



AUDIT AND PENSIONS COMMITTEE

29 June 2010

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP

Subject

**Internal Audit Quarterly report for the
period 1 January to 31 March 2010**

**WARDS
All**

RECOMMENDATION:

- a) 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 2010 as well as reporting on the performance of the Internal Audit service.

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 20 reports were finalised in the fourth quarter of the 2009/2010 year (see **Appendix A**). In addition 13 FMSIS Inspection letters were issued as well as 1 follow-up report and 10 other management letters. One audit report issued in this period which related to *Use of Consultants* received a split assurance. We were able to give substantial assurance on the policies and procedures area of the audit but nil assurance on the other areas covered by the scope (identification of needs, sourcing of consultants, selection of consultants, agreements, Fees/ Expenses, monitoring of consultants and project completion. Overall the audit was given a nil assurance and this resulted predominantly from the fact that we were unable to obtain from the departments all the necessary documents for each consultancy selected for testing. All 6 of the recommendations raised in this report have been reported as implemented and a follow-up audit will now be carried out to verify implementation.

- 2.3 The audit report process allows for management to respond following the issue of a draft report. Following agreement on findings and recommendations a final report is issued.

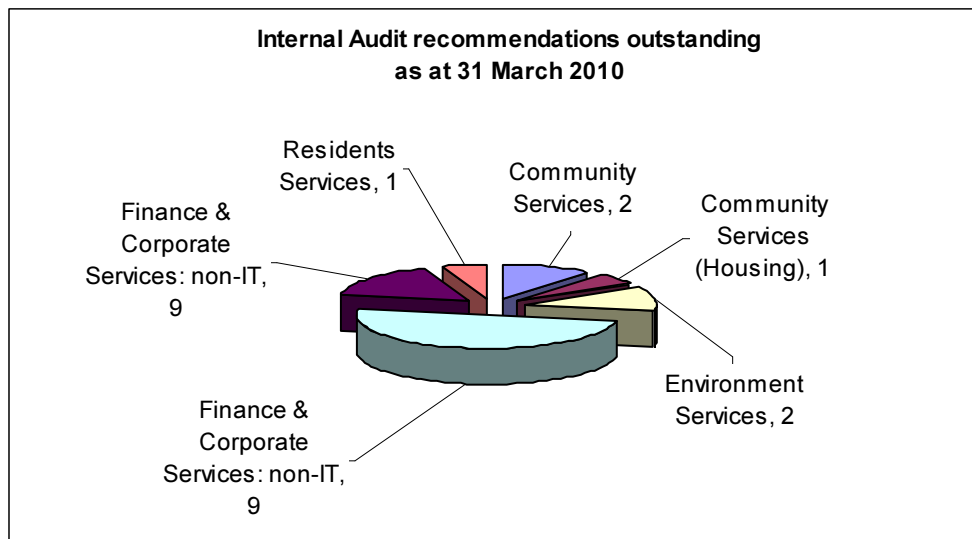
- 2.4 Two reports are maintained on an ongoing basis to which departments (including directors and FSB reps) have access and which departmental Internal Audit reps help to maintain. The first of these is a schedule of draft audit reports that have been issued for which responses have not been received for more than two weeks. These are listed in **Appendix C** for information and total 4.

Schools has 2 reports outstanding, Children's Services (non-schools) 1 and Community Services (Housing) 1. None of these reports will be over 6 months old at the time of the Committee meeting. We are very pleased to report that there are no reports outstanding for Community Services, Environment Services, Finance and Corporate Services or Residents Services.

2.5 The second report is a table, a copy of which has been provided at **Appendix D**, that shows there are now 18 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 the 34 reported as outstanding 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.

2.6 The breakdown between departments is as follows:

- Community Services – 2
- Community Services (Housing) – 1
- Environment Services Dept – 2
- Finance & Corporate Services Dept – 12
(of which 3 relate to HFBP)
- Residents Services – 1



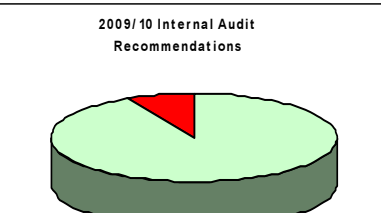


There are no outstanding recommendations to report in respect of Children's Services (schools or non-schools).

2.7 Of the 18 recommendations listed 5 are at least six months past their target date for implementation as at the date of the Committee meeting. There are no outstanding recommendations over a year past their target date.

2.8 2 of the outstanding recommendations relate to the 2007/8 year audit plan 4 to 2008/9 and 12 to 2009/10. There are no more outstanding recommendations to report from the 2006/7 audit plan. The breakdown of recommendations implemented compared as a proportion of the total in each year can be seen below.

100% of recommendations made in 2004/5, 2005/6 and 2006/7 have been implemented

Percentage of 2007/8 year audit recommendations past their date that have been implemented	99.49%	387 recommendations implemented out of a total of 389	
Percentage of 2008/9 year audit recommendations past their implementation date that have been implemented.	98.96%	381 recommendations implemented out of a total of 385	
Percentage of 2009/10 year audit recommendations past their implementation date that have been implemented.	92.36%	145 recommendations implemented out of a total of 157	

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 supply the resources for carrying out individual audits and also periodically provide management information to support the reporting requirements of the in-house team

3.2 As part of the CIA's function he is required 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 2009 to 31 March 2010 and also include an update on the completion of the 2008/09 audit plan.

Performance Indicators 2008/2009 & 2009/10

Ref	Performance Indicator	Target	Pro rata target	Year end Performance	Variance	Comments
2008/09						
1	% of deliverables completed (2008/09)	N/A	N/A	100%	N/A	134 reports delivered out of a total plan of 134
2	% of planned audit days delivered (2008/09)	N/A	N/A	100%	N/A	1,260 days delivered out of a total plan of 1,260
2009/10						
3	% of deliverables completed (2009/10)	95%	95%	95%	0%	120 reports delivered out of a total plan of 126 Target achieved.
4	% of planned audit days delivered (2009/10)	95%	95%	93%	-2%	1081 days delivered out of a total plan of 1165 days % days delivered is less than deliverable issued as time has been held back to finalise reports.
5	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	84%	-11%	78 audit briefs out of 93 issued within PI requirement Reasons for commencing work prior to the 10 working days from the issue of the brief to be reported to the CIA. Any agreed exceptions to be reported.
6	% of Draft reports issued within 10 working days of exit meeting	95%	95%	63%	-32%	50 draft reports out of 79 issued within PI requirement

- 3.3 The first two rows of the above table show that the 2008/09 year plan has been completed.
- 3.4 For the 2009/10 year the target of delivering 95% of the audit plan by 31 March 2010 was achieved and exceeded the performance in the previous year of 91%.
- 3.5 Overall performance of internal audit has improved, although the indicators for draft reports issued within 10 working days, final reports issued within five working days and audit briefs issued more than 10 days before the start of the audit need to be improved. Attention will be focussed on these areas in 2010/11.
- 3.6 As well as increased Senior Management involvement from Deloitte, more robust monitoring and escalation procedures have been established by the in-house team and Deloitte to facilitate quicker turnaround time for reports without compromising quality.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
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 2010

We have finalised a total of 25 audit reports for the period to 31 December 2010. 22 relate to the 2009/10 programme and the remaining 3 relate to 2008/09. In addition, we have issued a further 13 FMSIS reports, 10 management letters and 1 follow-up report.

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	2009/10	Greenside Primary School	Andrew Christie	Substantial
2	2009/10	New Kings Primary	Andrew Christie	Substantial
3	2009/10	Pope John Catholic School	Andrew Christie	Substantial
4	2009/10	St Stephen's CE Primary School	Andrew Christie	Substantial
5	2009/10	Lady Margaret School	Andrew Christie	Substantial
6	2009/10	Avonmore Primary School	Andrew Christie	Substantial
7	2008/09	CSD Procurement	James Reilly	Substantial
8	2009/10	Supporting People Contracts	James Reilly	Substantial
9	2009/10	Abacus	James Reilly	Substantial
10	2009/10	Adult Health and Social Care Service Delivery Maintenance	James Reilly	Substantial
11	2009/10	Vertical 1 - Internal Repairs and Decs, WC Refurb & Access Imp	Nigel Pallace	Substantial
12	2009/10	Vertical 2 - External & Communal Repairs and Decorations	Nigel Pallace	Substantial
13	2009/10	Energy Efficiency/Green Agenda	Nigel Pallace	Substantial
14	2008/09	Lagan CRM Application	Jane West	Substantial
15	2008/09	Data Quality	Jane West	Substantial
16	2009/10	GCSX Code of Connexion	Jane West	Substantial
17	2009/10	EDMS Application Audit	Jane West	Substantial
18	2009/10	IT Service Desk	Jane West	Substantial
19	2009/10	Risk Management Action Plans	Jane West	Substantial
20	2009/10	Risks Management - Assurance Frameworks	Jane West	Full
21	2009/10	Corporate Information Management and Security	Jane West	Substantial
22	2009/10	Equality and Diversity in Procurement	Jane West	Substantial
23	2009/10	Inappropriate E-mails	Jane West	n/a
24	2009/10	Use of Consultants	Jane West	Split assurance Substantial/ Nil
25	2009/10	Data Storage & Backup Recovery	Jane West	Substantial

Audit Reports

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.

FMSIS Inspection Reports

No.	Audit Plan	Audit Title	Director	Result
26	2009/10	Addison Primary School	Andrew Christie	Pass
27	2009/10	Avonmore Primary School	Andrew Christie	Pass
28	2009/10	Brackenbury School	Andrew Christie	Conditional Pass
29	2009/10	Greenside Primary School	Andrew Christie	Pass
30	2009/10	Holy Cross Catholic Primary School	Andrew Christie	Conditional Pass
31	2009/10	Hurlingham and Chelsea Secondary School	Andrew Christie	Pass
32	2009/10	New Kings Primary School	Andrew Christie	Conditional Pass
33	2009/10	Pope John Catholic Primary School	Andrew Christie	Pass
34	2009/10	St Stephens Primary School	Andrew Christie	Pass
35	2009/10	Wormholt Park Primary School	Andrew Christie	Conditional Pass
36	2009/10	Lady Margaret Secondary School	Andrew Christie	Conditional Pass
37	2009/10	The Bridge Academy	Andrew Christie	Pass
38	2009/10	Cambridge Special Secondary School	Andrew Christie	Conditional Pass

Financial Management Standard in Schools (FMSIS) inspections are categorised as Pass, Fail or Conditional Pass in line with the guidance issued by the DCSF.

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
39	2009/10	Catering Staff Employee Payments Monitoring Procedures	Andrew Christie
40	2009/10	Human Resources records management and management information	Jane West
41	2009/10	IFRS (Quarter 2)	Jane West
42	2009/10	IFRS (Quarter 3)	Jane West
43	2009/10	Chip and Pin	Jane West
44	2009/10	System Access Rights	Jane West
45	2009/10	Vertical Contracts Audits	Nigel Pallace

External Audit Testing

No.	Audit Plan	Audit Title	Director
46	2009/10	Payroll	Jane West
47	2009/10	NNDR	Jane West
48	2009/10	Parking (PCN's)	Nigel Pallace/Jane West

Follow ups

No.	Audit Plan	Audit Title	Director	Findings on recommendations				Total
				Fully Implemented	No longer Applicable	Partly Implemented	Not Implemented	
49	2009/10	Mortuary Services	Lyn Carpenter	7 (1 P1, 6 P2)		2 (1 P1, 2 P2)	1 (P1)	10

Limited and No Assurance Final Audit Reports

In quarter four of 2009/10 we issued one report relating to *Use of Consultants* which had a split assurance of substantial relating to policies and procedures but nil relating to all other aspects of the audit scope.

Deloitte.

**Final Internal Audit Report 2009/10
London Borough of Hammersmith &
Fulham
Use of Consultants
March 2010**

This report has been prepared on the basis of the limitations set out on page 26.

Final Report

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Executive Summary

Introduction	<p>As part of the 2009/10 Internal Audit Plan, agreed by the Audit Committee on 11 March 2009, we have undertaken an internal audit of the Use of Consultants. This report has been undertaken in agreement with the Competition Board and is to update the audit undertaken as part of the 2007/2008 audit plan.</p> <p>This report sets out our findings from the internal audit and raises recommendations to address areas of control weakness and / or potential areas of improvement. We have provided two assurance levels within the report. There are policies and procedures established at corporate level, however, the audit identified that there is insufficient evidence to show that these are complied with across the departments. We were not provided with one full set of documentation to demonstrate that the councils policy and procedures were being fully adhered to and in five out of the eight of the audit areas relating to the needs, history of sourcing, selection, fees and expenses and project completion we cannot provide any assurance because we have not received sufficient documentation to base an opinion on. Therefore two opinions are given one covers Policies and Procedures and the other covers all the other areas of scope.</p> <p>The agreed objective and scope of our work is set out at Appendix B.</p>
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	None	Limited	Substantial	Full
Audit Opinion covering Policies and Procedures only (defined at Appendix A)				

Rationale Supporting Award of Opinion and Direction of Travel	Substantial assurance has been given for the Policies and Procedures area of the audit based on the Contract Standing Orders and the London Centre of Excellence Consultancy Toolkit available to staff on the Council Intranet. There is a draft "Procurement Guide: Use of Consultants and Advisers" which is expected to be approved in March 2010.
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Audit Opinion covering all other areas of scope (defined at Appendix A)	None	Limited	Substantial	Full
				

<p>Rationale Supporting Award of Opinion and Direction of Travel</p>	<p>The audit work carried out by Internal Audit for the remaining seven areas (the scope of which is detailed in Appendix B)(see Area summary for details) indicated that, control processes are generally weak leaving the processes/systems open to significant error or abuse and significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.</p> <p>The Direction of Travel provides a comparison to the previous audit visit. In this case the previous report was never formally issued but the draft report gave a limited assurance opinion.</p> <p>Nil assurance has been given overall because we have been unable to obtain from the departments all the necessary documents for each consultancy selected. The consultancies were selected for testing from the monthly returns sent to the Corporate Procurement Team. We appreciate in a number of cases that the consultancy arrangements have been in place for sometime and in a number of cases responsibility for them has changed under council restructuring. However, the level of response, despite a number of reminders and ultimately a request from the Director of Finance and Corporate Services, has not resulted in the documentation being provided. We have detailed under each area the number of supporting documents received as it is different in each case. We would like to confirm that we were provided with two agreements at the beginning of October but these have not been included due to their lateness and a brief review of these would indicate that they are incomplete and would not change the opinions given.</p> <p>From the limited number of documents received we did however note a number of weaknesses and these are detailed in the report.</p>
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Priority 1 Recommendations

We have raised three priority 1 recommendations as a result of this internal audit. These are as follows:

- Following the embedding of the policies and procedures sample checks should be undertaken on new appointments and the results reported to the Competition Board.;
- Clauses covering confidentiality should be included in all consultancy contracts; and
- Clauses covering dispute resolution should be included in all consultancy contracts.

Detailed Findings

Background	<p>A consultant is an “<i>experienced professional who provides expert knowledge for a fee. He/She works in an advisory capacity only and is usually not accountable for the outcome of a consulting exercise</i>” (www.businessdictionary.com/definition/consultant.html).</p> <p>The Draft Procurement Guide provides practical advice for the recruitment of consultants. It states consultants should only be used in the following circumstances:</p> <ol style="list-style-type: none">1) where specialist expertise is required which is not available within the Council;2) where it is available within the Council but demand cannot be efficiently supplied; or3) where a consultant acts as an external arbitrator. <p>It further states that there are 3 methods of appointing consultants</p> <ol style="list-style-type: none">1) Using an existing framework agreements;2) Using an approved list ; or3) Placing a Contract Notice seeking expressions of interest. <p>Based on Contract Standing Orders, the process for procuring consultants will depend on the estimated price and the following limitations apply:</p> <ol style="list-style-type: none">a) If less than £5,000 a single quotation is sufficient;b) £5,000-£50,000 requires 3 written quotations/tenders;c) £50,000-£100,000 requires a minimum of 3 tenders; andd) For £156,422 and over, the Public Contract Regulations require formal tendering through a Contract Notice appearing in the Official Journal of the European Union (OJEU) and the Council needing to seek a minimum of 5 tenders. <p>A public advertisement (Contract Notice) seeking expressions of interest must be placed for contracts of £20K and over where there is no framework agreement or where it is not appropriate to use an Approved list.</p> <p>For all projects the following applies:</p> <ol style="list-style-type: none">a) where projects are £20K and over then a Contract Notice needs to appear on the Councils website
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- seeking expressions of interest;
- b) where projects are £156,422 and over the Council must in addition to publishing the Contract Notice on the website, place one in the OJEU.

Area Summary	Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
				Priority 1	Priority 2	Priority 3
	Policies and Procedures			0	0	0
	Identification of Needs*			0	0	0
	Sourcing of Consultants*			0	0	0
	Selection of Consultants*			1	0	0
	Agreements			2	2	0
	Fees/expenses*			0	0	0
	Monitoring of Consultants			0	1	0
	Project Completion*			0	0	0

* No assurance could be provided in these areas due to documentation not being provided.

Summary of Findings

In this section we set out a summary of our findings under each area of scope. This is a balanced summary where possible. Where weaknesses are identified, full details of these are included in the recommendations raised.

Policies and Procedures

The Contract Standing Orders, which are used as the Procurement Guide for LBHF, outline the required tendering procedures for procuring consultants. In addition, the Council has produced a 'Draft Procurement Guide: Use of Consultants and Advisers' that provides practical advice on the recruitment of consultants.

We noted that the "Procurement Guide: Use of Consultants and Advisers" is in a draft format. We were informed that the expected date of approval of the guide is in March 2010 at the Competition Board.

Changes to policies and procedures are not necessarily formally notified to all staff but progressed through Competition Board and made available through being published on the Council intranet. In addition, workshops are held to discuss the Draft Procurement Guidance, the Guide to Buying Consultancy Services and Commissioning Toolkit for the Procurement of Consultancy and Professional Services from the London Centre of Excellence and raise awareness of the processes across the Council.

We can provide substantial assurance in this area and have not raised any recommendations as a result of our work in this area.

Identification of Needs

We were informed that identification of needs is the responsibility of individual budget holders. We were provided with 'Request for the Appointment of Consultants Application Forms' for two consultants within the Environment Department. Both requests included details of the reasons internal resources could not be made available to use. They also included information on the value and timescales of the appointment. We were also provided with a 'Rationale for Recruiting Temporary Recruitment' form for one consultant and a 'Cabinet Member Approval' for a consultant within the Community Services Department. We were not provided with evidence of pre-assessments for the remaining twenty two contracts in the selected sample of twenty six across all departments within the Council.

Due to information not being provided regarding to the other twenty two pre-assessments for consultants,

we cannot provide assurance in this area.

We have not raised any recommendations as a result of our work in this area.

Sourcing of Consultants

The Council website states that an approved list is no longer maintained.

We were informed that each consultancy position that is not sourced through an approved list or framework agreement should be advertised on the Council's website. For projects of £156,422 and over an advertisement should also be published in the Official Journal of the European Union (OJEU).

We verified that in all five 2008 and 2009 advertisements for consultancy services posted on the Council website tested, the timescales for contract term and project outputs were specified.

We were provided with one OJEU notice from the Community Services department. It has not proved possible however to trace advertisements for consultants from the consultant's name specified in the departmental returns, we understand that the advertisement may have been taken out under another name. The Corporate Procurement Team suggested that we should contact departments to provide information on which service title /scheme the consultants are recruited under and to obtain links to advertisements for the consultants. We have however not pursued this any further.

We are therefore not able to provide any assurance in this area.

Selection of Consultants

The London Centre for Excellence 'Commissioning Toolkit for the Procurement of Consultancy and Professional Services' has an 'Illustrative Example of Selection Mechanism'. This toolkit is available on the Council intranet and discussed at workshops with staff. We were informed that for consultancy agreements above £20,000 which are advertised, the Pre-qualification questionnaires (PQQs), where criteria for assessment are specified, are used. We were not however provided with any supporting documents to cover the selection of the consultants and we are therefore unable to provide any assurance in this area.

We have raised one recommendation as a result of our work in this area.

Agreements

We were provided with ten of twenty six requested consultancy agreements. Whilst the project definition was included in all agreements, project schedules and details of the work to be completed were included in only six. Two agreements made reference to a project schedule, however we were not provided with

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the project schedules or agreed milestones.

Fees were specified in all agreements; however the payment terms are not detailed in one of the ten agreements provided. Data protection and confidentiality clauses were included in five and a dispute resolution clause was included in two of the ten agreements.

In one case, we were provided with the rationale to appoint a consultant but not an agreement and in another case, we were provided with invoices only. We noted that these two cases related to agency staff employed by the Council and should have been posted to an agency staff code. We were informed by one department that miscoding to the consultancy code sometimes occurs.

In addition, it is not clear that the services provided in two agreements are not being provided as contracts of employment. We applied the HMRC ESI (Employment Status Indicator) tool and obtained an 'employee' status indication. It should be noted, however, that this is based only on the limited information provided to Internal Audit.

Two agreements provided dated back to 2002 and 2003 and there was no evidence of renewal or review provided.

We can therefore only provide limited assurance in this area due to the lack of documentation.

We have raised four recommendations as a result of our work in this area.

Fees/Expenses

There is no clear identification that payments are reconciled to the existing agreements. For the ten agreements provided we have compared the payments made through OLAS to the projected year end 2009 costs provided by each department for the agreements. Two of the agreements are from 2002/2003, therefore it is not clear that the amount per the agreement reconciles with the payments made as, for example, there was no provision for an annual increase in the hourly or daily rate.

We have not completed further work within this area due to the delays experienced in the provision of information.

We cannot therefore provide assurance in this area.

Monitoring of Consultants

Consultancy spend is monitored at departmental and corporate levels. Departments provide monthly returns of consultancy spend. We reviewed the returns for July and November 2008 and February 2009 for all departments. Finance and Corporate Services (FCS) has nil returns for these periods.

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	<p>In addition, a report on consultancy spend is provided on a monthly basis to the Leader via a CMT (EMT) report to the Leader. We agreed the returns by each department to the consultancy spend report provided to the Leader for February 2009.</p> <p>We were not provided with evidence of the monitoring processes taking place at departmental level, such as meetings with the consultants to identify underperformance and progress reviews against pre-set milestones.</p> <p>We can provide limited assurance in this area as we have not received any documentation.</p> <p>We have raised one recommendation as a result of our work in this area.</p> <p>Project Completion</p> <p>We were informed that an end/completion report should be completed by the budget holder within two months of the ending of any consultancy work. From the selected sample of twenty six, five consultancy appointments had a completed status. We have however not been provided with end/completion reports for the completed projects and are unsure whether this is because they have not been undertaken or just not provided.</p> <p>We are therefore unable to provide assurance in this area.</p>
Acknowledgement	<p>We would like to thank the management and staff of all departments for their time and co-operation during the course of the internal audit.</p> <p>All staff consulted are included at Appendix C.</p>

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Recommendations

Selection of Consultants

1. Monitoring of consultants appointments to be undertaken

(Priority 1)

Recommendation		Rationale	
<p>The AD of Resources within each department should check that consultants' appointments listed on the monthly Consultants Appointments monitoring schedule have been appropriately approved.</p> <p>Following the embedding of the policies and procedures sample checks should be undertaken on new appointments and the results reported to the Competition Board. The results of the sample checks should be periodically reported to the Competition Board.</p>		<p>Checking that all consultants appointments are approved will help ensure that the most appropriate selections have been made.</p> <p>We were not provided with evidence of the approval of consultants' appointments relating to twenty four of the twenty six requested agreements.</p> <p>If the approval status of consultants is not checked, there is an increased risk of inappropriate consultants being employed. This increases the risk of Council expenditure on inappropriate projects and of consultants being employed without adherence to a fair and open selection process.</p>	
Management Response			
Agreed by the Principal Consultant, Procurement and AD Procurement, FCS.			
Approved by AD Resources within departments at FSB on 13/10/09			
Responsibility	AD Resources within departments	Deadline	31/3/10

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Agreements

2. Agreements to be reviewed for current requirements of the consultancy services

(Priority 2)

Recommendation		Rationale	
<p>A review of all consultancy agreements should be undertaken to assess whether the services are being provided as contracts of employment or on a commercial/self employed basis.</p>		<p>HMRC Guidance states that 'it is a general requirement that those wishing to take on workers considered the terms and conditions of particular engagement to determine whether the worker is an employee or self employed'.</p> <p>In two of the ten cases checked we applied the HMRC ESI (Employment Status Indicator) tool and obtained an 'employee' status indication. It should be noted, however, that this is based on limited information provided to Internal Audit.</p> <p>Where the Council does not undertake reviews of consultancy contracts for consultancy/employed status, there is an increased risk that the Council may not comply with HMRC regulations and guidance.</p>	
<p>Management Response</p>			
<p>Agreed by the Principal Consultant, Procurement and AD Procurement, FCS.</p> <p>Approved by AD Resources within departments at FSB on 13/10/09</p>			
<p>Responsibility</p>	<p>AD Resources within Departments</p>	<p>Deadline</p>	<p>31/3/10</p>

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3. Confidentiality clauses to be included within the contracts

(Priority 1)

Recommendation		Rationale	
<p>Departments should use the terms and conditions, including confidentiality clauses, as provided in the standard contract for consultancy services template on the intranet unless otherwise agreed by Legal Services.</p> <p>Where it is considered necessary, deeds of variation should be made to existing contracts that do not include the clause.</p>		<p>Including confidentiality clauses in consultants agreements helps ensure compliance with the Data Protection Act 2006.</p> <p>We noted that five out of ten agreements did not include confidentiality clauses.</p> <p>Where confidentiality clauses are not included, there is an increased risk of non compliance with data protection legislation.</p>	
Management Response			
Agreed.			
Responsibility	AD, Legal and Democratic Services	Deadline	31/3/10

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4. Dispute resolution clauses to be included within the contracts

(Priority 1)

Recommendation		Rationale	
<p>Departments should use the terms and conditions, including dispute resolution clauses, as provided in the standard contract for consultancy services template on the intranet unless otherwise agreed by Legal Services.</p> <p>Where it is considered necessary, deeds of variation should be made to existing contracts that do not include the clause.</p>		<p>Including dispute resolution clauses in all contracts helps ensure that disputes are resolved in an efficient and effective manner.</p> <p>We noted that eight out of ten agreements received did not include a dispute resolution clause.</p> <p>Where dispute resolution clauses are not included, there is an increased risk that any settlement of disputes may be overly expensive.</p>	
Management Response			
Agreed.			
Responsibility	AD, Legal and Democratic Services	Deadline	31/3/10

Final Report

5. Agreements to be reviewed annually for fee increases

(Priority 2)

Recommendation		Rationale	
Fees and costs should be reviewed annually to ensure value for money.		Reviewing agreements on an annual basis helps ensure that they remain relevant and costs can be assessed by the Council. We noted that two of the agreements provided are dated 2002 and 2003. We were not provided with evidence of annual review. One of the agreements has an annual cost of £100,000 projected for 2008-09. Where the agreements are not reviewed for annual increases in fees and costs, there is an increased risk of their becoming uneconomic and the Council not achieving value for money.	
Management Response			
Agreed by the Principal Consultant, Procurement and AD Procurement, FCS. Approved by AD Resources within departments at FSB on 13/10/09			
Responsibility	AD Resources	Deadline	31/3/10

Final Report

Monitoring of Consultants

6. Consultancy code to be analysed and compared to the relevant agreements

(Priority 2)

Recommendation		Rationale	
<p>Consultancy codes should be analysed and the expenditure compared to expected spend taken from the agreements.</p>		<p>Analysis of the consultancy codes helps ensure that only consultancy related expenditure is included on the cost centres and accurate information is provided on consultancy spend.</p> <p>We noted that two of the ten consultant appointments of twenty six requested from the monthly consultants monitoring returns were for agency staff coded to the consultancy code. In addition, we were informed by one department that miscoding to the consultancy code sometimes occurs. We noted that monthly returns to the Corporate Procurement Team are provided of consultancy spend within each department. We were also informed that consultancy spend is sometimes miscoded to non-consultancy codes.</p> <p>Where the consultancy code is not analysed and compared to expected spend taken from agreements, there is an increased risk of incorrect financial information being provided for decision making purposes.</p>	
Management Response			
<p>Agreed by the Principal Consultant, Procurement and AD Procurement, FCS.</p> <p>Approved by AD Resources within departments at FSB on 13/10/09</p>			
Responsibility	AD Resources	Deadline	31/3/10

Final Report

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

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.

Deloitte & Touche Public Sector Internal Audit Limited

St Albans

March 2010

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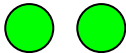



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Appendix A – Definition of Audit Opinions, Direction of Travel, Adequacy and Effectiveness Assessments, and Recommendation Priorities

Audit Opinions




We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Substantial	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	None	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.

	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.

Adequacy and Effectiveness Assessments

Please note that adequacy and effectiveness are not connected. The adequacy assessment is made prior to the control effectiveness being tested.

The controls may be adequate but not operating effectively, or they may be partly adequate / inadequate and yet those that are in place may be operating effectively.

In general, partly adequate / inadequate controls can be considered to be of greater significance than when adequate controls are in place but not operating fully effectively, i.e. control gaps are a bigger issue than controls not being fully complied with.

	Adequacy	Effectiveness
	Existing controls are adequate to manage the risks in this area	Operation of existing controls is effective
	Existing controls are partly adequate to manage the risks in this area	Operation of existing controls is partly effective
	Existing controls are inadequate to manage the risks in this area	Operation of existing controls is ineffective

Recommendation Priorities

In order to assist management in using out internal audit reports, we categorise our recommendations according to their level of priority as follows:

Priority 1	Major issues for the attention of senior management and the audit committee.
Priority 2	Important issues to be addressed by management in their areas of responsibility.
Priority 3	Minor issues resolved on site with local management.

Appendix B – Audit Objectives & Scope

Internal Audit Objective and Scope

The overall objective of this internal audit was to provide the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls relating to the following management objectives:

Policies and Procedures

That policies and procedures are established for complying with legislation and Council objectives in recruiting consultants.

That policies and procedure documents are up to date, formally approved and made available to all relevant staff.

That staff are informed when changes to local procedures or changes in legislation occur.

Identification of Needs

That objectives of projects are agreed to determine the type of individuals required.

That internal resources are analysed to assess whether the role can be undertaken internally / or alternative sources could be used.

That an assessment of the benefits of employing consultants in light of probable costs is made.

That an approximate cost and timescale has been determined, agreed and a briefing paper (client brief) prepared.

Sourcing of Consultants

That consultants are selected from an approved list where appropriate.

That the position is published on the website/OJEU where there is no framework and the approved list is not appropriate to use.

That the advert/tender includes the situation, objectives of the work, budget available, deadlines, timescales, resources and any restrictions.

That the advert and tender is produced and published in a timely manner prior to the need of the consultant.

That the advert/tender is correctly included in the appropriate publications.

Selection of Consultants

That consultants are assessed against pre- qualification assessments that are documented and approved.
That a risk assessment is completed that details the level of risk associated with using each proposed consultant.

That tender documents are reviewed at an appropriate level.

Agreements

That agreements include a definition of the project; specify who is responsible for each element if more than one consultant is assigned, provide a detailed project schedule with agreed milestones, state fees and payment terms.

That a dispute resolution procedure has been agreed, formally approved and included within the terms and conditions of the contract.

That any confidentiality issues have been addressed prior to the commencement of the work. i.e. relating to access of data, retention of data and intellectual property.

That the end result of the project has been assigned to either the consultant or the in-house team.

Fees/Expenses

That payment is made on time in accordance with the agreement.

That payments to consultants are reconciled to the original agreement. Where additional work is completed which is not beneficial to the Council, no payment is made. Any payments above the agreed fixed fee should be authorised by an appropriate officer. Where there is no fixed fee but a success fee (only receivable on achievement of objective), the fee should only be paid following assessment of the work.

That where expenses are claimed for travel, etc these should be in line with the agreement. Any expenses for the project are required to be authorised by the Council beforehand.

Monitoring of Consultants

That local meetings are promptly held with the consultant on identification of poor performance.

That regular monitoring of performance and expenditure for all consultants is undertaken by individual departments and the Procurement Team and subsequently reported to senior management.

That any areas of budget overspend / underspend are regularly reviewed

That a progress review is held on completion of each milestone.

Project Completion

That a final report is produced assessing whether objectives have been achieved fully and as planned.

That the report is formally reviewed and checked to identify any outstanding work, before signing report and final invoice.

Internal Audit Approach and Methodology

The internal audit approach is developed through an assessment of risks and management controls operating within the agreed scope.

The following procedures were adopted:



- Identification of the role and objectives of each area;
- Identification of risks within each area which threaten the achievement of objectives;
- Identification of controls in existence within each area to manage the risks identified;
- Assessment of the adequacy of controls in existence to manage the risks and identification of additional proposed controls where appropriate; and
- Testing of the effectiveness of key controls in existence within each area.

Management should be aware that our internal audit work was performed in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Our internal audit testing was performed on a judgemental sample basis and focused on the key controls mitigating risks. Internal audit testing was designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

Please note that, in relation to the agreed scope, whilst our internal audit assessed the efficiency and effectiveness of key controls from an operational perspective, it was not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions.

Appendix C – Audit Team & Staff Consulted

AUDIT TEAM	STAFF CONSULTED
General Manager	Head of Procurement
Sector Manager	Assistant Director Finance
Senior Audit Manager	
Principal Auditor	
Contact Details:	
 Ext 2550	
 Ext 2590	

Appendix D – Audit Timetable

	DATES
Fieldwork Start	01/05/09
Exit Meeting	06/10/09 ,09/10/09 and 14/10/09
Draft report issued	20/10/09
Final report issued	09/03/10

APPENDIX C

Internal Audit reports in issue more than two weeks as at 31 March 2010

	Audit Year	Department	Responsible Director	Audit Title	Assurance	Draft report issued on	Target date for responses	Awaiting Response From
1	2009/10	School	Andrew Christie	Holy Cross Catholic Primary School	Substantial	01/02/2010	15/02/2010	Director
2	2009/10	School	Andrew Christie	Wormholt Park Primary School	Limited	10/12/2009	04/01/2010	Auditee and Director
3	2009/10	Children's Services - non-schools	Andrew Christie	Cleaning Services Contract	Substantial	04/01/2010	19/01/2010	Director
4	2009/10	Community Services (Housing)	Nick Johnson	HF Homes Contract Management	Substantial	23/02/2010	09/03/2010	Auditee and Director

APPENDIX D

Audit Recommendations Outstanding

This is a schedule of all recommendations where the target date for implementation has passed and either the recommendation has not been fully implemented, or the auditee has failed to provide information on whether it has been implemented.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
1	2009/10	Community Services	Adult Health Social Care Service Delivery Maintenance	Substantial	Protocols for the provision of adult social care services should be reviewed and updated for as appropriate.	2	31/03/2010	Head of Quality Assurance	
2	2008/09	Community Services	CSD Procurement	Substantial	An overall procurement programme should be produced and formally approved by the Programme Board. It should be formally monitored on a regular and timely basis.	2	31/03/2010	Head of Community Procurement	
3	2007/08	Community Services (Housing)	LOCATA Application	Limited	Management should ensure that as a member of the West London Allocations and Lettings Group (WLALG), the Service Level Agreement (SLA) between Locata and the Council should be located and monitored on a regular basis. Where underperformance is identified, corrective action should be undertaken.	1	30/11/2009		Recommendations are now being implemented Follow-up findings 26/10/09: There has been no progress with the supplier since June 2009 update. AD of Housing (Housing Options) to raise this formally with HFBP, Sector and the strategic Lettings Group
4	2009/10	Environment	Vertical Contracts BTS - Auckland House External and Communal Refurbishment	Substantial	Performance monitoring of Consultants that are contracted with for periods greater than 12 months should be undertaken on a regular and timely basis.	2	20/02/2010	Quantity Surveyor Manager	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
5	2009/10	Environment	Vertical Contracts BTS - Internal Repairs and Decorations WC Refurbishment & Access Improvements	Substantial	Ongoing financial checks of both contractors and consultants where they are in position for greater than 12 months should be undertaken and evidenced on file. The source of all figures should be evidenced by supporting documentation or quoted to enable their validity to be verified	2	31/12/2009	Quantity Surveyor Manager	
6	2009/10	Finance & Corporate Services (HFBP)	IT Service Desk	Substantial	A formal strategy should be developed which clearly defines the service desk's medium to long term objectives and how these will be achieved. This could be included in the overall IT strategy and should outline the plan to achieve the service desk objectives. In addition, the strategy should be monitored and reviewed periodically to ensure that the plan is achieving its objectives and goals.	2	31/10/2009	Service Desk Manager	
7	2009/10	Finance & Corporate Services (HFBP)	IT Service Desk	Substantial	The applications team should explore the possibility to configure the following password controls on the Service Desk Magic application: <ul style="list-style-type: none"> • A minimum password Length of 7 characters; • Password complexity to force a password combination of alpha and numeric characters; • A password age to force password expiry between 30 - 90 days; • A password history to prevent passwords being recycled; and • Default passwords be force changed on first entry. Where this is not possible, management should document the reasons and consider implementing these controls in any future replacement system.	2	30/09/2009	Service Desk Manager; Central Applications Team Leader	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
8	2009/10	Finance & Corporate Services (HFBP)	IT Service Desk	Substantial	A periodic review of the group membership for the users registered on the Magic application should be performed to ensure that all users are active and current and that user access is allocated in line with their job role. The group permissions should also be reviewed and any excess permissions removed. Users who have not used their accounts for a long time should also be reviewed and their accounts disabled.	2	30/09/2009	Service Desk Manager; Central Applications Team Leader	
9	2009/10	Finance & Corporate Services	Camsys	Substantial	It is recommended that system review surveys are issued to all system users upon completion of the CAMSYS project.	2	31/03/2010	Project Manager	
10	2009/10	Finance & Corporate Services	Corporate Information Management and Security	Substantial	A central register of information asset owners should be created.	2	31/03/2010	Information Manager	
11	2009/10	Finance & Corporate Services	Corporate Information Management and Security	Substantial	Notification of non-respondents to the 'Staff Declaration Form and Personal Commitment Statement' should be notified to the remaining departments as soon as possible. The Information Manager should obtain assurances from each department that appropriate management corrective action has been taken in respect of non-respondents.	1	30/03/2010	Information Manager	
12	2009/10	Finance & Corporate Services	HR-E-mail Content Management	Limited	An automated policy compliance and awareness system should be implemented to confirm acceptance and understanding of the Council's Compliance Policy requirements and Standards	1	31/12/2009	Head of IT Strategy and Assistant Director of HR	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
13	2009/10	Finance & Corporate Services	HR-E-mail Content Management	Limited	Formal consideration should be given to the development of a clearly defined investigation methodology for allegations of inappropriate email content The methodology development should ensure a cost benefit evaluation of HR and ICT Policy compliance discovery tools and the use of Computer Aided Audit Techniques and databases to assist the baseline assessment and trend analysis of such investigation activities	1	31/12/2009	Head of IT Strategy and Assistant Director of HR	
14	2009/10	Finance & Corporate Services	HR-E-mail Content Management	Limited	The testing and cost benefit evaluation of an automated email content policy compliance monitoring system should be completed as soon as possible and should include assessment of solutions which evaluate text as well as images	1	31/12/2009	Head of IT Strategy and Assistant Director of HR	
15	2008/09	Finance & Corporate Services	Data Security	Substantial	The Council should consider issuing additional security measures for portable laptops when these are to be used away from the Council offices. These measures should include the issue of cable locks to secure portable equipment	2	31/08/2009	Interim Information Manager	Currently in consultation with the Smart Working Programme Team.
16	2008/09	Finance & Corporate Services	Data Security	Substantial	Where it is likely that confidential data may be held on removable data storage devices (such as laptops and USB memory sticks), management should provide suitable data encryption facilities on these devices. Furthermore, HFBP should ensure that the Blackberry Enterprise Server content encryption policy is enabled so that data held on Blackberry handsets is encrypted	2	31/12/2009	Interim Information Manager	HFBP solution proposal is with the CMO and the Information Security Policy will be going to EMT for approval in March (Information Manager - 28 January 2010).

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
17	2008/09	Finance & Corporate Services	HFBP Contract Management	Substantial	The leavers checklist completed by Council officers should include a section regarding their login details and the requirements to notify HFBP. The required information should be communicated by HFBP.	1	31/01/2010	Human Resources Relationship Manager	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target date	Responsible Officer	Status/ Comments
18	2007/08	Residents Services	Mortuary Services	Limited	<p>A risk register should be completed and reviewed annually, which covers the objectives and activities of the Mortuary Services.</p> <p>The risk register should include, the following details;</p> <ul style="list-style-type: none"> • Assessment of the inherent risk; • Controls established to mitigate the risk; • Assessment of the residual risk; and • Responsible officer for the risk <p>The risk register should cover all risks to the objectives of the service, including risks with a financial impact to the service.</p>	2	31/03/2010	Head of Emergency Services	<p>AP update 07/01/09 –</p> <p>Sample of risk register to be obtained from St Thomas's Hospital (James Lowell). To be completed end of Jan 09.</p> <p>A review also to be completed at Uxbridge Mortuary. New implementation date of 31/3/09 proposed.</p> <p>COMPLETE - existing 6 monthly risk assessment integrated with Standard Operations Procedure manual.</p> <p>PARTLY IMPLEMENTED</p> <p>As per 01/02/2010 Follow-Up - The current risk register does not include financial risk but work based risks. We also identified that risk owners were not assigned to all identified risks on the risk register. Also, there was one risk with the risk owner denoted as 'N/A'. The risk register should cover all risks to the objectives of the service, including risks with a financial impact to the service and not just work based risks. Further, each risk should be assigned risk owners for monitoring progress against identified actions.</p>