

# AUDIT AND PENSIONS COMMITTEE

## CONTRIBUTORS

Chief Internal Auditor

**TITLE: Head of Internal Audit Annual Assurance Report 2009/10 year**

**WARDS  
All**

This Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2009/10 year and provides assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. In all cases a satisfactory assurance has been provided with the exception of the significant control weaknesses recorded in the report. The report is a key element of the evidence supporting the Annual Governance Statement (AGS) that forms part of the 2009/10 year annual accounts.

### **RECOMMENDATION:**

**To agree the contents of the report.**

### **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.	Internal Audit plans, documents, audit files and supporting papers	Geoff Drake Ext. 2529	Finance Dept, 4 <sup>th</sup> Floor Hammersmith Town Hall

**LONDON BOROUGH OF  
HAMMERSMITH AND FULHAM**

**HEAD OF INTERNAL AUDIT ANNUAL REPORT**

**FOR THE YEAR ENDED 31 MARCH 2010**

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## Executive Summary

### Introduction

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

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

The Code of Practice also states at Paragraph 10.4.1 that:

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

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

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

“The relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and shall include a Statement on Internal Control, prepared in accordance with proper practices with (a) any statement of accounts it is obliged to publish in accordance with regulation 11, or (b) any income and expenditure account, statement of balances or record of receipts and payments it is obliged to publish in accordance with regulation 12.”

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## **Head of Internal Audit Opinion on the Effectiveness of Internal Control 2009**

This opinion statement is provided for the use of the London Borough of Hammersmith & Fulham in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2003) that is included in the statement of accounts for the year ended 31 March 2010.

### **Scope of Responsibility**

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

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

### **The Purpose of the System of Internal Control**

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

### **The Internal Control Environment**

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

### **Review of Effectiveness**

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

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## Head of Internal Audit Annual Opinion Statement

Our opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2009/2010 including our assessment of the London Borough of Hammersmith & Fulham's corporate governance and risk management processes.

The internal audit plan for 2009/2010 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

### Basis of Assurance

We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from our own internal quality assurance systems.

Our opinion is limited to the work carried out by Internal Audit based upon the strategic internal audit plan. Where possible we have considered the work of other assurance providers, such as External Audit.

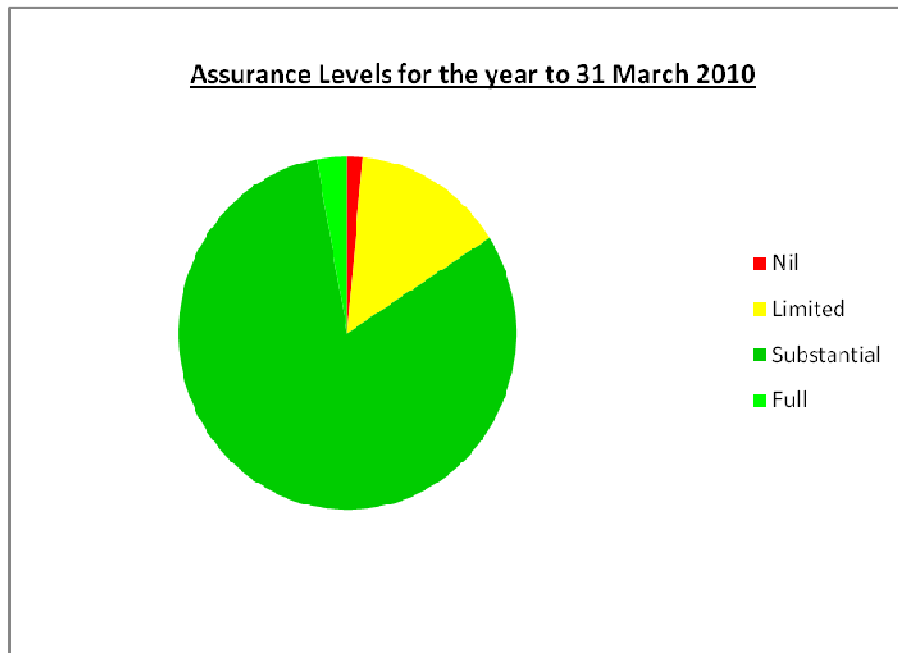
The audit work that was completed for the year to 31 March 2010 is listed in **Appendix 1, 3 and 4**. Appendix 1 lists all the audits and their results in terms of the audit assurance level provided and the direction of travel, where appropriate. The levels of assurance achieved on the systems audited by Deloitte are depicted in **Chart 1** overleaf.

This shows that 83% of the systems audited by Deloitte achieved an assurance level of substantial or higher of which two audits were full assurance ('Annual Governance Framework for Risk Management' and 'Building Schools for the Future'). 17% received an assurance level of limited or lower. Nil assurance was issued for one audit ('ICT Disaster Recovery Provisions') issued in draft and one finalised report (Use of Consultants) received a substantial assurance in respect of policies and procedures but nil assurance for all other areas.

The one limited and one nil/substantial assurance finalised reports contained 6 priority 1 recommendations and 13 priority 2. Of these, 3 Priority 1 and 10 Priority 2 have been reported by management as having been implemented. Of the 10 nil and limited assurance draft reports issued the most significant were ICT Disaster Recovery Provisions, BACS, Parking (Pay and Display) and Corporate Programme and Project Management.

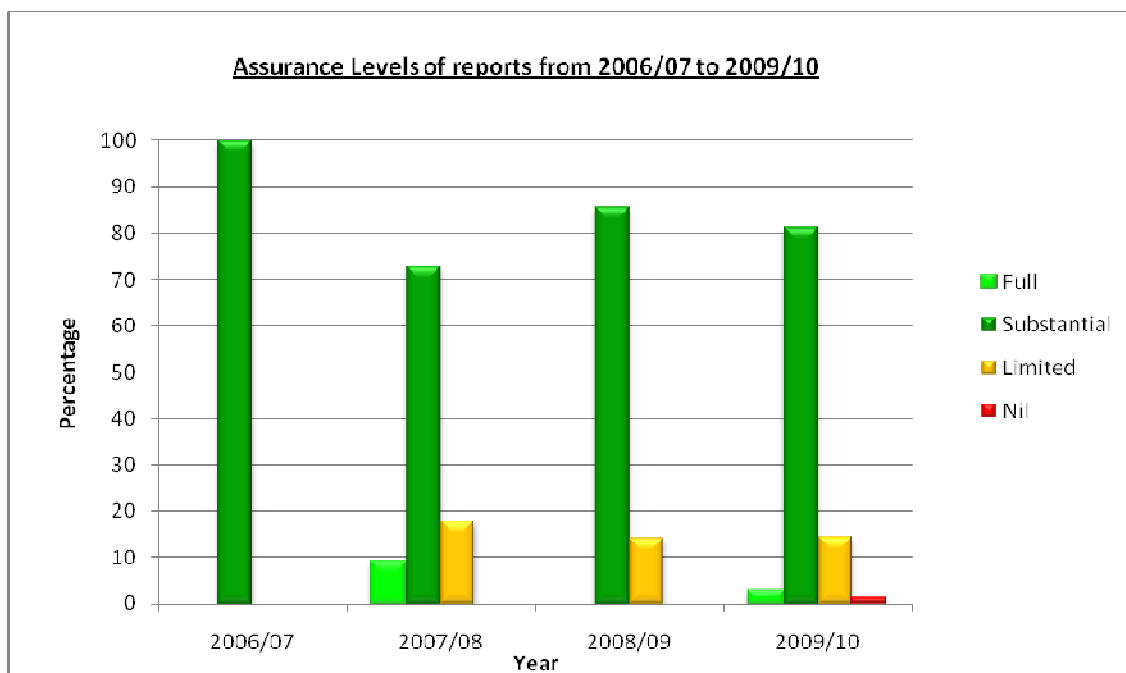
It should be noted that External Audit will not be requiring any further testing from Internal Audit for this financial year. Failures in certain key controls highlighted through our mid-year testing mean that no further testing was required. However, given the status of the control environment as a whole, we believe the financial system to be sound.

**Chart 1: Assurance Levels for the year to 31 March 2010**



A complete list of all systems audits and assurance opinions against them can be found within **Appendix 1**. Recommendations to take corrective action were agreed with management and we will continue to undertake follow up work in 2010/11 to confirm that they have been effectively implemented.

**Chart 2** below shows the levels of assurance provided for all systems audited since the 2006/07 financial year. Over the last four years, the level of substantial and full assurance opinions shows a downward trend. This is believed to be due to the audit plan now being risk based and therefore more focussed on areas of greater risk or known issues.



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## 2009/2010 Year Opinion

From the Internal Audit work undertaken in 2009/10 it is our opinion that we can provide significant assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham for the year ended 31 March 2010 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report. The assurance can be further broken down between financial and non-financial systems, as follows:



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

- The whole programme of internal audit work undertaken by Deloitte between the 1<sup>st</sup> April 2009 and the 31<sup>st</sup> March 2010. This included a review of the Council’s Corporate Governance and Risk Management arrangements;
- Year end review of Internal Audit as part of the Annual Governance Statement (AGS) process in April 2010 provided a positive result;
- The outcome of audit work for which no assurance level was provided. A summary of work undertaken and key findings can be found in appendix 3; and
- Follow up audits undertaken in the 2008/09 financial year. A summary of the outcome of these follow up visits can be found in appendix 4.



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## **The Systems of Internal Financial Control**

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

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

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

- The work of internal audit as described in **Appendix 1, 3 and 4**; and
- The external auditors in their management letter and other reports.

From the above, I am satisfied that the Council has in place a sound system of internal financial controls, with the exception of those significant control weaknesses identified within the detailed report. I am also satisfied that mechanisms are in place which would identify and address any material areas of weakness on a timely basis.

## **Corporate Governance**

In my opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- The auditor's scored judgements under the CAA 'use of resources' process, particularly in relation to governance, standards of conduct and performance management; and
- The work of Internal Audit as described in Appendix 1, which provided a 'substantial' level of assurance as to the Corporate Governance systems in place.

## **Risk Management and Business Continuity**

It is noted that a number of service departments have developed the assessment, evaluation and documentation of risks and controls. Our work identified some areas for development in terms of the management controls put in place to mitigate identified risks. In addition, through our testing we identified instances of non-compliance with the Council's format structure for risk registers and found risk registers not being updated when changes occurred such as staff moving posts.

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In addition, an ICT Disaster Recovery Provisions audit was undertaken for which a 'Nil' assurance opinion was given. It was identified at the time of the audit that formal ICT resilience and disaster recovery arrangements have not been implemented for the majority of the Council's systems to mitigate against a disaster. Currently, a disaster affecting the Council's data centres could result in the loss of some critical systems for a period of between four to six months. Arrangements are only in place for the continuity of the Council's telephony and the Cedar application.

In drawing together our opinion we have relied upon:

- Our review of risk management through individual audits;
- The role of the Risk Manager who has Council wide responsibilities for co-ordinating and implementing the risk management policies of the Council; and
- The work of Internal Audit as described in Appendix 1, 3 and 4.

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

**HEAD OF INTERNAL AUDIT**

**May 2010**

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## DETAILED REPORT

### Introduction

This section is a report from Internal Audit detailing:

- Any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- Any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- The identification of work undertaken by other assurance bodies upon which internal Audit has placed an assurance to help formulate its opinion;
- The management processes adopted to deliver risk management and governance requirements;
- Comparison of the work undertaken during the 2009/10 year against the original Internal Audit plans; and
- A brief summary of the audit service performance against agreed performance measures.

### Significant Control Weaknesses

Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2009/10 the following were noted:

- Formal ICT resilience and disaster recovery arrangements have not been implemented for the majority of the Council's systems to mitigate against a disaster. This was an entry in the Annual Governance Statement 2009 as a significant control weakness and appears to remain extant;
- The controls around collection of parking pay and display income were found to be inadequate;
- External Audit will not be requiring any further testing from Internal Audit for this financial year. Failures in certain key controls highlighted through our mid-year testing mean that no further testing was required. A number of key reconciliations between Council systems are not adequately documented to demonstrate that they have been undertaken regularly and are subject to management review; and
- The Annual Governance Statement 2009 identified Frameworki as a significant control weakness and appears to remain extant.

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## **Key Issues**

A range of key issues were identified and taken forward by management at the London Borough of Hammersmith & Fulham in the 2009/2010 year. These included:

- The Council is in the process of merging with Hammersmith and Fulham Primary Care Trust. The two organisations have brought together a number of services which are managed and delivered jointly. This may give rise to issues related to delegation of powers, managing people and financial management;
- Continuing financial pressures on the Council, with low or reduced council tax rates planned and continuing pressures from Government on the Revenue Support Grant settlement. This increases the pressure to find savings, add value and improve financial management; and
- Introduction of Smartworking. The SMART working programme began in September 2008 and a programme of staggered pilots has been rolled out, the first of which began on 9 March 2009; and
- Adoption of the new International Financial Reporting Standards (IFRS).

There are a further range of issues that are likely to be of significance for the 2010/11 year and beyond, that Internal Audit need to keep aware of. These include:

- The reassessment of FMSiS to Primary and Special Schools and addressing common control issues;
- The Comprehensive Area Assessment (CAA) of how well councils are working together with other public bodies to meet the needs of the people they serve and the inclusion of Human Resources and Asset Management within this assessment; and
- Internal Audit working towards an assurance framework programme of work.

## **Qualifications to the opinion**

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

## **Other Assurance Bodies**

In formulating their overall opinion on internal control, the Head of Internal Audit took into account the work undertaken by the following organisations, and their resulting findings and conclusion:

- a) The annual letter from the Authority's external auditors;
- b) The auditor's score judgement by the Audit Commission (CAA Use of Resources).

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## **Risk Management Process**

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

### **a) Risk Management Policy**

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

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

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

### **b) Risk Registers**

The Authority has departmental and divisional risk registers in place. Procedures are in place for risk registers to be reviewed at least on a bi-annual basis. We adopt a risk based auditing approach as part of the West London Framework.

## **Audit Plan**

The Operational Plan for the 2009/10 year flowed from corporate and departmental risk registers and other issues brought to the attention of Internal Audit. We agreed and discussed the audit plan with Directors, Assistant Directors and Heads of Service. We also consulted various other sources, including the CIPFA Financial Model, and the Audit Commission's CAA Use of Resources document listing the Key Lines of Enquiry.

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

## **Internal Audit Assurance Levels and Direction of Travel**

A table is provided at **Appendix 1** setting out the level of assurance achieved on each systems audit and the change in assurance opinion where the audit has been undertaken previously. There is an ongoing programme of follow up work for all reports receiving a "Limited" or "Nil" audit assurance to ensure that accepted recommendations are implemented.

Of the 10 audits that received a limited audit assurance (one final and 10 draft) one fell within the Community Services Department, four within Children's Services Department (all schools), one within Resident Services, one within Environment Services and three within Finance and Corporate Services. Both the draft nil assurance report and the finalised nil/substantial report fell within Finance and Corporate Services. In all cases, audit

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recommendations were agreed with management at the time of the audit along with an action plan to address the identified weaknesses. Follow up audits will be undertaken in each case to review the adequacy and effectiveness of the corrective action taken.

Six follow up visits were undertaken in 2009/10 to determine if recommendations raised within the 2008/09 audit visits have been implemented. A summary of our findings can be found in appendix 4.

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## **Internal Audit Performance**

A table is provided at **Appendix 2** setting out pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against any targets that were set in advance. 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, audit briefs issued more than 10 days before the start of the audit need to be improved and priority will be given to focussing on these areas in 2010/11.

The target of delivering 95% of the audit plan by 31 March 2009 was achieved which exceeded the performance in the previous year of 91%. It should be noted that 36 audit days were deferred into the 2010/2011 audit plan at the request of auditees compared to 85 the previous year.

As well as increased General Manager involvement from Deloitte since September 2009, more robust monitoring and escalation procedures have been established between the in-house team and Deloitte to facilitate quick turnaround time for reports without compromising quality.

## **Compliance with CIPFA Code of Internal Audit Practice**

Internal Audit has comprehensive quality control and assurance processes in place and we can confirm that we comply with the CIPFA standards. Our assurance is drawn from:

- The work of external audit;
- Quality reviews carried out by both the Hammersmith and Fulham Internal Audit section and Deloitte; and
- Annual review of Internal Audit introduced as part of CIPFA guidance on the Annual Governance Statement. This reports that the Internal Audit service is fully compliant with the CIPFA standards on Internal Audit.

## **Working with External Audit**

The Audit Commission was consulted regarding the audit plans for the 2009/2010 year, and a number of audits in the internal audit plan were identified by them as being key to the external audit programme of work.

Harmonisation of internal and external audit plans was sought, so that External Audit could place greater reliance on the work of Internal Audit. During the course of the year we have worked closely with the external auditors to ensure that this approach is followed, developing on their behalf a programme of internal audit work that should fully support the Audit Commission in meeting their requirements to achieve ISA (International Standard of Accounting) 315.

The feedback received from the External Auditors was on the whole positive. They deemed that there was sufficient evidence on file to support the audit findings with clear testing and referencing of working papers. As a result they have been able to fully rely on the work undertaken by Internal Audit.

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As stated in the '2009/10 Year Opinion' section of the report, External Audit have stated they do not require additional testing by Internal Audit as our mid-year work identified a number of control failures.

### **Internal Audit Provision Going Forward**

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

- The re-tender of the internal audit contract currently held by Deloitte in 2010/11;
- Greater coordination of the internal audit provision with the Council and the PCT;
- A review of the internal audit service to redefine the organisation's needs going forward;
- Plans to merge the Audit Committee and Pensions Committee; and
- Involvement in the Building Schools for the Future Project where a contract will be let for 25 years at a value of £2.7bn.



## Appendices

### APPENDIX 1: Assurance Levels and Direction of Travel 01/04/2009 – 31/03/2010

The table below provides a summary of the assurances assigned to each of our reviews and the direction of travel when compared to from our last audit in that area. Where the direction of travel column is blank, no audit has previously been conducted.

		Audit Opinion				Direction of Travel	
Department	Audit	Nil	Limited	Substantial	Full	←/ ↔ /→	Issued
<b>FINALISED</b>							
Children's Services	Greenside Primary School					↔	17/03/2010
Children's Services	Pope John Catholic Primary School					↔	17/03/2010
Children's Services	New Kings Primary School					↔	17/03/2010
Children's Services	St Stephens CE Primary School					↔	17/03/2010
Children's Services	Lady Margaret Secondary School					↔	03/03/2010
Children's Services	Avonmore Primary School					↔	11/01/2010
Children's Services	The Bridge Academy					↔	21/09/2009
Community Services	Supporting People Contracts						17/03/2010
Community Services	Adult Health & Social Care Service Delivery Maintenance						20/01/2010
Community Services	Macbeth Centre & Byrony Centre - Establishment Visit						22/12/2009
Computer	Abacus IT Audit						15/02/2010
Computer	Government Connect Secure Extranet Project Management Audit						08/02/2010
Computer	EDMS Application Audit						21/02/2010
Computer	IT Service Desk Audit						01/02/2010
Environment Services	Private Housing Sector						22/10/2009
Environment Services	Energy Efficiency and Green Agenda						24/02/2010
Environment Services	Vertical Contract Audits BTS - Internal Repairs and Decorations WC					↔	09/02/2010

		Audit Opinion				Direction of Travel	
Department	Audit	Nil	Limited	Substantial	Full	←/ ↔ /→	Issued
Environment Services	Vertical Contracts Auckland House					↔	09/02/2010
FCS	Use of Consultants	*		*			09/03/2010
FCS	Equality and Diversity in Procurement						22/02/2010
FCS	Corporate Information Management and Securities						20/02/2010
FCS	Annual Governance Framework for Risk Management						20/02/2010
FCS	Risk Management Action Plans						22/02/2010
FCS	Data Storage and Backup Recovery Audit						04/01/2010
FCS	CAMSYS Project Management						22/10/2009
FCS	Anti-Social Behaviour Case System						20/10/2009
FCS	Academy Revenues and Benefits Audit						03/08/2009
Resident Services	Parks Constabulary						05/08/2009
<b>DRAFT</b>							
Children's Services	Addison Primary School					→	08/01/2010
Children's Services	Holy Cross Catholic Primary School					↔	01/02/2010
Children's Services	Fulham Primary School					↔	29/01/2010
Children's Services	Hurlingham and Chelsea Secondary School					↔	05/02/2010
Children's Services	Cleaning Services Contract						04/01/2010
Children's Services	Wormholt Park Primary School					←	10/12/2009
Children's Services	I-World Repairs Module Application Audit						28/10/2009
Children's Services	Cambridge School					↔	03/11/2009
Children's Services	Brackenbury Primary School					←	14/01/2010
Children's Services	Building Schools for the Future						26/03/2010
Children's Services	Leaving Care						01/04/2010
Community Services	HFH Contract Management						23/10/2010
Environment Services	Health and Safety						25/03/2010
Environment Services	Highway Paving Service						19/03/2010
Environment	Parking (Pay & Display)					↔	12/04/2010

		Audit Opinion				Direction of Travel	
Department	Audit	Nil	Limited	Substantial	Full	←/ ↔ /→	Issued
Services							
FCS	Debtors					↔	30/03/2010
FCS	Partnership and Corporate Governance					↔	26/03/2010
FCS	Corporate Workforce Planning					↔	17/03/2010
FCS	Budget Management						11/03/2010
FCS	Children's Service IT Transfer to HFBP						10/03/2010
FCS	Registers of interests for Officers						21/11/2009
FCS	Register of Members Interests						11/02/2010
FCS	BACS					←	11/02/2010
FCS	Risk Management - Service Review					↔	29/01/2010
FCS	Employment of Foreign Nationals						29/01/2010
FCS	Print Services Project Management						29/01/2010
FCS	Council Tax					↔	21/01/2010
FCS	Framework-I - Financial Aspects						26/11/2009
FCS	Corporate Programme and Project Management					→	27/11/2009
FCS	Lynx Remote Access Audit						26/10/2009
FCS	Register of Gifts and Hospitality						04/08/2009
FCS	Laptop/Mobile Asset Management and Security Audit						30/07/2009
FCS	Business Transformation						29/01/2010
FCS	ICT Disaster Recovery Provisions					↔	03/07/2009
FCS	SMART Working Programme						25/03/2010
FCS	Single Customer View						01/04/2010
Resident Services	Leisure Centres Contract Management						02/03/2010
Resident Services	Trade Waste - Financial Aspects and Debt Recovery						16/12/2009
<b>NOT YET ISSUED</b>							
	Citrix and VM Ware						
	Cross Borough						
<b>Total</b>		2	11	55	2	0	

		Audit Opinion				Direction of Travel	
Department	Audit	Nil	Limited	Substantial	Full	←/ ↔ /→	Issued

<b>Total Reports</b>	70
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\* An assurance level of substantial was provided for Policies and Procedures and Nil assurance for all other areas.

### Assurance Levels

In order to assist management in using our reports:

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

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

## APPENDIX 2: Internal Audit Performance – 2009/10

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

### Performance Indicators 2009/2010

	Performance Indicators	Annual Target	Performance	Variance
1	% of deliverables completed	95	95	0
2	% of planned audit days delivered	98	93	-5
3	% of Audit Briefs issued 10 days before start of audit	95	84	-9
4	% of audits where exit meetings held	100	100	0
5	% of Draft reports issued within 10 working days of exit meeting	95	63	-32
6	% of Final reports issued within 5 days of receipt of reply	100	75	-25
7	% of audits follow ups completed	100	100	0
8	% of Satisfaction survey satisfactory	95	83	5
9	% of 2009/10 year audit recommendations past their implementation date that have been implemented	N/A	39	N/A
10	% of 2008/09 year audit recommendations past their implementation date that have been implemented	N/A	92	N/A
11	% of 2007/08 year audit recommendations past their implementation date that have been implemented	N/A	98	N/A
12	% of 2006/7 year audit recommendations past their implementation date that have been implemented.	N/A	99.8	N/A

### APPENDIX 3: Internal Audit Work for Which No Assurance Opinion was provided

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

Subject	Scope	Findings
<b>Core Financials - Payroll</b>	Testing of key financial controls for external audit and follow up of the 2007/08 recommendations	<p>All previous recommendations had been implemented. One recommendation was no longer applicable.</p> <p>Five of the seven controls tested for external audit were found to be satisfactory. Issues identified related to:</p> <ul style="list-style-type: none"> <li>• Leaver forms and management authorisation of leaving were not present in all cases tested</li> <li>• - No evidence that establishment lists were reviewed by management</li> </ul>
<b>Payroll - Ghost Employees</b>	Identification and assessment of the controls in place to prevent and detect ghost employees and inappropriate overtime claims.	<ul style="list-style-type: none"> <li>• Change of address forms and supporting evidence of the change were not always retained.</li> <li>• There was no evidence that a report of changes to bank details was reviewed on a monthly basis.</li> </ul>
<b>Core Financials - Parking (PCN's)</b>	Testing of key financial controls for external audit.	<ul style="list-style-type: none"> <li>• Reconciliation between ICPS and ICON - No investigation of discrepancies between the two systems.</li> <li>• A report is run detailing PCN income received but not yet matched to a PCN reference and balances investigated.</li> <li>• A report of unallocated income should be produced and unallocated cash balances investigated.</li> </ul>
<b>Performance Management</b>	Analysis of 60 appraisals stratified across management / staff levels in the five departments.	<ul style="list-style-type: none"> <li>• A number of forms did not record appraisal meeting date, and were not signed by the appraiser and appraisee.</li> <li>• Sufficient clarification was not provided on reasons for not completing appraisal and deadlines were not given for appraisals not conducted.</li> <li>• Appraisal pages were not numbered, and all sections were not always included.</li> <li>• Appraisers needed to be provided further development opportunities/guidance in providing quality dialogue.</li> </ul>
<b>Human Resources records management and management information</b>	To produce a list of documents retained on personnel and their recommended retention periods by both statutory regulations and best practice requirements	N/A

<b>Risk Management-Benchmarking</b>	Examine risk registers obtained from other Local Authorities and cross check similar risks to those of LBHF; Where similar risks can be recognised, the most up to date risk registers relating to these areas were obtained from the other Local Authorities.	N/A
<b>Data quality</b>	To examine a sample of performance indicators and assess adequacy and effectiveness of the key controls relating to: <ul style="list-style-type: none"> <li>• Collection &amp; Recording of Performance Data</li> <li>• Calculation of Performance Data</li> <li>• Supporting Evidence for Performance Data</li> <li>• Validation of Performance Data</li> </ul>	<ul style="list-style-type: none"> <li>• Spot checks are not always undertaken of data entry and calculations to confirm its accuracy.</li> <li>• Checks of source data are nit always undertaken to confirm that data is entered correctly.</li> <li>• Supporting calculations are not always checked for correctness</li> </ul>
<b>IFRS</b>	To report on the continued progress to date of the Council's implementation of International Financial Reporting Standards (IFRS)	We were informed that the process of reporting as per the IFRS requirements is still on schedule. The IFRS Project Board had met regularly during quarter 3 to discuss the accounting concepts, allocate the work and monitor progress in delivering it.
<b>System Access Rights</b>	To collate the findings of IT application audits undertaken 2008/09 and 2009/10 and identify and assess the adequacy of controls in place across the Council and Suggest additional controls for management to consider.	There are no currently Council-wide controls in place to ensure the removal of access right for staff leaving the Council or transferring to a different post. A project is currently being undertaken as part of the Business Office Improvement Programme to address this.
<b>PDQ/Chip and Pin</b>	To identify the Chip and Pin devices in use across the Council.	We were able to locate 32 devices. 26 out of the 32 work and are in use. Of these, 18 are not approved machines.
<b>LPSA</b>	To assist in the declaration with regard to the claim form to the Department for Communities & Local Government in relation to grant payments for the Local Public Service Agreement (LPSA 2G).	No material errors found on the supporting documentation to the claim.
<b>Traffic Management Act</b>	To identify the internal controls in relation to enforcement of permits and assess these controls for adequacy and effectiveness. To establish and document the process of receiving applications and issuing permits.	A recommendation has been raised that, following the addition of new functionality to the EtoN system, the Council should include permit conditions on the inspection lists to aid inspectors in identifying non compliance with permit conditions.
<b>Decent Homes secondment</b>	We were requested to carry out work to assess whether the final results reported in the claim for Target 10 appeared to be justified based on the information provided to us by management. We were also requested to check with management that no other information in respect of the targets has changed.	Our examination of supporting documentation to the claim has found no material errors.

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#### APPENDIX 4: Follow up Audits

The table below provides a summary of the follow up audits undertaken and the number of recommendations originally raised that have been implemented.

Subject	Assurance level	Number of recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
<b>Core Financials - Parking (PCN's)</b>	Limited	3	1	2	0	0
<b>LOCATA</b>	Limited	10	5	2	3	0
<b>Sands End</b>	Limited	11	6	0	4	1
<b>Fulham Palace Establishment</b>	Limited	12	9	3	0	0
<b>Mortuary Services extended follow up</b>	Limited	10	7	2	1	0
<b>Leaseholder Charges</b>	Limited	8	6	2	0	0