

## London Borough of Hammersmith & Fulham

**Report to:** Audit Committee

**Date:** 26 July 2023

**Subject:** Head of Internal Audit Annual Report 2022/23

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

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

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### Summary

This report summarises the work of Internal Audit in 2022/23 and provides the opinion of the Director of Audit, Fraud, Risk and Insurance on the adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion is provided for the use of the London Borough of Hammersmith and Fulham and is used to support its Annual Governance Statement.

The report sets out a consistent level of assurance being obtained and provided for 2022/23 through the work of internal audit. This reflects the commitment to a robust assurance framework being led by the Chief Executive, through monthly SLT Assurance meetings, and through the delivery of the Ruthlessly Financially Efficient programme of the Council.

### Recommendation

For the Committee to note the Head of Internal Audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment (para 10) and to consider whether there are any areas the Committee would like to explore further.

**Wards Affected:** None

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### H&F Values

<b>Our Values</b>	<b>Summary of how this report aligns to the H&amp;F Priorities</b>
Building a shared prosperity	Internal audit work covers a wide range of services including those which are delivered in partnership with local and national companies. Assurance may be required over governance arrangements to demonstrate the benefit to residents of co-delivered services.
Creating a compassionate council	Internal audit provides assurance that the Council's resources are managed appropriately to provide the most effective support to the most vulnerable residents.

<b>Our Values</b>	<b>Summary of how this report aligns to the H&amp;F Priorities</b>
Doing things with residents, not to them	Where engagement with residents is part of service development, internal audit will consider how well co-production and resident access is embedded in a process.
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.
Taking pride in H&F	Investment in public realm services such as waste collection, street cleaning and open/park spaces is significant. The internal audit strategy identifies services for cyclical review, including contract management for outsourced services and performance delivery for in-house services.
Rising to the challenge of the climate and ecological emergency	Internal Audit consider the impact of strategies, including, the Climate and Ecology Strategy, in a number of different reviews that form part of the Internal Audit Plan.

**Contact Officers:**

Name: David Hughes  
Position: Director for Audit, Fraud, Risk and Assurance  
Telephone: 07817 507 695  
Email: David.HughesAudit@lbhf.gov.uk

Name: Moira Mackie  
Position: Head of Audit  
Telephone: 07800 513 192  
Email: Moira.Mackie@rbkc.gov.uk

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**Background Papers Used in Preparing This Report**

None.

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## **DETAILED ANALYSIS**

1. From the Internal Audit work undertaken in the financial year 2022/23, reasonable assurance can be provided that the systems of internal control are effective with 86% of the audits undertaken receiving a positive assurance opinion, with no Nil Assurance audits being reported for the seventh consecutive year (Appendix 1). The number of Substantial Assurance audits issued has remained consistent with previous years with 5 issued in 2022/23 (seven issued in 2021/22 and five in 2020/21). Given the way in which the Audit Plan is constructed, it is not unusual for some reviews to be given a Limited Assurance rating and this does not indicate that there are pervasive issues with the Council's control environment but that there are actions required in specific areas to improve controls.
2. There are some areas where control improvements are required and compliance with agreed systems could be improved. In each case, action plans are either in place, or have already been implemented, to remedy the weaknesses identified. These will be followed up by the internal audit team until they are completed.
3. The Council was found to be effective, in most areas, at implementing recommendations where concerns in respect of controls were identified.
4. The report is a key element of the evidence supporting the Annual Governance Statement (AGS), which will be presented separately to the Committee with the Annual Accounts.

### **Internal Audit Work 2022/23**

5. The Audit and Accounts Regulations 2015 require the Council to conduct a review of effectiveness of the system of internal control. This contributes to the Council priority of being Ruthlessly Financially Efficient. Detailed reports on the performance and outcomes of the internal audit work undertaken, have been presented regularly to the Council's Section 151 Officer and at each meeting of the Audit Committee.
6. Wherever possible, when planned audits are postponed, alternative work is identified or alternative sources of assurance are sought. A small number of audits are shown as in progress in Appendix 1 and some audits were no longer appropriate or deferred until a future year, by agreement with the service, which are detailed in Appendix 2. The Internal Audit service has also liaised closely with the Council's senior managers to prioritise the audit work undertaken and to assist them in identifying other sources of assurance including the Directors' Assurance Statements which were completed at the end of the financial year.
7. The internal audit service has been provided in accordance with the UK Public Sector Internal Audit Standards (PSIAS). One of the requirements of the PSIAS is that the Head of Audit confirms to the Committee, at least annually, the organisational independence of the internal audit activity. The [Internal Audit Charter](#) reinforces this requirement.

### **Declaration of independence and objectivity**

The reporting and management arrangements in place are appropriate to ensure the organisational independence of the Internal Audit activity. Robust arrangements are in place to ensure that any threats to objectivity are managed at the individual auditor, engagement, functional and organisational levels. Nothing has occurred during the year that has impaired my personal independence or objectivity.

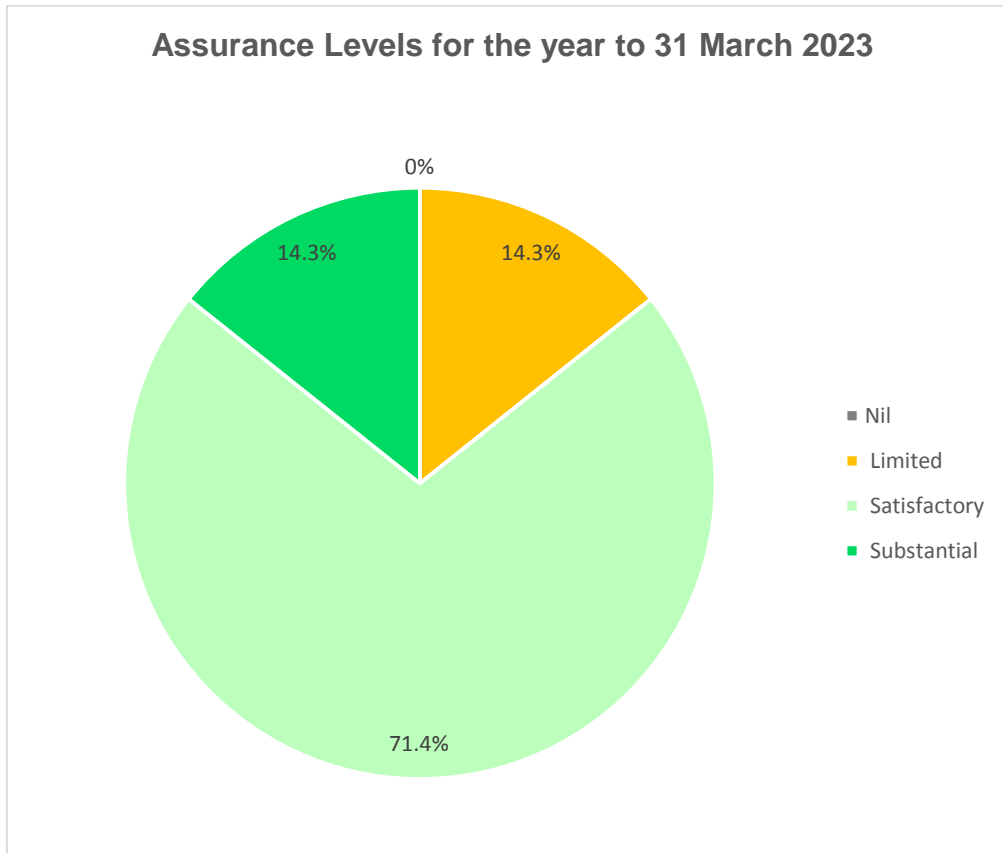
### **Head of Internal Audit**

8. During 2022/23 the Internal Audit Service undertook a self-assessment to verify PSIAS compliance which has identified general compliance with the Standards. A peer review of compliance was deferred from 2022/23 and is now due to take place during 2023/24.

### **Internal Audit Opinion**

9. As the provider of the internal audit service to the London Borough of Hammersmith and Fulham, the Director of Audit, Fraud, Risk and Insurance is required to provide the Section 151 Officer and the Audit Committee with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements. In giving this opinion it should be noted that assurance can never be absolute. Even sound systems of internal control can only provide reasonable and not absolute assurance.
10. The opinion is that, at the time of preparing this report and based upon the work completed this year, the Council's governance, risk management and internal control systems in the areas audited were adequate with the exception of those areas detailed as Limited Assurance (see paragraph 21 below and Appendix 1). This is a positive opinion which means that the Council generally has effective internal control systems with 86% of audits receiving a positive assurance opinion (91% in 2021/22). No Nil Assurance reports have been issued again this year.
11. In the above context it should be noted that:
  - This opinion is based solely upon the areas reviewed and the progress made by the Council to action internal audit recommendations.
  - Assurance can never be absolute neither can internal audit work be designed to identify or address all weaknesses that might exist.
  - Responsibility for maintaining adequate and appropriate systems of internal control resides with Council management, not internal audit.
12. Issues arising from Internal Audit work which have significant implications for the Council's assurance framework, will be included in the Annual Governance Statement which is reported separately to this Committee. The Annual Governance Statement also ensures that follow up action is taken to remedy the key control weaknesses found.

**Chart Showing assurance levels:**



**Limited Assurance Reviews**

13. There were a few areas where improvements in compliance with controls were needed with a total of five audits being designated as limited assurance as set out in the table below:

<b>Service Area</b>	<b>Audited Area</b>	<b>Reported to Audit Committee</b>
Schools	Old Oak Primary	March 2023
Schools	The Good Shepherd Primary	March 2023
Schools	William Morris 6 <sup>th</sup> Form	November 2022
Finance & Economy	Tenant Service Charges	November 2022
Economy & Legal	Disrepair Claims	September 2022

## Substantial Assurance Reviews

14. As identified earlier in the report, five Substantial Assurance reviews were issued in 2022/23 which are set out in the table below:

Service Area	Audited Area	Reported to Audit Committee
Finance	Capitalisation of Works	July 2023
Economy	Housing Repairs Contact Centre	November 2022
Environment	Council Tax (2021/22)	September 2022
Environment	Housing Benefit (2021/22)	September 2022
Environment	NNDR (2021/22)	September 2022

## Managed Services – Finance, HR and Payroll Systems

15. The Council's Finance, HR and Payroll systems are provided by the Integrated Business Centre (IBC) within Hampshire County Council (HCC). During 2022/23, HCC commissioned a Type 2 Report on the suitability of the design and operating effectiveness of service organisation controls which was prepared in accordance with the International Standard on Assurance Engagements (ISAE) 3402. The Report covered a sample of business processes in the following areas:
- General Ledger
  - Order to Cash
  - Purchase to Pay
  - Cash and Bank
  - HR and Payroll
  - IT General Controls.

The report was provided by HCC to the Director of Finance and provided reasonable assurance that the control objectives would be achieved.

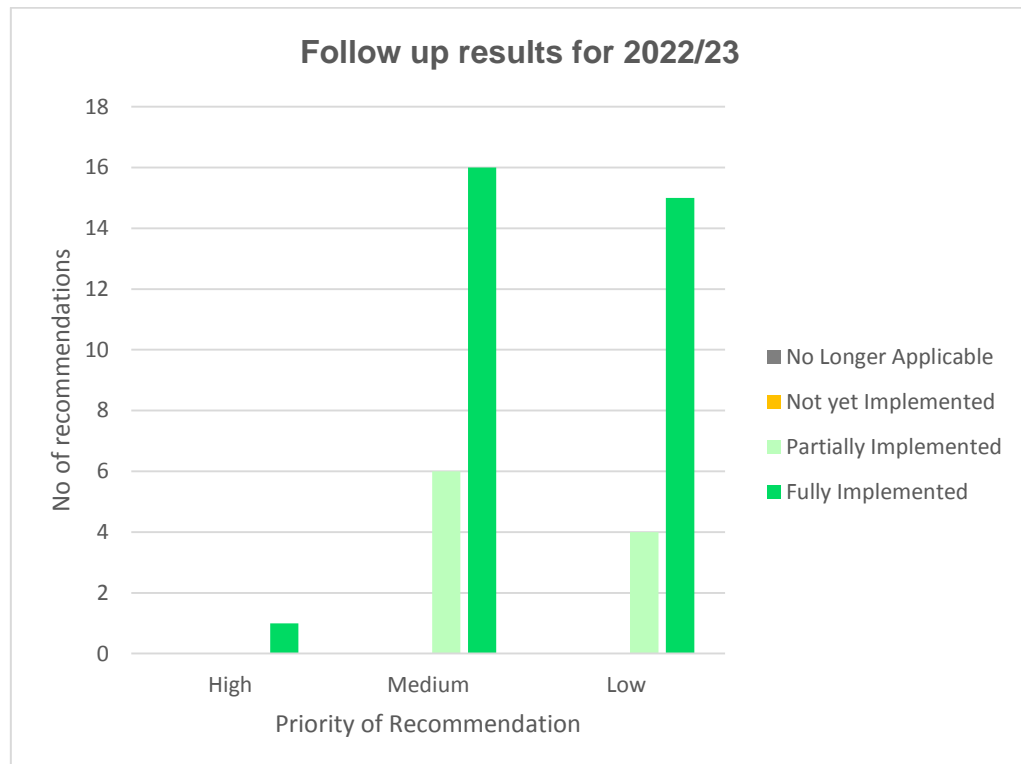
16. In addition to the assurances provided by HCC, the Council is required to apply complementary controls and a sample of these controls are tested during the year.

## Follow ups

17. The implementation of audit recommendations is reported regularly to SLT Assurance and to the Audit Committee.
18. Follow up work is undertaken when the majority of the recommendations made are expected to have been implemented as indicated in an agreed management action plan. Sometimes recommendations cannot be fully implemented in the anticipated timescales. In these cases, where appropriate progress is being made to implement the recommendations, these are identified as partly implemented. Recommendations will be followed up until all high and medium priority recommendations are implemented or good progress in implementing them can be demonstrated. Where appropriate, the follow up is included in the next full audit of the area

19. Forty-two recommendations were followed up in 2022/23 and the implementation of medium and high priority recommendations had been consistently effective with 74% of recommendations fully implemented and the remaining 26% partly implemented.

**Chart showing follow up outcomes:**



### **Additional Sources of Assurance**

20. In addition to assurance audits undertaken during the year, the service has provided support and guidance in a number of areas including:

- Equalities Impact Assessments
- Adaptive Tech
- Digital Services Audit Needs Assessment
- SEN
- No Recourse to Public Funds
- Raising Payments on Mosaic (Children’s Services Case Management System)
- Hospital Discharge
- Neighbourhood CIL
- VPACH Funding Claim
- Resident Engagement & Access Programme
- Library Service

This type of engagement with the services is taken into account when considering the overall opinion of the Council’s governance, risk management and internal control systems together with outcomes provided from internal

compliance and quality assurance checks, peer reviews and assessments from external bodies such Ofsted and the Care Quality Commission.

### **Assurance on Risk Management**

21. As an organisation the Council must ensure that it is delivering against priorities and requirements (political, community and statutory), that it is managing its processes effectively (finance, procurement, governance) and making best use of its resources (money, assets, people). This requires the Council to look both inwardly (to ensure we have effective governance and controls) but also outwardly at risk (e.g., to the risk to citizens, to protect citizens and build resilience).
22. The Senior Leadership Team (SLT) is responsible for providing sufficient assurance against risks and opportunities that affect (or impact upon) the Council and its citizens and communities. It sets the standards and ensures the Council has the right policies, practices and behaviours in place for effective assurance and risk management and is responsible for ensuring that new and emerging risks are identified, captured and appropriate mitigations are put in place.
23. The Council's Corporate Risk Register is reviewed by the Senior Leadership Team at least four times a year and the Register is reported at regular intervals to the Audit Committee for review and comment. During 2022/23 the Committee received a Risk Management Highlight Report and the Corporate Risk Register at their meetings on 21 June 2022, 13 September 2022 and 13 March 2023.

### **Assurance on Corporate Governance**

24. Officers have undertaken an internal review to support the preparation of the draft Annual Governance Statement which will be reported to the Committee alongside the Council's draft Annual Accounts 2022/23 at its July 2023 meeting.
25. Each year, the Council's Directors complete an Assurance Statement which is an opportunity for them to assess the governance arrangements and sources of assurance within their department. Any significant issues should be identified and would feed into the Council's Annual Governance Statement. Internal Audit periodically test the content of Directors Assurance Statements, both to confirm their accuracy and to build upon our own picture of assurance across the Council.
26. The Council's corporate governance framework is considered to comply with the best practice guidance on corporate governance issued by CIPFA/SOLACE.

### **Consultation**

27. The Director of Audit, Fraud, Risk and Insurance is required to provide an annual report and opinion on the Council's system of internal control under the



Public Sector Internal Audit Standards. To enable this, an Internal Audit Plan covering the Council's key risks is devised in consultation with the Strategic Leadership Team and the work performed through this plan forms the basis of the annual opinion.

### **Legal Implications**

28. 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.
29. 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.
30. There are no particular legal implications arising from this report.

*Implications verified by Grant Deg, Assistant Director, Legal Services on 29 June 2023.*

### **Financial Implications**

31. The internal audit plan was delivered within the approved revenue budget for the service for 2022/23. 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.
32. Any resource implications from the implementation of the recommendations by services have to be contained within the relevant Directorate approved budgets.

*Implications verified by Sukvinder Kalsi, Director of Finance on 26 Jun 2023.*

### **Risk Management**

33. 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 on 23 Jun 2023.*

### **List of Appendices:**

- Appendix 1 Audits completed in 2022/23 and work in progress
- Appendix 2 Changes to the 2022/23 Audit Plan

## Appendix 3 Internal Audit Plan 2022/23 – Final Progress Report



<b>Plan Area</b>	<b>Auditable Area</b>	<b>Issued</b>	<b>Assurance level given</b>	<b>High Priority Recs</b>	<b>Medium Priority Recs</b>	<b>Low Priority Recs</b>	<b>Reported to Committee</b>
<b>Finance</b>	Debt Management (2021/22)	Jan-23	Satisfactory	0	2	2	Mar-23
<b>Finance</b>	Pension Investments	Feb-23	Satisfactory	0	2	2	Mar-23
<b>Resources</b>	Registrar Service	Jan-23	Satisfactory	0	2	2	Mar-23
<b>Resources</b>	Adaptive Tech	Jan-23	Advisory	0	3	0	Mar-23
<b>Children's / Finance</b>	Raising Payments on Mosaic	Nov-22	Advisory	0	3	0	Mar-23
<b>Schools</b>	Old Oak Primary (2021/22)	Dec-22	Limited	4	4	1	Mar-23
<b>Schools</b>	The Good Shepherd Primary	Dec-22	Limited	1	8	0	Mar-22
<b>Schools</b>	Holy Cross Primary	Jan-23	Satisfactory	0	4	2	Mar-23
<b>Schools</b>	Jack Tizard	Feb-23	Satisfactory	0	2	6	Mar-23
<b>Social Care</b>	Hospital Discharge	Dec-22	Advisory	0	5	0	Mar-23
<b>Economy/ Finance</b>	HRA Cost Apportionment (2021/22)	Dec-22	Satisfactory	1	2	0	Mar-23
<b>Economy</b>	Capital Projects Post Completion Records (2021/22)	Dec-22	Satisfactory	0	4	0	Mar-23
<b>Resources</b>	Equalities Impact Assessment (2021/22)	Oct-22	Advisory	0	6	0	Nov-22
<b>Resources</b>	Mortuary	Oct-22	Satisfactory	0	3	1	Nov-22
<b>Schools</b>	William Morris 6 <sup>th</sup> Form (2021/22)	Oct-22	Limited	2	2	4	Nov-22

Plan Area	Auditable Area	Issued	Assurance level given	High Priority Recs	Medium Priority Recs	Low Priority Recs	Reported to Committee
<b>Economy/ Finance</b>	Tenant Service Charges (2021/22)	Sep-22	Limited	2	3	0	Nov-22
<b>Economy</b>	Direct Labour Organisation (2021/22)	Oct-22	Satisfactory	1	3	2	Nov-22
<b>Economy</b>	Housing Repairs - Operations	Oct-22	Satisfactory	0	2	1	Nov-22
<b>Economy</b>	Housing Repairs – Call Centre	Oct-22	<b>Substantial</b>	0	0	2	Nov-22
<b>Digital Services</b>	IT Asset Management & Access Control	Sep-22	Satisfactory	0	0	1	Nov-22
<b>Digital Services</b>	IT Ransomware	Sep-22	Satisfactory	0	3	0	Nov-22
<b>Children's Services</b>	SEN Processes (2021/22)	Jun-22	Advisory	n/a	n/a	n/a	Sep-22
<b>Children's Services</b>	No Recourse to Public Funds (2021/22)	Jun-22	Advisory	3	4	1	Sep-22
<b>Schools</b>	Bayonne Nursery (2021/22)	Jul-22	Satisfactory	0	3	4	Sep-22
<b>Schools</b>	St John's XIII Primary	Jul-22	Advisory	8	8	2	Sep-22
<b>Economy</b>	Lift Maintenance (2021/22)	Aug-22	Satisfactory	0	2	0	Sep-22
<b>Economy</b>	Fire Safety (2021/22)	Aug-22	Satisfactory	0	4	1	Sep-22
<b>Economy</b>	Disrepair Legal Claims (2021/22)	Aug-22	Limited	3	6	0	Sep-22
<b>Environment</b>	Leisure Centres (2021/22)	Jun-22	Satisfactory	1	5	1	Sep-22
<b>Environment</b>	NNDR (2021/22)	Jul-22	<b>Substantial</b>	0	0	1	Sep-22

<b>Plan Area</b>	<b>Auditable Area</b>	<b>Issued</b>	<b>Assurance level given</b>	<b>High Priority Recs</b>	<b>Medium Priority Recs</b>	<b>Low Priority Recs</b>	<b>Reported to Committee</b>
<b>Environment</b>	Council Tax (2021/22)	Jul-22	<b>Substantial</b>	0	0	1	Sep-22
<b>Environment</b>	Housing Benefit (2021/22)	Jul-22	<b>Substantial</b>	0	0	2	Sep-22
<b>Environment</b>	Funding Claim (VPACH)	May-22	Advisory	0	0	0	Sep-22

### **2022/23 Audit work in progress**

<b>Plan Area</b>	<b>Auditable Area</b>	<b>Status</b>
Cross-cutting	Contract Management	Draft report due to be issued.
Cross-cutting	Grants (process review)	Summary of review drafted.
Finance	Pensions Administration	Ongoing oversight of service which will continue into 2023/24.
Children's Services	New Placements Team	Draft report issued (Mar-23). Management response due.
Social Care & Public Health	Disabled Facilities Grants	Draft report issued (Mar-23). Partial management response due, awaiting confirmation on one recommendation.

### Changes to the 2022/23 Internal Audit Plan

The table below shows any audits removed from the 2022/23 plan, following discussions with management, or deferred to a future year.

Plan Area	Auditable Area	Reason Audit not Undertaken
Cross-cutting	VAT	Agreed to defer to future year due to priorities.
Cross-cutting	Risk Management	Deferred to 2023/24 when new Risk Manager in post.
Resources: People & Talent	Right to Work (advisory)	Reviewed and agreed Hants (IBC) controls sufficient.
Resources: Digital Services	Infrastructure Resilience & Disaster Recovery	Re-prioritised following review of services through Audit Needs Assessment.
Schools	Randolph Beresford Nursery	Request for deferral by the Nursery. Planned for 2023/24.
Children's Services	Shared Services Governance	Consider for future year due to priorities.
Children's Services	Business Support	Consider for future year due to priorities.
Children's Services	Safety Valve Funding	Not required in year due to priorities.
Children's Services	Post 16 Provision	Not required in year due to priorities.
Social Care & Public Health	Commissioning & Procurement – Equipment Contract	Due to change in provision, not a priority in year. Consider for future year.
Social Care & Public Health	Data Analytics	No longer required.
Economy	IHMS	Not required during implementation. To consider scope for future year.
Economy & Finance	Leaseholder Debt	2 reviews planned for 2023/24. One on project management and one on new system once implemented.

## Internal Audit Plan 2022/23 – Final Progress Report

### 1. Executive Summary

- 1.1 The work carried out by the Council's Internal Audit Service since the last report to the Committee found that, in the areas audited, internal control systems were generally effective with one substantial and nine satisfactory assurance reviews being completed in the period.
- 1.2 The follow up reviews completed in the period on two audits confirmed that the implementation of recommendations has been generally effective with 100% of recommendations fully or partly implemented at the time of review.

### 2. Audit Outcomes

- 2.1 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
<b>Substantial Assurance:</b>	There is a sound system of internal control designed to achieve their objectives and the control processes tested are being consistently applied.
<b>Satisfactory Assurance:</b>	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.
<b>Limited Assurance:</b>	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.
<b>Nil Assurance:</b>	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.



2.2 Since the last report to Members, ten audits have been completed, none of which identified any significant areas of concern:

<b>Audit</b>	<b>Assurance</b>
RFE Testing	Satisfactory
Capitalisation of Works	<b>Substantial</b>
Supporting People Claims	Satisfactory
Larmenier Sacred Heart Primary School	Satisfactory
Addison Primary School	Satisfactory
Melcombe Primary School	Satisfactory
Normand Croft Primary School	Satisfactory
St John's CE Walham Green School	Satisfactory
St Peter's CE Primary School	Satisfactory
Wormholt Primary School	Satisfactory

2.2 In addition, four advisory reviews/ support have been undertaken in the following areas:

- Digital Services: Audit Needs Assessment
- Neighbourhood CIL
- Resident's Experience and Access Programme (REAP)
- Libraries

Recommendations arising from advisory reports are followed up and the implementation of these recommendations will be reported in summary to the Committee.