



# AUDIT, PENSIONS AND STANDARDS COMMITTEE

28<sup>th</sup> June 2012

## CONTRIBUTORS

Chief Internal Auditor  
Internal Audit Manager  
Deloitte & Touche LLP

**Internal Audit Quarterly report for the  
period 1 January to 31 March 2012**

**WARDS  
All**

This report summarises internal audit activity in respect of audit reports issued during the period to 31<sup>st</sup> March 2012, as well as reporting on the performance of the Internal Audit service.

## **RECOMMENDATION:**

**To note the contents of this report**

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## 1 Introduction

- 1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2012 as well as reporting on the performance of the Internal Audit service.
- 1.2 In order to minimise the volume of paperwork being sent to Committee members, the appendices detailing outstanding recommendations and reports, as well as the full text of all limited or nil assurance reports have not been appended to this report. However, the information which would have been contained in these appendices has been made available to all members separately.

## 2 Internal Audit Coverage

- 2.1 The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner
- 2.2 A total of 19 audit reports were finalised in the fourth quarter of 2011/2012 (see **Appendix A**). In addition 8 management letters were issued.
- 2.3 In addition to follow-up audits of limited and nil assurance reports, Internal Audit also seeks to verify the implementation of all other priority 1 recommendations. In the quarter ended 31 March 2012, 10 recommendations were reviewed. 7 were found to have been fully implemented whilst the remaining 3 were found to have been partly implemented.
- 2.4 Three audit reports issued in this period received limited assurance. The *HFBP Inventory Management* audit made 8 recommendations of which 3 have been reported as implemented. A further 3 (1 P1 & 2 P2) are due to be implemented by 31 May and the remaining 2 (both priority 2) are due to have been implemented by the end of June. The *Debtors* report made 10 recommendations all of which have been reported as implemented. The final report related to *Change Management – NKA Contract*. 6 recommendations were made which relate to the management of similar contracts. Implementation of these recommendations is not being monitored *per se* but the recommendations have been agreed by the Competition Board and will be monitored through future contract management audits. Full copies of these reports have been made available to members.

- 2.5 The Internal Audit department works with key departmental contacts to monitor the numbers of outstanding draft reports and the implementation of agreed recommendations.

Departments are given 10 working days for management agreement to be given to each report and for the responsible director to sign it off so that it can then be finalised. We are once again very pleased to report that there are currently no reports still outstanding that were due to be signed off on or before 31 March.

- 2.6 We are delighted to report that there are once again no made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation.
- 2.7 This is the second consecutive quarter we have been able to report no reports or recommendations outstanding and represents a significant improvement on previous years. We continue to work with departments and HFBP to maintain this position.

### 3 Internal Audit Service

- 3.1 Since the last report to the Audit Committee, there has been no structural change to the operation of the internal audit service. The in-house team consists of the Chief Internal Auditor (CIA) and Audit Manager. Deloitte Public Sector Internal Audit Ltd carries out individual audits and also periodically provides management information to support the reporting requirements of the in-house team
- 3.2 Part of the CIA's function is to monitor the quality of Deloitte work. Formal monthly meetings are held with the Deloitte Contract Manager and one of the agenda items is an update on progress and a review of performance against key performance indicators. The performance figures are provided for the period from 1 January to 31 March 2012 are shown below.

#### Performance Indicators 2011/12

Ref	Performance Indicator	Target	Pro rata target	At end of March	Variance	Comments
1	% of deliverables completed (2011/12)	95%	95%	98%	Achieved (+3%)	104 reports delivered out of a total plan of 106 (accounting for audits carried forward)
2	% of planned audit days delivered (2011/12)	95%	95%	96%	Achieved (+1%)	823 days delivered out of a total plan of 861 days (accounting for audits carried forward)
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	95%	Achieved	52 out of 55 briefs issued more than ten working days before the start of the audit.
4	% of Draft reports issued within 10 working days of exit meeting	95%	95%	92%	Not achieved -3%	61 out of 66 draft reports issued within 10 working days of exit meeting.

- 3.3 The year-end delivery figures (indicators 1 & 2) constitute the best year-end position achieved since the Deloitte contract began. We currently expect to be able to confirm 100% completion of the 2011/12 plan at the next meeting of the committee.

#### **4 Audit Planning**

- 4.1 Further to the plan agreed by the Committee at its last meeting, and following consultation with our internal audit colleagues in the Royal Borough of Kensington and Chelsea and Westminster City Council we have revised the audit plan to incorporate coverage within the developing tri and bi-borough environment. A revised plan is shown at Appendix C for the Committee to note. In addition to this plan we also have reserve plans for potential tri-borough, bi-borough and single borough work which will be used as and when resources become available.
- 4.2 We are also working with our tri-borough colleagues on the way in which Internal Audit, anti-Fraud and Risk Management services might be delivered in the future. We will be bringing a proposed target operating model for an integrated tri-borough service to the next meeting of the Committee in September. It is intended that this model will be submitted to the cabinets of each of the three councils for approval in December 2012.

### **LOCAL GOVERNMENT ACT 2000- LIST OF BACKGROUND PAPERS**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
1.	Full audit reports from October 2004 to date	Geoff Drake Ext. 2529	Finance and corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

## APPENDIX A

### Audit reports Issued 1 January to 31 March 2012

We have finalised a total of 19 audit reports for the period to 1 January to 31 March 2012. In addition, we have issued a further 8 management letters and 1 follow up.

#### Audit Reports

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

Audit Reports finalised in the period:

No.	Audit Plan	Audit Title	Director	Audit Assurance
1	2011/12	Payroll	Jane West	Substantial
2	2011/12	Source Code	Jane West	Substantial
3	2011/12	Smartworking Project Management (Stage C)	Jane West	Substantial
4	2011/12	Programme and Project Governance	Jane West	Substantial
5	2011/12	Remote Working	Jane West	Substantial
6	2011/12	Lynx Application	Jane West	Substantial
7	2011/12	eServices Project Management	Jane West	Substantial
8	2011/12	HFBP Inventory Management	Jane West	Limited
9	2011/12	iCasework	Jane West	Substantial
10	2011/12	Debtors	Jane West	Limited
11	2011/12	Business Continuity Planning	Jane West/Lyn Carpenter	Substantial
12	2011/12	Bentworth Primary School	Andrew Christie	Substantial
13	2011/12	Canberra Primary School	Andrew Christie	Substantial
14	2011/12	Randolph Beresford Primary School	Andrew Christie	Substantial
15	2011/12	Melcombe Primary School	Andrew Christie	Substantial
16	2011/12	Corporate gas Safety	Nigel Pallace	Substantial
17	2011/12	Smart FM Facilities Management	Nigel Pallace	Substantial
18	2011/12	Home Buy Service	Melbourne Barrett	Substantial
19	2011/12	Change Management - NKA Contract	Melbourne Barrett	Limited

#### Audit Reports

<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
<b>Substantial Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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.

## Other Reports

### Management Letters

No.	Audit Plan	Audit Title	Director
20	10/11	2010/11 Vertical Contract Audits – Summary Report	Nigel Pallace
21	11/12	CHS Risk Register Controls Verification	Andrew Christie
22	11/12	Refunds Processing	Jane West
23	11/12	2011/12 Vertical Contract Audits – Summary Report	Nigel Pallace
24	11/12	MTFS Savings	Jane West
25	11/12	Access Databases	Jane West
25	11/12	Maintenance Orders	Melbourne Barrett
26	11/12	Information Sharing in Partnerships	Jane West

## Revised 2012/13 internal audit plan incorporating bi and tri-borough work

*Tri-borough Plan*

Department	Audit Title	Lead Audit Team	Timing
<b>ADULT SOCIAL CARE</b>			
	Personal Budgets	H & F (Deloitte)	Q3
	Client Affairs	RBKC	Q1
	Safeguarding Adults	H & F (Deloitte)	Q2
	Commissioning	H & F (Deloitte)	Q4
	ASC Departmental Governance	WCC (Tenon)	Q2
<b>CORPORATE SERVICES</b>			
	Tri and Bi-borough Programme and Project Reviews	H&F/ RBKC/ WCC	Q2
	IT Programme Management	H&F (Deloitte)	Q2
	Treasury Management & Pensions Investments	RBKC	Q3
<b>IT</b>			
	TB IT security (incorporating data security and information management - including ASC and Children's Services)	H&F/ RBKC (Deloitte)	Q2
	Adult Social Care IT System	H&F/ RBKC (Deloitte)	Q3
	Secure Connection for Wifi/ Converged Networks under Tri-Borough	H&F/ RBKC (Deloitte)	Q3
	IT Governance	H&F/ RBKC (Deloitte)	Q2
	Corporate Wide IT Strategy	H&F/ RBKC (Deloitte)	Q2
	ICT in schools/Social Enterprise contract management	H&F/ RBKC (Deloitte)	Q4



Department	Audit Title	Lead Audit Team	Timing
<b>CHILDREN'S SERVICES</b>			
	Third Sector Contracts	WCC	Q3
	Leaving Care Service	WCC	Q3
	Procurement and commissioning	RBKC	Q3
	FCS departmental governance	WCC (Tenon)	Q2
	Looked after Children Ofsted report/ Safeguarding Children	RBKC	Q2
	Fostering Service/ Payments to carers	RBKC	Q1

*Bi-borough Plan*

Department	Audit Title	Lead Audit Team	Timing
<b>HOUSING &amp; REGENERATION</b>			
Contracts	Supporting People Framework Contract	H & F (Deloitte)	Q1
Contracts	Total Facilities Management	H & F (Deloitte)	Q2
<b>TRANSPORT &amp; TECHNICAL SERVICES</b>			
	Pay and Display	RBKC	Q1
	Public Health and Safety	H & F (Deloitte)	Q3
	Parking Operations including PCNs and Compliance Monitoring	RBKC	Q3
	Residents Parking Online system	RBKC	Q2
Contracts	Highways Maintenance Contracts	H & F (Deloitte)	Q2
	Off Street Parking	RBKC	Q1
Contracts	Provision of PCN software	H & F (Deloitte)	Q1
<b>ENVIRONMENT, LEISURE &amp; RESIDENTS SERVICES</b>			
	Commercial / Trade Waste	RBKC	Q1

Single borough Plan

Department	Subject	Timing	Coverage / miniscope
<b>Corporate/ Cross-departmental</b>			
	Corporate & Partnership Governance	Q4	To cover the following areas taken from a 3-year rolling scope: <ul style="list-style-type: none"> <li>- Governance Framework</li> <li>- Roles and Responsibilities</li> <li>- Capacity and Capability</li> <li>- Partnership Organisations</li> </ul>
Project	Regeneration projects	Q1/2/3/4	Coverage dependent on nature and stage of project but likely to cover: <ul style="list-style-type: none"> <li>- Council and Service Objectives</li> <li>- Programme Management Arrangements and Governance</li> <li>- Project Management and Monitoring</li> <li>- Definition and Delivery of Benefits</li> <li>- Risk Management</li> </ul>
<b>Corporate Services</b>			
	iCasework - Benchmarking	Q1	
	Core Financials - Council Tax	Q3	<ul style="list-style-type: none"> <li>- Legislation, Policies and Procedures</li> <li>- Council Tax Transactions and Records <ul style="list-style-type: none"> <li>- Valuation</li> <li>- Tax Setting</li> <li>- Liability</li> <li>- Billing</li> <li>- Collection</li> <li>- Refunds</li> </ul> </li> <li>- Debt Recovery and Enforcement</li> <li>- Management Reporting</li> </ul>

Department	Subject	Timing	Coverage / miniscope
	Core Financials - NNDR	Q3	<ul style="list-style-type: none"> <li>- NNDR Transactions and Records <ul style="list-style-type: none"> <li>- Valuation</li> <li>- Liability</li> <li>- Billing</li> <li>- Collection</li> <li>- Refunds</li> </ul> </li> <li>- Debt Recovery and Enforcement</li> <li>- Management Reporting</li> </ul>
	Core Financials - Schools (SIMS)	Q3	<p>Full audit and testing for external audit:</p> <ul style="list-style-type: none"> <li>- Monitoring and Review of Schools Financial Returns</li> <li>- Reconciliations to Council Records</li> </ul>
	Core Financials - preliminary testing	Q2	Preliminary testing of relevant systems' key controls to prepare for external audit testing
	Core Financials - other systems	Q2	Light-touch testing of all other identified Core Financial systems to ensure continued compliance with required controls
	Financial Accounting system ledger - Cedar	Q1	<ul style="list-style-type: none"> <li>- Accounting Records</li> <li>- Accounting Transactions and Manual Adjustments</li> <li>- Year-End Procedures</li> <li>- Financial and Performance Management Reporting</li> </ul>
<b>IT</b>			
	Cedar Unix O/S	Q1	
	Information management and security: Personal data security	Q1	An assessment of the system security and management control framework based on an evaluation of controls established and applied over information management and security. This will focus on the secure use and control of personal information on end user systems and furthermore any third party partners and contractors to include mobile data devices.
	CAMSYS	Q1	Analysis of the extent to which CAMSYS is been utilised across the Council and the strategies and plans in place to embed the use of CAMSYS across all Council departments.
	Attendance at BOIP Board	Q1	

Department	Subject	Timing	Coverage / miniscope
	Starters Movers Leavers (SML) - Post Implementation	Q3	Post Implementation audit. This audit will test controls over: Risk management of any ongoing residual project risks; Post implementation methodology to assess and quantify business achievements and delivery of strategic goals; and Post implementation knowledge management learning initiatives for ongoing continuous improvements.
	PCI DSS Audit	Q1	An audit of PCI DSS, but not giving Assurance over the accreditation to PCI DSS. Controls will be tested over PCI Governance within the Council (Responsibility); Monitoring arrangements to maintain compliance (PCI changes, internal change control); Regular Compliance checks (Internal and external); Regular Pen Tests; and Action plans to remedy issues identified in compliance checks.
<b>Contracts</b>			
Contracts	Recently tendered contracts	Q2	<p>To cover: -</p> <ul style="list-style-type: none"> <li>- market testing</li> <li>- Letting of</li> <li>- Section of contractors</li> </ul> <p>- Tender Receipt, evaluation and reporting</p> <ul style="list-style-type: none"> <li>- e-tendering (where appropriate)</li> </ul> <p>Possible extensions of scope could cover: -</p> <ul style="list-style-type: none"> <li>• Defining the procurement strategy <ul style="list-style-type: none"> <li>• Pre-qualification.</li> <li>• Inviting tenders</li> </ul> </li> <li>• Invitation to tender (ITT)</li> <li>• Evaluating and refining tenders <ul style="list-style-type: none"> <li>• Awarding the contract</li> </ul> </li> <li>• Putting the contract in place</li> <li>• Contracts, terms and conditions <ul style="list-style-type: none"> <li>• Managing the contract</li> <li>• Review and testing</li> <li>• Feedback</li> </ul> </li> </ul>

Department	Subject	Timing	Coverage / miniscope
Contracts	Extended contracts	Q1	To cover: - <ul style="list-style-type: none"> <li>• The frequency that Extensions of Time are used? <ul style="list-style-type: none"> <li>• Contractors notification</li> <li>• CA/Project Manager assessments</li> <li>• Relevant events (type and use of)</li> </ul> </li> <li>• Resulting effect on LADs and Contractors recovery of cost <ul style="list-style-type: none"> <li>• Contract compliance</li> </ul> </li> </ul>
Contracts	Delivering a cost reduction programme for the LB Hammersmith & Fulham. -	Q1	- Contract Formalities - Contract Management and Performance Management - Payments - Budget Management - Value for Money
Contracts*	Resurfacing and Road Marking – Colas	Q1	- Contract Formalities - Contract Management and Performance Management - Payments - Budget Management - Value for Money
<b>Adult Social Care</b>			
	Quality Assurance	Q2	
<b>Children's Services</b>			
School	Avonmore Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.
School	Brackenbury Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.
School	Fulham Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.
School	Greenside Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.

Department	Subject	Timing	Coverage / miniscope
School	New Kings Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.
School	Pope John Catholic Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.
School	St Mary's Catholic Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.
School	St Stephen's CE Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.
School	Hurlingham & Chelsea School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.
School	Lady Margaret School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.
School	Cambridge School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.
School	The Bridge Academy PRU	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.
Contracts	West London Alliance Home Support Framework Agreement 2011/12 Social Community Care Support Services	Q3	<ul style="list-style-type: none"> <li>- Contract Formalities</li> <li>- Contract Management and Performance Management</li> <li>- Payments</li> <li>- Budget Management</li> <li>- Value for Money</li> </ul>
	Themed schools audit - <i>Leasing</i>	Q1	<p>To cover: -</p> <ul style="list-style-type: none"> <li>- Appropriate lease (i.e. operating not finance lease)</li> <li>- Advice sought and Approval obtained to enter into lease</li> <li>- Value for money sought</li> </ul>
<b>Environment, Leisure &amp; Residents Services</b>			
	CCTV	Q1	
<b>Housing and Regeneration</b>			

Department	Subject	Timing	Coverage / miniscope
Project	BPM programme	Q2	Coverage dependent on nature and stage of project but likely to cover: <ul style="list-style-type: none"> <li>- Council and Service Objectives</li> <li>- Programme Management Arrangements and Governance</li> <li>- Project Management and Monitoring</li> <li>- Definition and Delivery of Benefits</li> <li>- Risk Management</li> </ul>
	Regeneration Governance	Q1	Audit of Regeneration governance (programme/projects). Scope likely to include: <ul style="list-style-type: none"> <li>- Governance Structure</li> <li>- Roles and Responsibilities</li> <li>- Management Information and Reporting</li> </ul>
	Income collection	Q2	More detailed work than the standard core financial audit work to cover timely rent account set up, collection, arrears collection, and including segregation of duties/controls in regional offices; to undertake early in the year
	Accommodation Services Extended Follow-up	Q1	
	Accommodation Services - Gas Safety	Q1	
	Housing office Spot Check	Q1	
<b>Transport &amp; Technical Services</b>			
	Core Financials - On-street parking	Q3	<ul style="list-style-type: none"> <li>- Applications for Permits</li> <li>- Issue of Permits</li> <li>- Income and Banking</li> <li>- Return of Permits and Refunds</li> <li>- Public Notices and Enforcement</li> <li>- Management Information</li> </ul>
	E C Harris Common Issues	Q1	To cover financial management of the EC Harris contract. Specifically the systems and controls related to charging for services provided.
Contracts	E C Harris Contract	Q3	To cover financial management of the EC Harris contract. Specifically the systems and controls related to charging for services provided.

Department	Subject	Timing	Coverage / miniscope
<b>Other</b>			
	Verification of Priority 1 audit recommendations implementation	Q1/2/3/4	Verification of P1 recs not included in other follow-up audit work
	End of year reports	Q1	To produce year end reports on schools, IT, projects/project management, Finance (including a section on procurement) and others as agreed
	Follow-up audits	Q1/2/3/4	Estimate based on 1.5 days each for an estimate of 8 follow-ups required. Additional budget to be requested and agreed as justified.
	Audit and Pensions Committee Training	Q2	