

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 23/11/2022

Subject: Internal Audit Progress Report (September to October 2022)

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

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

Summary

This report summarises the status of work included in the 2022/23 Internal Audit Plan as at the end of October 2022. Eight audits have been finalised, one of which received a Substantial assurance opinion, five receiving Satisfactory assurance and two Limited assurance.

The status of audits confirmed for inclusion within the Plan, is shown in Appendix 2.

Recommendations

1. For the Board 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

Background Papers Used in Preparing This Report

None.

DETAILED ANALYSIS

Internal Audit Work to August 2022

1. 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. The Audit Plan for 2022/23 was reviewed by the Audit Committee in March 2022. 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 is reviewed and updated following discussions with Directors, taking into account changing risks and priorities. The revised Plan is reported to the Committee on a quarterly basis and any significant changes in the coverage of the Plan will be highlighted.
3. Four assurance levels are used and when an audit is completed, an assurance opinion is provided. A description of each of the assurance levels is summarised below:

Assurance Level	Description
Substantial Assurance:	There is a sound system of internal control designed to achieve their objectives and the control processes tested are being consistently applied.
Satisfactory Assurance:	While there is generally a sound system of internal control, there are weaknesses which put some of the objectives at risk; and/or there is evidence that the level of non-compliance with some of the control processes may put some of the objectives at risk.
Limited Assurance:	Weaknesses in the system of internal control are such as to put the objectives at risk; and/or the level of non-compliance puts the objectives at risk.
Nil Assurance:	Control processes are generally weak, leaving the processes/systems open to significant error or abuse; and/or Significant non-compliance with basic control processes/systems open to error or abuse.

4. Since the last report to Committee, seven audits have been completed:

Department	Audit	Assurance Opinion
Schools	William Morris 6 th Form	Limited
Resources	Mortuary	Satisfactory
Economy	Tenant Service Charges	Limited
	Direct Labour Organisation (DLO)	Satisfactory
	Housing Repairs - Operations	Satisfactory
	Housing Repairs – Call Centre	Substantial
Economy – Digital Services	IT Asset Management & Access Control	Satisfactory
	IT Ransomware	Satisfactory

5. A summary of each of the Limited Assurance reports is set out in Appendix 3.
6. In addition, one advisory review has been completed in the following area:
- Equalities Impact Assessments.

Although no assurance opinion is given for advisory reviews, the implementation of any recommendations made will be followed up during the year and reported to the Committee.

Internal Audit Opinion

7. Although no overall assurance opinion can be given at this stage, 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.
8. Appendix 1 shows the finalised audits as at the end of October 2022 and the status of the remaining planned audits is shown in Appendix 2.

Follow ups

9. A total of 22 recommendations have been followed up in the year to date. Implementation of medium and high priority recommendations has been consistently effective with 75% of medium and high priority recommendations fully implemented with a further 25% partly implemented.

Consultation

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

Legal Implications

11. 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.
12. 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.
 13. There are no particular legal implications arising from this report.

Implications verified by Grant Deg, Assistant Director, Legal Services on 31/10/2022.

Financial Implications

14. The Internal Audit Plan for 2022/23 will be delivered within the approved 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.
15. Any resource implications from the implementation of the recommendations by services will have to be contained within the relevant Directorate approved budgets.

Implications verified by Sukvinder Kalsi, Director of Finance on 31/10/2022.

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.

Implications verified by Moira Mackie, Head of Internal Audit on 28 October 2022.

List of Appendices:

- Appendix 1 Summary of Audit Reports finalised as at end of October 2022
- Appendix 2 Audit Plan 2022-23 Status Report
- Appendix 3 Summary of Limited Assurance Reports

Internal Audit – Finalised Audits

Plan Area	Auditable Area	Issued	Assurance level given	High Priority Recs	Medium Priority Recs	Low Priority Recs	Reported to Committee
Resources	Equalities Impact Assessment (2021/22)	Oct-22	Advisory	0	6	0	Nov-22
Resources	Mortuary	Oct-22	Satisfactory	0	3	1	Nov-22
Children's Services	SEN Processes (2021/22)	Jun-22	Advisory	n/a	n/a	n/a	Sep-22
Children's Services	No Recourse to Public Funds (2021/22)	Jun-22	Advisory	3	4	1	Sep-22
Schools	Bayonne Nursery (2021/22)	Jul-22	Satisfactory	0	3	4	Sep-22
Schools	St John's XIII Primary	Jul-22	Advisory	8	8	2	Sep-22
Schools	William Morris 6 th Form (2021/22)	Oct-22	Limited	2	2	4	Nov-22
Economy	Lift Maintenance (2021/22)	Aug-22	Satisfactory	0	2	0	Sep-22
Economy	Fire Safety (2021/22)	Aug-22	Satisfactory	0	4	1	Sep-22
Economy	Disrepair Legal Claims (2021/22)	Aug-22	Limited	3	6	0	Sep-22
Economy/ Finance	Tenant Service Charges (2021/22)	Sep-22	Limited	2	3	0	Nov-22
Economy	Direct Labour Organisation (2021/22)	Oct-22	Satisfactory	1	3	2	Nov-22
Economy	Housing Repairs - Operations	Oct-22	Satisfactory	0	2	1	Nov-22
Economy	Housing Repairs – Call Centre	Oct-22	Substantial	0	0	2	Nov-22

Internal Audit – Finalised Audits

Plan Area	Auditable Area	Issued	Assurance level given	High Priority Recs	Medium Priority Recs	Low Priority Recs	Reported to Committee
Digital Services	IT Asset Management & Access Control	Sep-22	Satisfactory	0	0	1	Nov-22
Digital Services	IT Ransomware	Sep-22	Satisfactory	0	3	0	Nov-22
Environment	Leisure Centres (2021/22)	Jun-22	Satisfactory	1	5	1	Sep-22
Environment	NNDR (2021/22)	Jul-22	Substantial	0	0	1	Sep-22
Environment	Council Tax (2021/22)	Jul-22	Substantial	0	0	1	Sep-22
Environment	Housing Benefit (2021/22)	Jul-22	Substantial	0	0	2	Sep-22
Environment	Funding Claim (VPACH)	May-22	Advisory	0	0	0	Sep-22

Definitions of Recommendations:

Priority	Description
High (Fundamental)	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
Medium (Significant)	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
Low (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

Internal Audit Plan 2022/23 – Status of Audits

The Plan is reviewed and updated following discussions with Directors, taking into account changing risks and priorities. The status of audits in the current Plan is shown below:

Plan Area	Draft Report Issued	In Progress/ Due to Start	Not yet Due	To be Confirmed	Deferred
Cross-cutting	2021/22: <ul style="list-style-type: none"> Debt Management (May 2022) 	<ul style="list-style-type: none"> RFE Testing (ongoing through the year) 		<ul style="list-style-type: none"> Contract Monitoring Framework (from 2021/22) 	
Finance	<ul style="list-style-type: none"> Capitalisation of Works (Jun 22) 	<ul style="list-style-type: none"> Pension Investments (Q3) 	<ul style="list-style-type: none"> Risk Management (advisory) (Q3-4) 		<ul style="list-style-type: none"> VAT: IA decision to defer based on priorities
Resources	<ul style="list-style-type: none"> Adaptive Tech (Oct-22) Registrar Service (Oct-22) 	<ul style="list-style-type: none"> Pensions Administration (Q3) 			<ul style="list-style-type: none"> Right to Work (Advisory): IA decision as Hants controls sufficient.
Children's Services	2021/22: <ul style="list-style-type: none"> Raising Payments on Mosaic (Advisory) (Aug-22) 	<ul style="list-style-type: none"> Supporting People Claims (on-going) New Placements Team (Q1) 	<ul style="list-style-type: none"> Shared Service Governance (Q4) Children's & Finance – Business Support (Q4) 	<ul style="list-style-type: none"> Safety Valve Funding Post 16 Provision 	
Schools	2021/22: <ul style="list-style-type: none"> Old Oak Primary (May-22) 2022/23: <ul style="list-style-type: none"> The Good Shepherd Primary (Aug-22) Holy Cross RC Primary (Sep-22) Larmenier Sacred Heart Primary (Sep-22) 	<ul style="list-style-type: none"> Normand Croft Community (Q2) Jack Tizard (Q3) St John's Walham Green (Q3) 	<ul style="list-style-type: none"> St Peter's CE Primary (Q4) Wormholt Park Primary (Q3) Randolph Beresford Nursery (Q4) Addison Primary (Q4) Melcombe Primary (Q4) 		

Internal Audit Plan 2022/23 – Status of Audits

Plan Area	Draft Report Issued	In Progress/ Due to Start	Not yet Due	To be Confirmed	Deferred
Social Care & Public Health	2021/22: <ul style="list-style-type: none"> Hospital Discharge (Oct-22) 	2022/23: <ul style="list-style-type: none"> Disabled Facilities Grants (Q1) 	<ul style="list-style-type: none"> Commissioning & Procurement – Equipment Contract (Q3/Q4) 	<ul style="list-style-type: none"> Social Care: Data Analytics 	
Economy	2021/22: <ul style="list-style-type: none"> Capital Projects – Post Completion Records (Aug-22) HRA Cost Apportionment (Jun-22) 	<ul style="list-style-type: none"> Neighbourhood CIL (Q3) Leaseholder Debt (Q3) (from 2021/22) 		<ul style="list-style-type: none"> IHMS 	
Economy: Digital Services		Digital Services: <ul style="list-style-type: none"> IT Audit Needs Assessment (Q2) 		<ul style="list-style-type: none"> Infrastructure Resilience Disaster Recovery 	
Environment		<ul style="list-style-type: none"> Resident Experience and Access Programme (Q2-Q3) Libraries (Q3) 	<ul style="list-style-type: none"> NNDR (Q4) Council Tax (Q4) Housing Benefits (Q4) 	<ul style="list-style-type: none"> Hammersmith Bridge 	

Summary of Limited Assurance Reports

Ref	Audit and Scope	Details
1	<p><u>William Morris 6th Form</u></p> <p>Audits of the Council's schools are carried out using an established probity audit programme, usually on a five-year cycle unless issues dictate a more frequent review.</p> <p>The programme is designed to audit the main areas of governance and financial control.</p> <p>The programme's standards are based on legislation, the Scheme for Financing Schools and accepted best practice and the purpose of the audit is to help schools establish and maintain robust financial systems.</p>	<p>The audit identified that good practices were in place in respect of governance, budget management, reporting and payroll processing.</p> <p>Two high and two medium priority recommendations were made to address the following findings:</p> <ul style="list-style-type: none"> • Purchase orders were not always raised and evidence of goods received and invoice authorisation was not evident (high). • The school's two voluntary accounts were not audited annually (last audit noted as 2019-20) and there was no evidence of monthly reconciliation of the accounts (high). • There was no evidence of independent review or authorisation of the school's procurement card statements (medium). • The school's asset register was incomplete and hadn't been independently reviewed (medium). <p>In addition, four low priority (best practice) recommendations were made</p> <p>It was noted that the School Business Manager (SBM) left the school at the end of August 2021 and the Finance Manager, who was new to the school, took up the interim position.</p> <p>The recommendations were agreed, and all but one has been confirmed as already implemented with progress being made on the one outstanding recommendation (audit of voluntary accounts) which is due to be completed by December 2022.</p>

Summary of Limited Assurance Reports

Ref	Audit and Scope	Details
2	<p><u>Tenant Service Charges</u></p> <p>Tenant service charges were introduced in April 2012 as fixed charges and were intended to cover the costs of communal services provided as part of social housing tenancy agreements, which are split between the tenants of blocks and/or estates.</p> <p>The audit scope reviewed the following areas:</p> <ul style="list-style-type: none"> • Policies and procedures • Identification and allocation of attributable costs • The charging framework. • Alignment to leaseholder service charges • Management Information and reporting. 	<p>Tenant service charges include caretaking; CCTV; communal lighting; concierge; door entry; estate cleaning; grounds maintenance; TV aerials; lift maintenance; window cleaning; and fire alarms. The service charge will vary depending on the size and nature of the property. The Housing Revenue Account (HRA) is a self-funding financial entity, which means that it must be self-financing with income from rents, service charges and reserves funding all expenditure. Therefore, the costs of providing communal services should be fully recovered from tenants.</p> <p>Two high and three medium priority recommendations were made relating to (and summarised below)::</p> <ul style="list-style-type: none"> • The framework for setting service charges established in 2012 (high). • The need to transition to a new approach for service charges based on fair and equitable recovery of service costs (high). • The importance of working with tenants in relation to services provided and the charges (medium). • The reporting arrangements for service charge policy and financial matters, needed to be embedded (medium). • Improving the policies and procedures for identifying and apportioning communal service costs (medium). <p>The Housing Service had already established a Project Team (from April 2022) to progress these matters and considerable work was undertaken during the summer. This led to a report that was approved by Cabinet on the 10th October that regularised matters on service charges identified by the audit review (including the full recovery of costs, apportionment of service costs and reporting arrangements for service charge policies). Other related matters continue to be implemented especially working with tenants on service standards.</p>