund activity every year.</p> <p>At least one audit of each key HR Function</p> <p>Work on other functions, themes or departments based on conversations with management, assessment of risk and other sources of assurance.</p> <p>Annual coverage of management of individual procurements and contracts based on review of forward plans, perceived risk, significance and discussions with management.</p>

Strategic Internal Audit Plan

Area of Review	Significant Persistent Risks	Five-year Approach
<p>Governance, Partnerships and Transformation Council governance functions, key strategic partnerships, commercial ventures and transformation programmes and projects.</p>	<ul style="list-style-type: none"> • Governance failures, bringing the Council into disrepute or leading to the aims and objectives of the Council not being achieved. • Programmes and projects are not managed effectively within the required budget and timescales, delivering all expected benefits. • Ill-advised strategic partnerships or ventures entered into or poor governance arrangements lead to objectives not being achieved. • Information requests (such as SARs and FOIs) are not responded to promptly and appropriately. • Statutory functions such as Registrars and Electoral Services are not discharged effectively • Commercial property portfolio is not managed effectively. 	<p>At least one full audit of SARS, FOIs, Members Enquiries and Complaints.</p> <p>Annual coverage of Health and Safety based on discussions with management and understanding of risk areas.</p> <p>At least one audit of Gifts, Hospitality and Declarations of Interest.</p> <p>At least one audit of the Registrars Service.</p> <p>Annual audits of specific areas of governance based on discussions with management and understanding of risk.</p> <p>Coverage of each significant Partnership, Joint Venture, Council Owned Company or Commercial Venture.</p> <p>Annual Coverage of Risk Management at either a corporate, thematic or departmental level.</p>
<p>Information Management & Technology (Digital Services) Management of data, compliance with the Data Protection Act /GDPR. Information technology including cyber security, asset management and disaster recovery.</p>	<ul style="list-style-type: none"> • Loss of information, data breaches or inappropriate disclosure. • Loss of access/information due to systems failure or cyber-attack. • Breach of access controls. • Loss, theft or misuse of IT assets. 	<p>Audit coverage based on periodic IT audit needs assessment, horizon scanning and frequent discussions with management to understand of risk areas.</p> <p>At least one full audit of IT Strategy, Cyber Security, Asset Management, Disaster Recovery, Network Security, Cloud Computing, Mobile Device Management, PCI Compliance.</p> <p>Annual reviews of Information Governance and Data Protection</p> <p>At least three software application reviews.</p>

Strategic Internal Audit Plan

Area of Review	Significant Persistent Risks	Five-year Approach
<p>Housing Housing Services provided to Council Tenants, Leaseholders and those at risk of homelessness.</p>	<ul style="list-style-type: none"> • Properties are either acquired or disposed of that are not in line with the Council's strategy or value for money is not achieved. • Rent payments and service charges are not recovered promptly and completely • Council housing is acquired through fraud or is used inappropriately • Housing stock is not maintained in a satisfactory condition leading to health and safety hazards and increased reactive maintenance. • Risks to the health and safety of residents are not identified and addressed promptly. • Leaseholders and not consulted and correctly charged for any works affecting their property. • Homeless and those at risk of becoming homeless in the borough do not receive the support they require. 	<p>At least one full audit of key Housing functions such as Rents, Homelessness, Housing Allocations, Temporary Accommodation, Tenancy Management, Leaseholder Services.</p> <p>More frequent coverage of both responsive repairs and planned repairs and maintenance.</p> <p>Annual coverage of building Health and Safety compliance.</p>
<p>Children Services Provision of services for children and families including looked after children, family support, schools and SEND.</p>	<ul style="list-style-type: none"> • Failure in service continuity, safeguarding arrangements, financial management and governance. • Increased demands for services with reduced funding. 	<p>On-going in-year assurance on funding claims for Supporting People.</p> <p>Cyclical full review of specific areas such as placements, direct payments, looked after children based on discussions with management and understanding of risk.</p> <p>Each school reviewed at least once (with more frequent review where required).</p>
<p>Adult Social Care Services provided to adults including day care, home care, direct payments and reablement.</p>	<ul style="list-style-type: none"> • Increased demands for services with reduced funding. • Lack of suitable provision; • Weak supplier financial resilience. 	<p>Cyclical review of specific areas such as direct payments, home care, day centres, client affairs, charges and debt management, partnership agreements based on discussions with management and understanding of risk.</p>

Strategic Internal Audit Plan

Area of Review	Significant Persistent Risks	Five-year Approach
Public Health Services provided to support the public health & wellbeing of the community and reduce health inequalities within the borough including the response to the Covid-19 and other pandemics.	<ul style="list-style-type: none"> • Access to appropriate affordable resources to support improvement to public health priorities. • Changing public health priorities and capacity for delivery (as exemplified by Covid-19 pandemic). 	At least one procurement and one contract monitoring review across 2 to 3-year period. Targeted reviews in specific areas based on discussions with management and understanding of risk.
Environment, Infrastructure and Community Services Management of highways infrastructure and services provided for residents, businesses and visitors. Includes Planning & building control, parking, highways, public realm, environmental health, trading standards, community safety, leisure, culture and amenity services.	<ul style="list-style-type: none"> • Statutory and regulatory functions not discharged effectively. • Weak supplier resilience / lack of provision. • Poor value for money/ ineffective service delivery/ failure to deliver outcomes for the community. • Injury to health /wellbeing to the community, businesses and visitors. 	At least one procurement and one contract monitoring review across 2 to 3-year period. Cyclical review across the service areas based on discussions with management and understanding of risk.

High and Medium Risks (February 2022)

The Council's Corporate Risks are linked to the following Council Values:

1	Building shared prosperity
2	Creating a compassionate council
3	Doing things with local residents, not to them
4	Being ruthlessly financially efficient
5	Taking pride in H&F
6	Rising to the challenge of the climate and ecological emergency

Where possible, planned audit work is linked to the Council's high and medium priority risks which are shown below:

Risk No.*	Risk	Residual Exposure	Council Value*
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Strategic Internal Audit Plan

Risk No.*	Risk	Residual Exposure	Council Value*
1	Commercial, contract management and procurement risks, rules, outcomes, social value, management of spend and contractor performance management.	Medium	4
3	Failure to maintain services to residents in the event of IT systems being compromised and affecting service resilience.	High	4
4	Information management and digital continuity, regulations, legislation and compliance.	Medium	4
5	Managing statutory duties, equalities, human rights, duty of care regulations, highways.	Medium	2
6	i) Standards and delivery of care, protection of children and adults and associated data quality and information risks. ii) Reliance on external assurance providers and providers to identify and communicate issues arising from inspections eg Ofsted and Care Quality Commission.	Medium	2
8	Failure to identify and address internal and external fraud.	Medium	4
9	Failure to ensure compliance with the statutory duties to undertake inspection regimes covering management of asbestos, electrical testing, fire risk, plant and equipment, water testing/ legionella.	Medium	3 & 5
10	Co-ordination and response to calls on the Council for Mutual Aid in a crisis and emergency planning response.	Medium	3 & 5
16	High needs budget pressure continues, impacting on provision of services for vulnerable young residents.	Medium	2
18	Management of complaints, requests for information, members enquiries.	High	All
19	Financial management – in year budget 2021/22 and Medium-Term Planning.	Medium	4
20	Financial management – in year budget 2021/22 and Medium-Term Planning: Social Care.	High	2
21	Corporate management of health and safety.	Medium	All
22	Impact on the local economy and businesses from the closure of Hammersmith Bridge to pedestrians, road and river traffic.	Medium	3 & 5
24	Failure to transfer the Pension Administration function to a new provider and ensure appropriate records are maintained and payments made. (Risk to be closed following transfer).	Medium	4
25	Coronavirus – spread of infectious disease, particularly affecting vulnerable groups of residents and workforce/ contractors providing front line services.	High	2
26	Failure on the part of the Council to mobilise its response to the Climate Change emergency.	High	6
27	Housing repairs performance – contractor failure given that there are a number of contractors providing repairs and maintenance. Repair system and contractor management not delivering performance at required levels.	High	3 & 5

Strategic Internal Audit Plan

Risk No.*	Risk	Residual Exposure	Council Value*
28	Civic Campus Energy centre may not be ready in time for handover and occupation in April 2023 which may impact the exit from decant accommodation.	High	3
29	Changes to Western Riverside Waste Authority contract or waste disposal arrangements that do not align with the Council's financial or climate priorities and potential missed opportunities for improvements or savings as a result of the current governance and management arrangements.	Medium	4 & 6
30	Failure to manage the requirements of the New Environmental Act which will change the way in which the waste service operates and how it contributes to the Council's carbon zero commitment.	Medium	4 & 6
31	Failure to manage the negative impact of flooding, due to adverse weather conditions, on residents and businesses. Consequences of the Climate Emergency. One in a hundred events that lead to the overloading of our surface water systems (gullies) which results in widespread flooding and consequent damage to homes and businesses. Fluvial flooding as the most at risk London Borough.	Medium	5

*Risk number and associated Council Value as shown on the Corporate Risk Register, February 2022

Draft Annual Plan 2022/23

The Annual Internal Audit Plan for 2022/23 is presented in two parts: the three months of the year where we have identified a number of audits to be undertaken; and the remaining nine months where planning is more flexible. To achieve this, we have increased our engagement with Management Teams to:

- Become more involved in risk discussions throughout the year, to better understand the risk environment and alternative sources of assurance available;
- Firm up the scope and timing of the following quarter’s audit work; and
- Identify other areas for internal audit involvement not yet considered in the Annual Audit Plan.

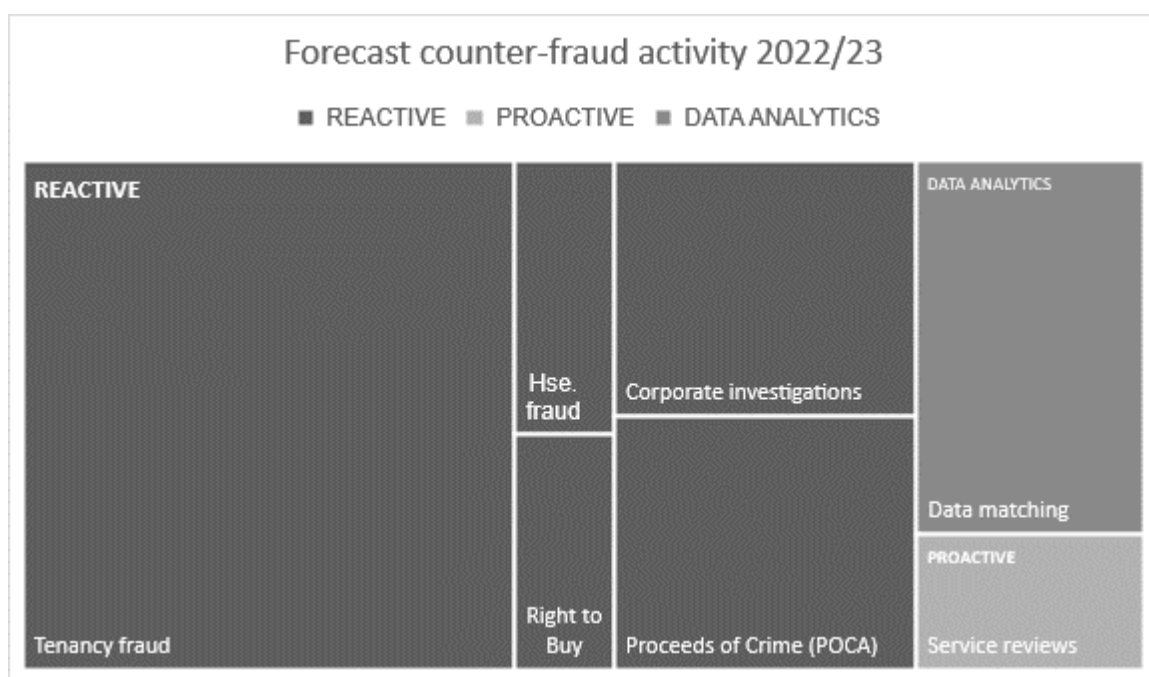
Where possible the Plan is aligned to the Council’s risks and values, however, it should be noted that the Council’s risks and priorities may change during the year and the Plan may be updated as appropriate.

The Plan will be presented to the Strategic Leadership Team and the Audit Committee at the start of the financial year and will then be presented every quarter. The delivery of the Plan helps to create a culture of accountability; ensures that risk management processes are embedded, and contributes to the Council’s governance framework.

In addition, areas of fraud risk are evaluated by the Corporate Anti-Fraud Service (CAFS) and this information will be used to inform and focus some of the audit work planned, as well as identifying areas where pro-active exercises and data analytics can provide additional assurance that fraud risks are effectively managed.

Corporate Anti-Fraud Service (CAFS) – Quarter 1 2022/23

The work undertaken by the Corporate Anti-Fraud Service (CAFS) complements the work of Internal Audit and provides additional assurance to the Council that fraud risks are being managed effectively. Reactive and proactive work is planned during 2022/23 by CAFS in the following areas:



Draft Internal Audit Plan – Quarter 1 2022/23

Department	Review	Potential Coverage	Risk*
Cross-Cutting	Key Financial /HR Controls (Q1 to Q4)	Annual testing programme.	n/a
Social Care	Disabled Facilities Grants (Advisory)	Quality of works, VfM.	20
Children's Services	New Placements Team (advisory)	Effectiveness of new ways of working	15
Children's Services	Supporting People Claims	Ongoing. Review and approval of claims for Supporting People funding.	16
Children's Services - Schools	Schools (3-4 of the 11 due for audit)	Financial control and governance review.	n/a
Finance	VAT (Q1 or Q2)	Deferred from 2021/22. General review.	19
Finance	Capitalisation of Works	Deferred from 2021/22.	19
Resources	Registrars	Cyclical review	n/a
Resources – Digital	IT Audit Needs Assessment	Identify key areas of risk and other forms of assurance.	3,4
Resources – Digital	Remote Working Resilience	Scope to be confirmed	3,4

Draft Internal Audit Plan – Quarters 2 to 4 2022/23

Department	Review	Potential Coverage	Risk*
Cross-Cutting	Governance & Compliance	Compliance with standards, may include: declarations of interest; gifts and hospitality; transparency data, etc.	Various
Cross-Cutting	Key Financial /HR Controls (Q1 to Q4)	Annual testing programme.	n/a
Cross-Cutting	Business Continuity	Deferred from 2021/22 – New BC system.	2, 3
Cross-Cutting	Programmes & Project Management	TBC	14,28
Cross-Cutting	Contract Management Framework	Deferred from 2021/22 – TBC	1, 6, 27
Social Care	Commissioning & Procurement	Scope to be confirmed.	1, 6,
Social Care	Mediquip Contract	Review of contractual arrangements & future provision.	1, 6
Social Care	Integrated Care Partnership	TBC	1, 6
Children's Services	Shared Services Governance (Q4)	Arrangements in place for services shared with other authorities.	6
Children's Services	SEND	TBC	5, 16
Children's Services	Climate Education Business Plan	TBC	26

APPENDIX 2

Department	Review	Potential Coverage	Risk*
Children's Services	Supporting People Claims	Ongoing. Review and approval of claims for Supporting People funding.	16
Children's Services - Schools	Schools (remainder of 11 due not completed in Q1)	Financial control and governance review.	n/a
Economy	Leaseholder Debt	Deferred from 2021/22. Accuracy, level and management of debt.	27
Economy	Health & Safety	Cyclical review due.	21
Economy	Cyclical review	TBC eg repairs, S20 etc	27
Economy	Efficiency Review	Scope to be discussed.	TBC
Economy	Development Board	New Development Board (regeneration). New process and strategy - compliance.	TBC
Economy	IHMS	TBC – following new system implementation	TBC
Economy	Neighbourhood CIL	TBC	TBC
Economy	Implementation of online version of iWorld	TBC	3
Environment	NNDR	Annual testing from 3-year rolling scope	3
Environment	Council Tax	Annual testing from 3-year rolling scope	3
Environment	Housing Benefits	Annual testing from 3-year rolling scope	3
Environment	Resident Experience and Access Programme (REAP) – Q2	Realisation (and measuring) of savings and benefits.	18
Environment	Hammersmith Bridge	TBC	22
Environment	FOIs, SARs, Members & MPs Enquiries	Deferred from 2021/22. Departmental management of requests.	18
Environment	Libraries	Cyclical review due	n/a
Cross-cutting	Risk Management (Q3)	Cyclical review due	various
Resources – People & Talent & Digital	Adaptive Tech	Review system for providing accessible software.	n/a
Resources – People & Talent	Pensions Administration	Identify assurances available and management of service delivery by new provider.	24
Resources	Mortuary	Cyclical review due	5
Resources	Right to Work (Advisory)	Manager compliance with centre led requirements.	5
Resources – Digital	Service Continuity Plans – Q4	Link between the business and IT on BC. See also audit on BC (cross-cutting).	2, 3

*High and medium risks, as identified in the Council's Corporate Risk Register (February 2022).