

	<p style="text-align: center;"><b>London Borough of Hammersmith &amp; Fulham</b></p> <p style="text-align: center;"><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p style="text-align: center;"><b>13 December 2012</b></p>
<p><b>Internal Audit Quarterly report for the period 1 July to 30 September 2012</b></p>	
<p><b>Open Report</b></p>	
<p><b>For Information</b></p>	
<p><b>Key Decision: No</b></p>	
<p><b>Wards Affected: None</b></p>	
<p><b>Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance</b></p>	
<p><b>Report Author: Geoff Drake – Chief Internal Auditor</b></p>	<p><b>Contact Details:</b>  Tel: 020 753 2529  E-mail:  <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a></p>

**1. EXECUTIVE SUMMARY**

- 1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 July to 30 September 2012 as well as reporting on the performance of the Internal Audit service.

**2. RECOMMENDATIONS**

- 2.1. To note the contents of this report

**3. REASONS FOR DECISION**

- 3.1. Not applicable. No decision required.

## **4. INTRODUCTION AND BACKGROUND**

- 4.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 July to 30 September 2012 as well as reporting on the performance of the Internal Audit service.
- 4.2. 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.

## **5. PROPOSAL AND ISSUES**

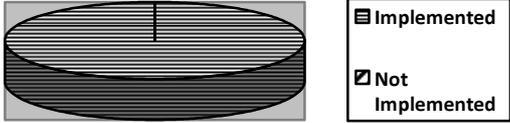
### **5.1. Internal Audit Coverage**

- 5.1.1. 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
- 5.1.2. A total of 7 audit reports were finalised in the second quarter of 2012/2013 (see Appendix A). In addition 12 management letters were issued and 5 follow ups completed.
- 5.1.3. 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. Five follow ups were completed in this period and all recommendations were found to have been implemented. This represents a significant improvement since 2011/12 where 33% of recommendations followed up were not fully implemented.
- 5.1.4. No audit reports issued in this period received limited assurance.
- 5.1.5. The Internal Audit department works with key departmental contacts to monitor the numbers of outstanding draft reports and the implementation of agreed recommendations.
- 5.1.6. 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. There are currently 2 reports still outstanding that were due to be signed off on or before 30 September are listed in Appendix B for information.

- 5.1.7. Of these 2 outstanding reports both relate to Schools. We are pleased to report that there are no reports outstanding for the other departments.
- 5.1.8. There are now 2 audit recommendations 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. This compares to 8 outstanding as reported at the end of the previous quarter and represents an improvement in the overall position. We continue to work with departments and HFBP to further reduce the numbers outstanding.
- 5.1.9. The breakdown between departments is as follows:
- Schools – 1
  - Corporate Services – 1
- 5.1.10. We are very pleased to note that there are no recommendations outstanding for Adult Social Care, Transport and Technical Services, Environment, Leisure and Resident Services or Housing and Regeneration.
- 5.1.11. Neither of the 2 recommendations listed are over six months past their target date for implementation as at the date of the Committee meeting. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will be arranging meetings with the relevant departmental managers responsible for all recommendations overdue by more than 3 months as and when this occurs.
- 5.1.12. The breakdown of recommendations implemented as a proportion of the total raised in each audit year can be seen below.

*100% of recommendations made prior to and in 2010/11 have been implemented*

<p>Percentage of 2011/12 year audit recommendations past their implementation date that have been implemented.</p>	<p>99.3%</p>	<p>292 recommendations implemented out of a total of 294</p> <p><b>2 recommendations outstanding</b></p>	
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<p>Percentage of 2012/13 year audit recommendations past their implementation date that have been implemented.</p>	<p>100%</p>	<p>19 recommendations implemented out of a total of 19</p> <p><b>No recommendations outstanding</b></p>	
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## 5.2. Internal Audit Service

5.2.1. 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 April to 30 September 2012 are shown below.

### Performance Indicators 2012/13

Ref	Performance Indicator	Target	Pro rata target	At end of Sep	Variance	Comments
1	% of deliverables completed (2011/12)	95%	47.5%	45%	<b>Not achieved (-2.5%)</b>	45 deliverables issued out of a total plan of 100 (accounting for audits carried forward)
2	% of planned audit days delivered (2011/12)	95%	47.5%	43%	<b>Not achieved (-4.5%)</b>	430 days delivered out of a total plan of 994 days (accounting for audits carried forward)
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	-	100%	<b>Achieved +5%</b>	20 out of 20 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%	-	96%	<b>Achieved +1%</b>	23 out of 24 draft reports issued within 10 working days of exit meeting.

5.2.2. While this shows that progress against target is behind for delivery of audit days and the audit plan, in fact given the slow start imposed on Deloitte due to the need to coordinate tri- and bi-borough audit plans earlier this year Deloitte have done a very good job in recovering the position.

### **5.3. Audit Planning**

5.3.1. Further to the plan agreed by the Committee at its last meeting, we have continued to liaise with our internal audit colleagues in the Royal Borough of Kensington and Chelsea and Westminster City Council with regards to the tri and bi-borough environment. Amendments that have been made to the 2012/13 Internal Audit Plan have been shown in Appendix C.

5.3.2. 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.

### **6. OPTIONS AND ANALYSIS OF OPTIONS**

6.1. Not applicable

### **7. CONSULTATION**

7.1. Not applicable

### **8. EQUALITY IMPLICATIONS**

8.1. Not applicable

### **9. LEGAL IMPLICATIONS**

9.1. Not applicable

### **10. FINANCIAL AND RESOURCES IMPLICATIONS**

10.1. Not applicable

### **11. RISK MANAGEMENT**

11.1. Not applicable

### **12. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

12.1. Not applicable

**LOCAL GOVERNMENT ACT 2000-  
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

<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	Corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

**LIST OF APPENDICES:**

Appendix A	Audit reports issued 1 April to 30 June 2012
Appendix B	Internal Audit reports in issue more than two weeks as at 30 September 2012
Appendix C	Amendments to 2012/13 Internal Audit Plan

## APPENDIX A

### Audit reports Issued 1 April to 30 September 2012

We have finalised a total of 7 audit reports for the period to 1 July to 30 September 2012. In addition, we have issued a further 12 management letters and completed 5 follow ups.

#### 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	IT Governance – Protection From Malicious Attacks	Jane West	Substantial
2	2011/12	MTFS Programme Management	Jane West	Substantial
3	2011/12	Corporate Governance	Jane West	Substantial
4	2011/12	Water Hygiene Contract Management	Nigel Pallace	Substantial
5	2012/13	iCasework Application	Jane West	Substantial
6	2012/13	Financial Accounting System Ledger	Jane West	Substantial
7	2012/13	Lady Margaret School	Andrew Christie	Substantial

**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.

From October 2012 the audit opinions have been revised to bring the opinions used across the Tri-borough Internal Audit services into line. Going forwards the following assurance opinions are being used:

**Substantial Assurance** There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.

**Satisfactory Assurance** While there is a basically sound system, there are weaknesses and/or omissions 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 and / or omissions 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.

## Other Reports

### Management Letters

No.	Audit Plan	Audit Title	Director
8	2012/13	IT Year End Summary Report	Jane West
9	2012/13	Finance Year End Summary Report	Jane West
10	2012/13	Programme and project Management Year End Summary Report	Jane West
11	2012/13	Extended Contracts – Credit and Debit Cards	Jane West
12	2012/13	Extended Contracts – CCTV	Lyn Carpenter
13	2012/13	Recently Tendered Contracts - Ravenscourt Park Café	Lyn Carpenter
14	2012/13	Extended Contracts – Connexions	Andrew Christie
15	2012/13	Extended Contracts – School Meals	Andrew Christie
16	2012/13	Filing at Fulham North Housing Area Office	Melbourne Barrett
17	2012/13	Housing Repairs – Risk and Control Advice	Melbourne Barrett
18	2012/13	Recently Tendered Contracts - Sheltered Housing	Andrew Webster
19	2012/13	Recently Tendered Contracts - Drug Intervention Programme	Andrew Webster

### Follow ups

No.	Audit Plan	Audit Title	Director	Implemented	Partly Implemented	Not Implemented	Not Applicable
20	2012/13	Priority 1 Recommendations	Jane West	3	0	0	0
21	2012/13	Debtors	Jane West	10	0	0	0
21	2012/13	Creditors	Jane West	6	0	0	0
22	2012/13	Application of the Equality Act	Jane West	4*	0	0	0
16	2012/13	Direct Payments – Use of Funds	Andrew Webster	5	0	0	0

\* Two recommendations were not fully implemented. The Director of Finance has confirmed that:

- Although the training available and how it will be delivered has been documented and agreed, it would not be practical to monitor the training needs of all staff across the Council and therefore this part of the recommendation will not be implemented. The risk that gaps in knowledge will not be identified and addressed as a result has been accepted.
- A formal system of independent quality checks will not be implemented due to resource constraints. The risk that poor quality Equality Impact Assessments (EIAs) will not be identified and that any areas of weakness or intentional non-compliance may not be identified and addressed has been accepted.

**APPENDIX B**

**Internal Audit reports in issue more than two weeks as at 30 June 2012**

No	Audit Year	Department	Responsible Director	Audit Title	Assurance	Draft report issued on	Responsible Officer	Target date for responses	Awaiting Response From
1	2012/13	Children's Services	Andrew Christie	Cambridge School	Limited	26/07/2012	Headteacher	09/08/2012	Auditee and Director
2	2012/13	Children's Services	Andrew Christie	Greenside Primary School	Limited	18/06/2012	Headteacher	02/07/2012	Auditee and Director

## Amendments to 2012/13 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Housing and Regeneration	Housing Repairs – Risk and Control Advice	Added	Requested by Department
2	Housing and Regeneration	Housing and Regeneration Programme and Project Management	Added	Added to plan in line with coverage of Programme and Project Management in other departments
3	Corporate Services	Corporate Services Programme and Project Management	Added	Added to plan in line with coverage of Programme and Project Management in other departments
4	Corporate Services	Cash and Bank	Added	Brought forward from 2013/14 to even out coverage of key financial systems.
5	Children's Services	ICT in Schools	Removed	To be undertaken by RBKC