



AUDIT, PENSIONS AND STANDARDS COMMITTEE

DATE OF MEETING

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP

**Head of Internal Audit Annual Report 2011/12
year**

**WARDS
All**

This Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2011/12 financial year and provides assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. In all cases a satisfactory assurance has been provided with the exception of the significant control weaknesses recorded in the report. The report is a key element of the evidence supporting the Annual Governance Statement (AGS).

RECOMMENDATION:

To note the contents of this report

LOCAL GOVERNMENT ACT 2000- LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Internal Audit plans, documents, audit files and supporting papers	Geoff Drake Ext. 2529	Finance Dept, 4 th Floor Hammersmith Town Hall

London Borough of Hammersmith and Fulham

Head of Internal Audit Report

For The Year Ended 31 March 2012

This management letter has been prepared on the basis of the limitations set out on page 22

This report and the work connected therewith are subject to the Terms and Conditions of the Engagement Letter dated 14 April 2011 between London Borough of Hammersmith & Fulham and Deloitte & Touche Public Sector Internal Audit Limited under an arrangement agreed with Croydon Council. The report is confidential and produced solely for the use of London Borough of Hammersmith & Fulham. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

Contents

1.	Executive Summary	1
1.1.	Introduction	1
	Head of Internal Audit Opinion on the Effectiveness of Internal Control 2011/12	2
1.2.	Scope of Responsibility	2
1.3.	The Purpose of the System of Internal Control	2
1.4.	The Internal Control Environment	2
1.5.	Review of Effectiveness	2
1.6.	Head of Internal Audit Annual Opinion Statement	3
1.7.	Basis of Assurance	3
1.8.	2011/2012 Year Opinion	5
1.9.	The System of Internal Financial Control	6
1.10.	Corporate Governance	6
1.11.	Risk Management	6
2.	Detailed Report	8
2.1.	Introduction	8
2.2.	Significant Control Weaknesses	8
2.3.	Key Issues	10
2.4.	Qualifications to the opinion	10
2.5.	Other Assurance Bodies	11
2.6.	Risk Management Process	11
2.7.	Audit Plan	11
2.8.	Internal Audit Assurance Levels	11
2.9.	Internal Audit Performance	12
2.10.	Compliance with CIPFA Code of Internal Audit Practice	12
2.11.	Working with External Audit	13
2.12.	Internal Audit Provision Going Forward	13
	APPENDIX A - Assurance Levels 01/04/2011 – 31/03/2012	14
	APPENDIX B - Internal Audit Performance – 2011/12	19
	APPENDIX C: Internal Audit Work for Which No Assurance Opinion was provided	20
	APPENDIX D - Follow up Audits	21

1. Executive Summary

1.1. Introduction

1.1.1. The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises at paragraph 10.4 that the report should:

- a) Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
- d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement on internal control;
- e) Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and
- f) Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

1.1.2. The Code of Practice also states at Paragraph 10.4.1 that:

1.1.3. "The Head of Internal Audit should provide a written report to those charged with governance timed to support the Statement on Internal Control."

1.1.4. Therefore in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Authority in meeting the requirements of Regulation 4 of the Accounts and Audit Regulations 2003 and amending regulations. These state that:

"The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

Head of Internal Audit Opinion on the Effectiveness of Internal Control 2011/12

1.1.5. This opinion statement is provided for the use of the London Borough of Hammersmith & Fulham in support of its Annual Governance Statement.

1.2. Scope of Responsibility

1.2.1. The London Borough of Hammersmith & Fulham is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

1.2.2. In discharging this overall responsibility, the London Borough Hammersmith & Fulham is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

1.3. The Purpose of the System of Internal Control

1.3.1. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Hammersmith & Fulham's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

1.4. The Internal Control Environment

1.4.1. The Internal Audit Code of Practice states that the internal control environment comprises three key areas, internal control, governance and risk management processes. Our opinion on the effectiveness of the internal control environment is based on an assessment of each of these key areas.

1.5. Review of Effectiveness

1.5.1. The London Borough of Hammersmith & Fulham has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual letter and other reports.

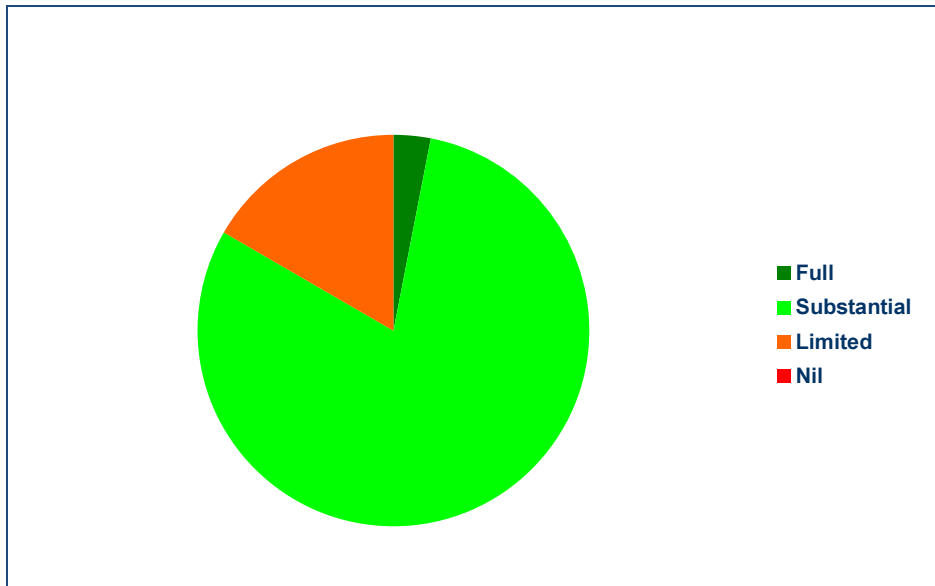
1.6. Head of Internal Audit Annual Opinion Statement

- 1.6.1. Our opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2011/12 including our assessment of the London Borough of Hammersmith & Fulham's corporate governance and risk management processes.
- 1.6.2. The internal audit plan for 2011/12 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

1.7. Basis of Assurance

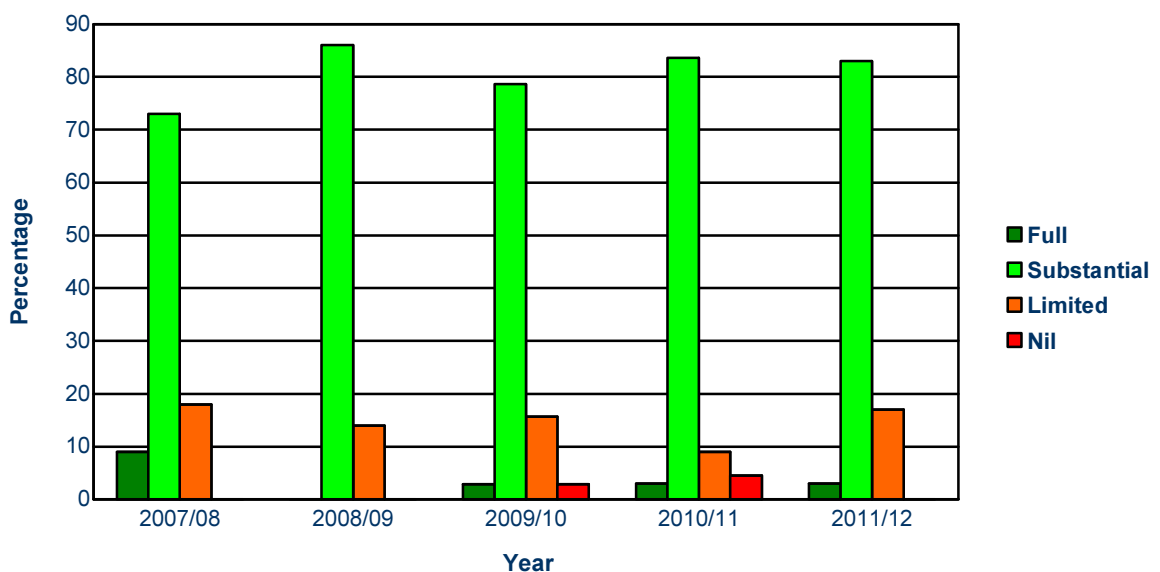
- 1.7.1. We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from our own internal quality assurance systems.
- 1.7.2. Our opinion is limited to the work carried out by Internal Audit based upon the internal audit plan. Where possible we have considered the work of other assurance providers, such as External Audit.
- 1.7.3. The audit work that was completed for the year to 31 March 2012 is listed in Appendices A, C and D. Appendix A lists all the audits where assurance opinions are provided.
- 1.7.4. No Nil assurance reports were issued in 2011/12.
- 1.7.5. It should be noted that External Audit will not be requiring any further testing from Internal Audit for this financial year. Failures in certain key controls highlighted through our mid-year testing mean that no further testing was required. However based on the cyclical programme of key financial system audits and follow up work undertaken in the last three years, and given the status of the control environment as a whole, we believe the financial system to be sound.
- 1.7.6. The pie chart below shows the levels of audit assurance achieved for the 2011/12 year. 83% of the systems audited achieved an assurance level of substantial or higher, of which two audits were full assurance (HF News and Out of Hours Service Market Testing). 17% received an assurance level of limited or lower.

Assurance Levels for the year to 31 March 2012



1.7.7. The bar chart below shows the levels of assurance provided for all systems audited since the 2007/08 financial year. The distribution of assurance opinions has remained stable in comparison to the previous years, with an increase in Limited assurance reports being balanced out by a decrease in Nil assurance reports. Over a longer period the number of Nil and Limited assurance reports has remained stable despite better targeting of areas of high risk and control weakness. Given the significant changes that have already taken place and the ongoing major change programme, which would usually be expected to increase levels of control weakness, this is a positive result.

Assurance Levels of Reports from 2007/08 to 2011/12



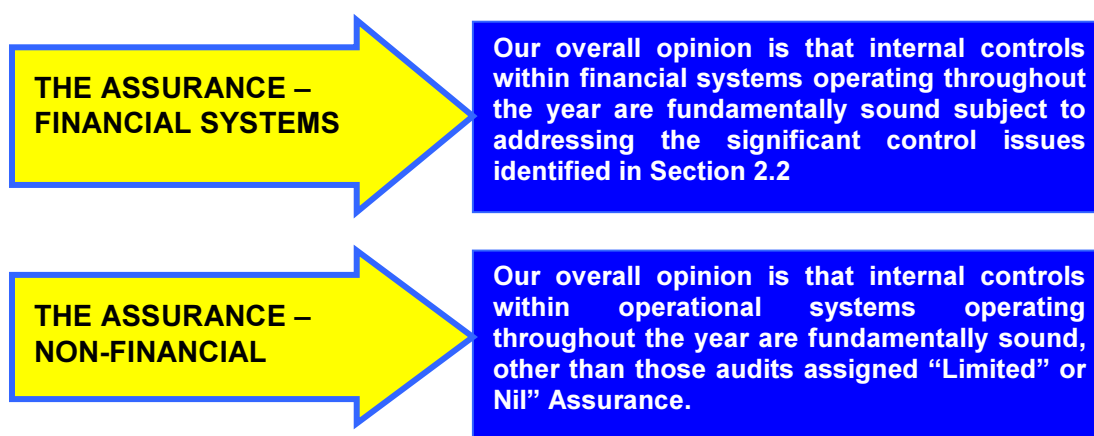
1.7.8. Recommendations to take corrective action were agreed with management and we will continue to undertake follow up work in 2012/13 to confirm that they have been implemented. The table below shows the percentage of recommendations past their implementation date reported as implemented for the last four years. Recommendations that have not been implemented that have passed their implementation deadline will continue to be reported to Departmental Management Teams and the Audit and Pensions Committee.

1.7.9.

Financial year	Recommendations Raised	Recommendations Implemented	% Implemented as at 31 March 2012
2011/12	208	175	84%
2010/11	248	236	95%
2009/10	471	460	98%
2008/09	576	576	100%

1.8. 2011/2012 Year Opinion

1.8.1. From the Internal Audit work undertaken in 2011/12, it is our opinion that we can provide reasonable assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham for the year ended 31 March 2012 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report. The assurance can be further broken down between financial and non-financial systems, as follows:



1.8.2. In reaching this opinion, the following factors were taken into particular consideration:

- a) The whole programme of internal audit work undertaken by Deloitte between the 1st April 2011 and the 31st March 2012. This included a review of the Council's Corporate Governance and Risk Management arrangements;
- b) Year end review of Internal Audit as part of the Annual Governance Statement (AGS) process in April 2012 provided a positive result;

- c) The outcome of audit work for which no assurance level was provided. A summary of work undertaken and key findings can be found in Appendix C; and
- d) Follow up of audits undertaken in the previous years. A summary of the outcome of these follow up visits can be found in Appendix D.

1.9. The System of Internal Financial Control

1.9.1. The system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council, in particular the system includes:

- Codes of practice and Financial Regulations;
- Standing Orders, Standing Financial Instructions and Schemes of Delegation;
- Comprehensive budgeting systems;
- Regular reviews of periodic and annual financial reports which indicates financial performance against the forecast;
- Setting targets to measure financial and other performance;
- The preparation of regular financial reports which indicate actual expenditure against the forecasts;
- Clearly defined capital expenditure guidelines; and
- Appropriate, formal project management discipline.

1.9.2. Our review of the effectiveness of systems of internal financial control is informed by:

- The work of internal audit as described in Appendices A, C and D; and
- The external auditors in their management letter and other reports.

1.9.3. From the above, we are satisfied that the Council has in place a sound system of internal financial controls, with the exception of those significant control weaknesses identified within this report. Based on the management responses provided to our recommendations, we are also satisfied that mechanisms are in place which would identify and address any material areas of weakness on a timely basis.

1.10. Corporate Governance

1.10.1. In my opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on the work of Internal Audit as described in Appendix A, which provided a 'substantial' level of assurance as to the Corporate Governance systems in place.

1.11. Risk Management

1.11.1. Two risk management audits were included within the 2011/12 audit plan:

- Risk Management – Departmental Review; and
- Children's Services Risk Register Control Verification.

1.11.2. Substantial assurance was provided for the Departmental Risk Management audit with no significant issues being identified. The audit work undertaken included visiting three departments: Residents Services (now known as Environment, Leisure and Residents Services), Community Services (now known as Adult Social Care) and Housing and Regeneration. Issues identified included:

- Training being developed but not being made available to staff; and
- The standard departmental risk register template not being used.

1.11.3. Through examination of eight divisional risk registers we found that the standard template was used consistently across divisions but a number of areas of non-compliance with the Corporate Risk Management Policy and Standard were identified.

1.11.4. An assurance opinion was not provided for the Children's Services Risk Register Control Verification audit. The main purpose of this work was to assess the adequacy of the stated existing controls to manage the risks and identification of additional proposed controls where appropriate and test the effectiveness of existing controls recorded against each risk. The results of our work have been fed back to the Children's Services department.

1.11.5. An exercise was also undertaken across all local authorities in the Croydon Framework with regards to implementing an assurance mapping framework and a programme of Control Risk Self Assessments (CRSAs). Meetings were facilitated by Deloitte's Knowledge and Risk Manager and attended by the Council's Internal Audit Manager.

1.11.6. In drawing together our opinion we have relied upon:

- Our assessment of risk management through individual audits;
- The role of the Risk Manager who has Council wide responsibilities for co-ordinating and implementing the risk management policies across the Council; and
- The work of Internal Audit as described in Appendices A, C and D.

1.12. We would like to take this opportunity to formally record our thanks for the co-operation and support we have received from the management and staff during the year, and we look forward to this continuing over the coming years.

HEAD OF INTERNAL AUDIT

May 2012

2. Detailed Report

2.1. Introduction

2.1.1. This section outlines the following:

- Any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- Any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- The identification of work undertaken by other assurance bodies upon which Internal Audit has placed an assurance to help formulate its opinion;
- The management processes adopted to deliver risk management and governance requirements; and
- A brief summary of the audit service performance against agreed performance measures.

2.2. Significant Control Weaknesses

2.2.1. Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2011/12, the following significant issues were identified:

- Weaknesses were identified in the governance arrangements and system of controls over the MTFS Programme. Furthermore, the basis of a significant number of the savings examined could not be demonstrated. Although these weaknesses were identified, it should be noted that the proposed savings do appear to be on track to be delivered;
- The governance arrangements regarding application of the Equality Act continue to be poor with Limited Assurance being provided in both 2010/11 and 2011/12;
- Weaknesses were identified in systems managed in conjunction with the Council's IT Partners HFBP relating to IT Inventory Management, Management of Mobile Phones and use of Microsoft Access Databases;
- The Council has limited controls in place to detect or prevent theft of valuable metals from Council properties; and
- External Audit will not be requiring any further testing from Internal Audit for this financial year. Failures in certain key controls highlighted through our mid-year testing mean that no further testing was required. A number of control failures identified that were understood to have been resolved. Furthermore, Limited assurance opinions were provided for two of the Council's key financial systems (Accounts Payable and Accounts Receivable).

2.2.2. Other significant control weaknesses stated in the Council's Annual Governance statement include:

- **Reconciliation of financial systems** - The Council has progressed well in redeveloping financial systems and processes over the past few years through the journey to World Class Financial Management (which strengthens the resource dedicated to this area) and the adoption of International Financial Reporting Standards. Improvements made over recent years have been sustained and demonstrate greater co-ordination and centralisation. Whilst some issues remain they can be classified as operational and no longer significant.
- **Health and Safety** - Substantial progress has been achieved in the delivery of a reasonable Health & Safety environment. This has included enhanced training, support, resource and guidance provided by the Corporate Safety Team. Residual legacy risks, including a pending HSE prosecution, remain in relation to previously established control weakness and control of gas safety certification, however the improvements in this area are such to no longer consider this a significant matter. There is some evidence that health & safety action plans are not being implemented and that implementation is not effectively monitored. While proposals to improve the controls have been agreed and will be monitored by Hammersmith and Fulham Business Board, these arrangements are not fully established at this time.
- **Theft of materials** - Metal theft increases when worldwide prices for scrap metal rise. Metal items are stolen for their value as raw materials and are ultimately scrapped, or recycled to provide material for making new products. The recent instances of theft of metals in the White City Estate area affected 24 properties. The council is currently exploring the idea of using technology to mark valuable metals which would allow them to be identified as Council property. An Internal Audit report concludes that there is only a limited assurance in this area and that a number of control improvement recommendations need to be made.
- **Housing repairs and maintenance** - Following recent investigations undertaken by Internal Audit it has been established that there are some control weaknesses relating to the invoicing and charging of housing repairs and maintenance. This has resulted in the identification of a risk of overcharging. Work in this area is being conducted to measure the level of potential overcharging and the management procedures that need to be adopted to eliminate this risk.
- **Governance of MTFS savings** - Weaknesses were identified in the governance of Medium Term Financial Strategy Savings. Following fieldwork undertaken by Internal Audit a number of recommendations were made to improve the controls to the estimation of targets, change in savings targets protocol, background working papers and rationale process.

2.3. Key Issues

2.3.1. There are a range of key issues that are likely to be of significance for the 2012/13 year and beyond, that Internal Audit need to be aware of. These include:

- Impact of the current economic climate on the Council's finances through reduced levels of income with some councils facing more than 16 per cent reductions in the amount of money they receive from Government. This is coupled with likely increases in demand for services;
- More transformation projects being undertaken to deliver MTFs savings. This brings challenges in implementing a series of interconnected transformation projects successfully without impacting on service delivery. There is likely to be increased Internal Audit involvement in transformation projects and new initiatives at an early stage, both to provide assurance and provide support for new systems being 'right first time';
- Continued cross borough working with Westminster Council and the Royal Borough of Kensington and Chelsea, whilst outsourcing of services may give rise to additional risks related to governance, delegation of powers, performance management and financial management of shared services;
- Following the announcement of its decision to abolish the Audit Commission in August 2010, the government consulted on its proposals for a new local public audit framework from 31 March to 30 June 2011. Those proposals were designed to deliver the government's objective for a new local public audit framework that places responsibility firmly in the hands of local bodies, giving them the freedom to appoint their own auditors, with appropriate safeguards for auditor independence, from an open and competitive market for local public audit services;
- Almost a third of councils have potential risks or weaknesses in their financial controls, according to a recent survey published by Grant Thornton. The accountants surveyed 24 English local authorities looking at four areas of financial management in light of the government's spending cuts. Each area was given a corresponding 'traffic light' rating. In the area of financial controls, 29% of the councils were rated 'amber'. This was often due to uncertainty over their approach to managing savings. Looking at the capability and capacity of the councils' finance department resources, Grant Thornton gave 22% the 'amber' rating; and
- On 15 November 2010 the Secretary of State announced the decision to immediately abolish FMSiS. From September 2011 The Schools Financial Value Standard (SFVS) was introduced. The SFVS replaces the Financial Management Standard in Schools (FMSiS) and has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place. The Council must ensure that adequate monitoring and reporting procedures are in place.

2.4. Qualifications to the opinion

2.4.1. Internal Audit has had unrestricted access to all areas and systems across the Authority and has received appropriate co-operation from officers and members.

2.5. Other Assurance Bodies

2.5.1. In formulating their overall opinion on internal control, we took into account the work undertaken by the following organisation, and their resulting findings and conclusion:

- a) The annual letter from the Authority's external auditors.

2.6. Risk Management Process

2.6.1. The principle features of the risk management process are described below:

2.6.2. Risk Management Policy

The Authority has established a Risk Management Policy that sets out the Authority's attitude to risk and to the achievement of business objectives. The Policy:

- a) explains the Authority's underlying approach to risk management;
- b) documents the roles and responsibilities of the Authority and directorates;
- c) outlines key aspects of the risk management process; and
- d) identifies the main reporting procedures.

This Policy has been communicated to key employees and can be accessed on the Authority's intranet.

2.6.3. Risk Registers

The Authority has departmental and divisional risk registers in place, as well as registers for specialist areas including IT, finance and fraud. Procedures are in place for risk registers to be reviewed at least on a bi-annual basis. We adopt a risk based auditing approach.

2.7. Audit Plan

2.7.1. The Operational Plan for the 2011/12 year drew on corporate and departmental risk registers and other issues brought to the attention of Internal Audit. We agreed and discussed the audit plan with Directors, Assistant Directors and Heads of Service. We also consulted various other sources.

2.7.2. Our operational planning is designed to provide an even flow of work throughout the year, and to allow us to monitor progress. As a result, this information can be used as a key benchmark against which progress on individual assignments can be measured.

2.8. Internal Audit Assurance Levels

2.8.1. Appendix A sets out the level of assurance achieved on each systems audit and the change in assurance opinion where the audit has been undertaken previously. This shows that no areas audited this year have shown deterioration in control since the last time they were audited. There is an ongoing programme of follow up work for all reports receiving a "Limited" or "Nil" audit assurance opinion to ensure that recommendations are implemented.

2.8.2. Of the 11 audits that received a limited audit assurance (five final and six draft reports) seven fell within the Finance and Corporate Services Department, two within the

Community Services Department and two within the Housing and Regeneration Department. In all cases, audit recommendations were agreed with management at the time of the audit along with an action plan to address the identified weaknesses. Follow up audits will be undertaken in each case to review the adequacy and effectiveness of the corrective action taken.

- 2.8.3. Three follow up visits were undertaken in 2011/12 to determine if recommendations raised within the 2011/12 audit visits have been implemented. A summary of our findings can be found in Appendix D.
- 2.8.4. We also undertook follow-ups on priority 1 recommendations raised in reports given 'Substantial' assurance and Management Letters where no assurance level was provided. Of the 45 priority 1 recommendations from Finance related reports, 25 were assessed as implemented, 11 as partly implemented, two as not implemented and seven were no longer applicable. The recommendations and results of our follow up work can be seen in appendix D.
- 2.8.5. In total, 62 recommendations have been followed up, of which 42 were either fully implemented or no longer relevant, representing 67% of all those tested. If partially implemented recommendations are added this totals 58 or 94% of all those tested. While this is a reasonable result, it also suggests that the follow up regime needs to continue at the current level.

2.9. Internal Audit Performance

- 2.9.1. Appendix B sets out pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against targets. Overall performance of Internal Audit is broadly in line with 2010/11, with all targets being exceeded or narrowly missed. Focus will be given to maintaining or improving these performance standards in 2012/13.
- 2.9.2. The target of delivering 95% of the audit plan by 31 March 2012 was exceeded by three percentage points which represents the best year end position achieved since at least April 2004 when the service was contracted out. It should be noted that 88 audit days were deferred into the 2012/2013 audit plan compared to 104 in the previous year. Days carried forward are mainly due to changes or delays in the projects or initiatives being audited.

2.10. Compliance with CIPFA Code of Internal Audit Practice

- 2.10.1. Internal Audit has comprehensive quality control and assurance processes in place and we can confirm that we comply with the CIPFA standards. Our assurance is drawn from:
 - a) The work of external audit;
 - b) Quality reviews carried out by both the Hammersmith and Fulham Internal Audit section and Deloitte; and
 - c) Annual review of Internal Audit introduced as part of CIPFA guidance on the Annual Governance Statement. This reports that the Internal Audit service is fully compliant with the CIPFA standards on Internal Audit.

2.11. Working with External Audit

- 2.11.1. The Audit Commission was consulted regarding the audit plan for the 2011/2012 year, and a number of audits in the internal audit plan were identified by them as being key to the external audit programme of work.
- 2.11.2. In 2009/10 and 2010/11, failures in key financial controls were highlighted through our mid-year testing.
- 2.11.3. In order to avoid this situation again in 2011/12 Internal Audit prepared a schedule of all key controls that would be tested and guidance on what evidence would be required to demonstrate that the control was operating effectively.
- 2.11.4. Despite an increased level of internal audit support, 12 out of the 29 controls tested were not operating effectively. As a result of the failure of these controls, the Council was unable to secure a saving in the Audit Commission fee as they were unable to rely on the controls tested.
- 2.11.5. Internal Audit will continue to work with departments with the aim of improving the effectiveness of these controls in the 2012/13 financial year.

2.12. Internal Audit Provision Going Forward

2.12.1. The following aspects will impact on the future delivery of the Internal Audit service:

- With the reduction in size of the contract with Deloitte since 31 March 2011, there is a need to maximise the assurance provided and seek opportunities to add value. This may involve sharing assurance with partners, placing more reliance on other sources of assurance and an increase in the reliance on self assessment;
- Joint working with Westminster and RBKC has led to arrangements for internal audit plans and assurances to be shared across the three boroughs. There is potential for this to increase the level of assurance received by the Council as well as better coordinating audit coverage across shared services. The challenge for Internal Audit will be to minimise disruption to services where audits are being undertaken;
- More transformation projects are being undertaken to deliver MTFS savings. This brings challenges in implementing a series of interconnected transformation projects successfully without impacting on service delivery. There is likely to be increased Internal Audit involvement in transformation projects and new initiatives at an early stage both to provide assurance and provide support for new systems being 'right first time'; and
- New external audit providers are now established from October 2012, with KPMG being awarded the contract by the Audit Commission.

APPENDIX A - Assurance Levels 01/04/2011 – 31/03/2012

The table below provides a summary of the assurances assigned to each of our audits. Where the direction of travel column is blank, no similar audit has previously been conducted.

		Audit Opinion				
Department	Audit	Nil	Limited	Substantial	Full	Issued
FINALISED						
Finance & Corporate Services	Core Financials - Payroll			↔		09/01/2012
Finance & Corporate Services	CEDAR Pre implementation					31/08/2011
Finance & Corporate Services	Source Code					04/01/2012
Finance & Corporate Services	HFBP Inventory Management					13/03/2012
Finance & Corporate Services	eServices Project					27/02/2012
Finance & Corporate Services	Election Expenses			↔		28/11/2011
Finance & Corporate Services	Application of the Equality Act		↔			30/03/2012
IT	Lynx					07/02/2012
IT	Business Continuity Planning			→		06/03/2012
IT	Remote Working					23/01/2012
Project	Smartworking Project Management					12/01/2012
Projects	Safeguarding Project Management (part 2)					09/05/2012
Contracts	Market Testing - HF News					31/08/2011
Contracts	Market Testing – Out of Hours Service					06/10/2011
Contracts	Supported Housing contracts review and renegotiation					30/11/2011
Project	Project Management Framework (Adequacy Review)					16/01/2012
Children's Services	Bayonne Nursery School			↔		01/07/2011

		Audit Opinion				
Department	Audit	Nil	Limited	Substantial	Full	Issued
Children's Services	James Lee Nursery School			↔		11/05/2011
Children's Services	Vanessa Nursery School			↔		01/07/2011
Children's Services	Randolph Beresford Early Years Centre			↔		09/01/2012
Children's Services	Addison Primary School			↔		07/06/2011
Children's Services	Bentworth Primary School			↔		09/01/2012
Children's Services	Canberra Primary School			↔		09/01/2012
Children's Services	Flora Gardens Primary School			↔		20/06/2011
Children's Services	The Good Shepherd Catholic Primary School			↔		01/07/2011
Children's Services	Langford Primary School			↔		18/07/2011
Children's Services	Melcombe Primary School			↔		09/01/2012
Children's Services	Normand Croft Community School for Early Years & Primary Education			↔		14/11/2011
Children's Services	Queens Manor Primary School			↔		07/06/2011
Children's Services	St Augustine's Catholic Primary School			↔		01/07/2011
Children's Services	St John's CE Walham Green Primary School			↔		14/11/2011
Children's Services	St Peter's Primary School			↔		14/11/2011
Children's Services	Sullivan Primary School			↔		14/11/2011
Children's Services	Jack Tizard School			↔		18/07/2011
Children's Services	Holy Cross			↔		14/11/2011
Community Services	Reablement					30/11/2011
Community Services	Client Affairs Property Protection					30/11/2011
Community Services	Client Affairs Funerals					30/11/2011
Community Services	Client Affairs Appointeeships and Deputeeships			→		30/11/2011
Community Services	Direct Payments - Use of Funds		←			24/11/2011
Environment Services	iCasework					13/03/2012
Environment Services	SMART FM Professional Services					19/01/2012
Environment Services	Licensing Income					21/07/2011
Housing and Regeneration	Housing Options (Home Buy)			↔		20/01/2012

		Audit Opinion				
Department	Audit	Nil	Limited	Substantial	Full	Issued
Housing and Regeneration	Corporate Gas Safety regime					12/01/2012
Housing and Regeneration	NKA					06/03/2012
Residents Services	Emergency Planning					23/09/2011
DRAFT						
Finance & Corporate Services	Core Financials - Accounts Receivable		←			16/01/2012
Finance & Corporate Services	Core Financials - Creditors		←			22/12/2011
Finance & Corporate Services	Corporate & Partnership Governance			↔		23/03/2012
Finance & Corporate Services	Mobile Phones					26/01/2012
IT	IT Governance – Prevention and Malicious Attacks					05/04/2012
IT	ITIL					30/06/2011
IT	Cedar Application Audit					04/04/2011
Contracts	Vertical Audit: Linford Christie Stadium power and lighting					09/03/2012
Contracts	Vertical Audit: Miles Coverdale kitchen					09/03/2012
Contracts	Vertical Audit: Melcombe Primary School – Playground Security					09/03/2012
Cross-departmental work	MTFS Programme Management					09/03/2012
Cross-departmental work	Risk Management – Departmental Review			↔		05/04/2012
Children's Services	Fulham Cross Girls School			↔		09/03/2012
Children's Services	Henry Compton School			↔		09/03/2012
Children's Services	Early Years					27/02/2012
Environment Services	Water Hygiene Contract Management					23/03/2012
Housing and Regeneration	HAFFTRA					21/11/2011
Housing and Regeneration	Theft of Metals					23/03/2012
Residents Services	Out of Hours Contact Centre					12/03/2012
NOT YET ISSUED						

		Audit Opinion				
Department	Audit	Nil	Limited	Substantial	Full	Issued
IT	Council Website					-
Children's Services	Wormholt Primary School					-
Total		0	11	53	2	

Total Reports (including those not yet issued)	68
---	----

* Substantial Assurance opinion provided on adequacy of controls; however due to the number of outstanding CRB checks, limited assurance has been provided on the effectiveness of controls.

Assurance Levels

We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls.

Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Direction of travel

→	Improved since the last audit visit. Position of the arrow indicates previous status.
←	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
↔	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

APPENDIX B - Internal Audit Performance – 201/12

At the start of the contract, a number of performance indicators were formulated to monitor the delivery of the Internal Audit service to the Authority. The table below shows the actual and targets for each indicator for the period.

Performance Indicators		Annual Target	Performance	Variance
1	% of draft reports issued within 10 working days of exit meeting or end of fieldwork (whichever is later).	95	92	-3
2	% of final reports issued within 5 working days after agreement of management responses (this does not include reports which do not require director approval, e.g. FMSiS reports or follow up or other special deliverables).	100	98	-2
3	% of plan complete based on deliverables (draft reports, FMSiS and Mgmt letters). This does include FMSiS Reports.	95	98	+3
4	% of plan complete based on days delivered.	95	96	+1
5	% of audit briefs issued 10 days before start of audit (Accounting for Exceptions)	95	95	0
6	% of audit follow ups completed	100	100	0

APPENDIX C: Internal Audit work for which an assurance opinion was not provided

The table below provides a summary of the scope and key findings of audit work for which no overall assurance level was provided.

Department	Audit	Issued
Final		
Corporate	Preliminary Test of Key Controls	30/09/2011
Finance and Corporate Services	Core Financials Self Assessments	31/10/2011
Corporate	Information Sharing - Partnerships	05/04/2011
Finance and Corporate Services	Data Handling – Benchmarking of IT Security Policies	25/08/2011
Finance and Corporate Services	Microsoft Access Databases	30/03/2012
Corporate	Assurance Mapping and CRSAs	20/02/2012
Finance and Corporate Services	Register of Gifts and Hospitality Benchmarking	11/11/2011
Finance and Corporate Services	Data Quality	02/06/2011
Finance and Corporate Services	MTFS Savings (2 parts)	20/10/2011 and 30/03/2012
Finance and Corporate Services	WCFM Balance Sheet Monitoring	15/08/2011
Finance and Corporate Services	Register of Officers Interests	18/07/2011
Finance and Corporate Services	Refund Processing	19/01/2012
Contracts	2011/12 Vertical Audits - Summary Report	12/03/2012
Contracts	Market Testing Summary Report	30/08/2011
Contracts	2010/11 Vertical Audits - Summary Report	23/03/2012
Children's Services	Children's Services Risk Management and Assurance	20/12/2012
Children's Services	Play Grant Finance Return	30/09/2012
Children's Services	CPTU Transport - Move to Self Service	29/07/2011
Children's Services	Early Years Compliance With Statutory Duties	11/05/2012
Children's Services	School Funding Criteria	02/09/2011
Community Services	Preventions	03/06/2011
Housing and Regeneration	Tenancy Verification	22/12/2011
Residents Services	Introduction of lean thinking (Trade Waste and Street Trading)	03/06/2012
Corporate	Follow up of Priority One Recommendations (3 parts)	29/07/2011, 19/12/2011 and 23/03/2011

APPENDIX D - Follow up Audits

Follow visits were undertaken on the following audits that received a 'Limited' or 'Nil' assurance opinion in their 2008/09 or 2009/10 audit visit. The number of recommendations found to be implemented was as follows:

Department	Audit	Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
Environment Services	Parking Pay and Display	8	7	1	0	0
Housing and Regeneration	iWorld Repairs Module	7	2	3	2	0
Finance and Corporate Services	CRB Checks	2		1		1
Total		17	9	5	2	1
%			53%	29%	12%	6%

In addition to the follow up visits undertaken 45 priority 1 recommendations raised in substantial assurance reports and management letters where no assurance opinion was provided were followed up to confirm implementation. The results were as follows:

Priority 1 Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
45	25	11	2	7
%	56%	24%	4%	16%

<p>Statement of Responsibility</p>	<p>We take responsibility for this report which is prepared on the basis of the limitations set out below.</p> <p>The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.</p> <p>Deloitte & Touche Public Sector Internal Audit Limited London May 2012</p> <p>In this document references to Deloitte are references to Deloitte & Touche Public Sector Internal Audit Limited.</p> <p>Registered office: Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom. Registered in England and Wales No 4585162.</p> <p>Deloitte & Touche Public Sector Internal Audit Limited is a subsidiary of Deloitte LLP, the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.</p> <p>Member of Deloitte Touche Tohmatsu Limited</p>
---	---