

	London Borough of Hammersmith & Fulham (AUDIT, PENSIONS AND STANDARDS COMMITTEE) (2 December 2014)
TITLE OF REPORT	
Internal Audit Quarterly report for the period 1 July to 30 September 2014	
Open Report	
For Information	
Key Decision: No	
Wards Affected: None	
Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance	
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1. EXECUTIVE SUMMARY

- 1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 July to 30 September 2014 as well as reporting on the performance of the Internal Audit service.

2. RECOMMENDATIONS

- 2.1. To note the contents of this report

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

4. INTRODUCTION AND BACKGROUND

- 4.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 July to 30 September 2014 as well as reporting on the performance of the Internal Audit service for the 2014/15 financial year.
- 4.2. In order to minimise the volume of paperwork being sent to Committee members, documents detailing outstanding recommendations, as well as the full text of limited or nil assurance reports have not been appended to this report. However, this information has been made available to all members separately. A précis of all limited assurance reports is also now provided at Appendix D for the information of members.

5. PROPOSAL AND ISSUES

5.1. Internal Audit Coverage

- 5.1.1. The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner
- 5.1.2. A total of 17 audit reports were finalised in the second quarter of 2014/2015 from 1 July to 30 September. In addition two tri-borough audit reports delivered by the Westminster CC and RBKC audit services are being reported, both of which had a limited audit assurance opinion. One management letter was also issued.
- 5.1.3. A summary of each of the limited assurance reports is provided at Appendix D. Two of the limited audit reports were issued in this period: Jack Tizard School and Managed Services Programme (MSP) High Level Review of Controls.
 - 5.1.3.1. Jack Tizard School made 1 High and 6 medium priority recommendations, none of which are due at the time of writing.
 - 5.1.3.2. MSP High Level review was reported to the September Committee and made 4 high priority and 3 medium priority recommendations. 4 recommendations have been reported as implemented and 3 remain outstanding (1 high priority and 2 medium priority).
- 5.1.4. A review of the Managed Services Programme System and User Acceptance Testing was undertaken with the interim report being issued in October 2014. In order to provide timely information to Committee members we have included information in this report. A

Limited assurance opinion report was issued with 1 high priority and 4 medium priority recommendations being raised. While a total of 5 recommendations for potential improvement were identified and agreed with management in the course of this audit, the Limited Assurance status of the control environment reflects the normal condition of a complex business transformation change programme and system implementation at this stage of its development and delivery cycle.

- 5.1.5. The remaining 2 limited assurance audits, Public Health Governance and Total Facilities Management, had been issued previously and are now being reported to this Committee.
- 5.1.6. 4 Follow-ups were undertaken in the period: Health and Safety Risk Management; Housing Capital Management Programme; St Paul's CE Primary School; and Regeneration Governance. The majority of the 27 recommendations were found to be implemented with 5 recommendations found to be partly implemented. The results of our follow ups can be found in Appendix A
- 5.1.7. The Internal Audit department works with key departmental contacts to monitor the number of outstanding draft reports and the implementation of agreed recommendations.
- 5.1.8. Departments are given 10 working days for management agreement to be given to each report and for the responsible director to sign it off so that it can then be finalised. There are no reports outstanding at the time of writing.
- 5.1.9. There are now 8 audit recommendations made since 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 5 outstanding as reported at the end of the previous quarter and represents a slight deterioration. We continue to work with departments and HFBP to reduce the number of outstanding issues.
- 5.1.10. The breakdown of the 8 outstanding recommendations between departments are as follows:
 - Adult Social Care - 3
 - Children's Services (Non Schools) – 3
 - Corporate Services – 1
 - Corporate Services (IT) - 1
- 5.1.11. 3 of the recommendations listed are over 6 months past the target date for implementation as at the date of the Committee meeting. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will be arranging

meetings with the relevant departmental managers responsible for all recommendations overdue by more than 3 months as and when this occurs.

- 5.1.12. Management have confirmed that two of the recommendations raised in the iWorld Application Audit will not be fully implemented. The risk of not implementing these recommendations is accepted by management. The recommendations can be found in appendix C.

5.1.13. The table below shows the number of audit recommendations raised each year that have been reported as implemented. This helps to demonstrate the role of Internal Audit as an agent of change for the council.

2012/13 year audit recommendations past their implementation date that have been implemented.	249 recommendations implemented
2013/14 year audit recommendations past their implementation date that have been implemented.	215 recommendations implemented
2014/15 year audit recommendations past their implementation date that have been implemented.	29 recommendations implemented

5.2. Internal Audit Service

5.2.1. Part of the CIA's function is to monitor the quality of Mazars' work. Formal monthly meetings are held with the Mazars 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 2014/15 financial year.

Performance Indicators 2014/15

Ref	Performance Indicator	Target	Pro rata target	At 30 September 2014	Variance	Comments
1	% of deliverables completed	95%	48%	45%	-3%	38 deliverables issued out of a total plan of 85
2	% of planned audit days delivered	95%	48%	46%	-2%	441 days delivered out of a total plan of 957 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	100%	0%	13 out of 13 briefs issued more than ten working days before the start of the audit.
4	% of Draft reports issued within 10 working days of exit meeting	95%	95%	92%	-3%	22 out of 24 draft reports issued within 10 working days of exit meeting
5	% of Final reports issued within 5 working days of the management responses	95%	95%	100%	0%	9 out of 9 final reports issued within 5 working days.

5.3. Audit Planning

5.3.1. Amendments to the 2014/15 year Internal Audit plan agreed by the Committee are shown at Appendix B.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable

7. CONSULTATION

7.1. Not applicable

8. EQUALITY IMPLICATIONS

8.1. Not applicable

9. LEGAL IMPLICATIONS

9.1. Not applicable

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

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

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

LIST OF APPENDICES:

Appendix A	Audit reports issued 1 July to 30 September 2014
Appendix B	Amendments to 2014/15 Internal Audit Plan
Appendix C	Recommendations Not Implemented By Management
Appendix D	Summary of Limited Assurance Reports

APPENDIX A

Audit reports Issued 1 July to 30 September 2014

We have finalised a total of 17 audit reports for the period to 1 July to 31 September 2014. In addition, we have issued a further 1 management letter and 4 follow ups were completed in the period.

In order to provide timely information for the Committee our review of Managed Services System and User Acceptance Testing has also been included in this quarterly report (No. 18).

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	Executive Director	Audit Assurance
1	2013/14	Leasehold Service Charges	Mel Barrett	Satisfactory
2	2013/14	Adult Learning	Mel Barrett	Satisfactory
3	2013/14	HRD Risk Management	Mel Barrett	Satisfactory
4	2013/14	ASC Commissioning and Procurement	Liz Bruce	Satisfactory
5	2013/14	Waste Disposal	Lyn Carpenter	Satisfactory
6	2013/14	ELRS Programme and Project Management	Lyn Carpenter	Substantial
7	2014/15	SERCO Contract Management	Lyn Carpenter	Satisfactory
8	2013/14	Jack Tizard School	Andrew Christie	Limited
9	2014/15	Queens Manor Primary	Andrew Christie	Satisfactory
10	2014/15	St Peters CE Primary School	Andrew Christie	Satisfactory
11	2014/15	Normand Croft Community School	Andrew Christie	Satisfactory
12	2014/15	Randolph Beresford Early Years Centre	Andrew Christie	Satisfactory
13	2013/14	Property Disposals	Nigel Pallace	Satisfactory
14	2013/14	Section 106 Funding	Nigel Pallace	Satisfactory
15	2013/14	Information Management and Document Sharing	Jane West	Satisfactory
16	2013/14	Corporate Governance	Jane West	Satisfactory
17	2014/15	MSP High Level Review of Controls*	Jane West	Limited
18	2014/15	MSP System and User Acceptance Testing	Jane West	Limited
19	2013/14	Public Health Governance	Meradin Peachey	Limited
20	2013/14	Total Facilities Management	Nigel Pallace	Limited

* Also reported to September 2014 Committee meeting.

Substantial Assurance

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

Satisfactory Assurance

While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Limited Assurance

Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

No

Control is generally weak, leaving the system open to significant error or

Assurance abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
19	2014/15	Invoice Processing	Jane West

Follow ups

No.	Audit Plan	Audit Title	Implemented	Partly Implemented	Not Implemented	Not Applicable
20	2014/15	Health and Safety Risk Management	7	2	0	0
21	2014/15	Housing Capital Management Programme	7	0	0	0
22	2014/15	St Pauls CE Primary School	6	0	0	0
23	2014/15	Regeneration Governance	1	3	0	1

Amendments to 2014/15 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Environment Leisure and Residents Services	Markets (Bi Borough)	Removed	Transferred to RBKC audit plan.

Recommendations Not Implemented By Management

Management have advised that they will not be fully implementing the recommendation listed below and that they accept the risk of not doing so.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Responsible Officer	Reason for non-implementation
1	2013/14	Housing and Regeneration	iWorld Application	Satisfactory	Audit log reporting should be developed to report on unsuccessful attempts at user access and the reports periodically monitored.	2	Application Support Team Manager	The software provider, Northgate, has confirmed that they will not be implementing an audit log facility for the iWorld Application in the near future. We have been advised that there a further control in that an audit log is maintained for network access and to gain access to iWorld someone would need to come in via that route and would appear on that log
2	2013/14	Housing and Regeneration	iWorld Application	Satisfactory	Management should review input data validation and input controls on the application to ensure only valid data can be entered. For example, a range check on the 'Age' field should be implemented in order to restrict records being created for underage persons as well as parents being younger than their children.	2	Application Support Team Manager	The software provider, Northgate, has confirmed that they will not be implementing further data validation controls in the iWorld Application in the near future. We have been advised that this risk is also managed by other means such as exception reporting.

Summary of Limited Assurance Reports

Ref	Audit and Scope	Details	Assurance Risk /
1	<p>Jack Tizard School</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Governance and Leadership; • Financial Management; • Procurement; • Staff Expenses and Petty Cash; • Income; • Payroll; • Head Teacher's Pay; • Assets and Inventory; • Leasing; and • Unofficial Funds. 	<p>Hammersmith & Fulham standard schools audits are carried out using an established probity audit programme. Audits are currently undertaken on a three year cycle unless issues dictate a more frequent review. The programme is designed to audit the main areas of governance and financial control. The programme's standards are based on legislation, the Scheme for Financing Schools and accepted best practice. The purpose of the audit is to help schools establish and maintain robust financial systems.</p> <p>One High and six medium priority recommendations were raised. The Principle recommendations were as follows:</p> <ul style="list-style-type: none"> • A purchase order should be raised and authorised by a senior officer prior to placing the order with the supplier. Goods and services received checks should be conducted and evidenced. Invoices should be authorised for payment by a senior officer and evidenced. Invoices should be paid within 30 days of receipt of the invoice unless there are valid reasons for non payment. Where applicable, these reasons should be noted on the invoice. • Before paying invoices to self-employed individuals, the School should confirm the status of the person by completing a tax questionnaire. If there is any doubt, the person must be paid through the payroll. • Payroll monitoring reports should be retained on file and signed as evidence of review. The error identified should be investigated to establish if there is an underlying issue with the payroll reports. • There should be a segregation of duties between the Officer maintaining the asset register and conducting the asset check. • Bank reconciliations of the School Fund Account should be undertaken on a monthly basis and be subject to review by a second senior officer. Reconciliations should be signed as evidence of review. At the end of the year, the School Fund accounts should be audited by an appropriate external auditor. A copy of the accounts, together with the auditor's report, should be presented to the Governor's meeting or the Finance Committee. <p>All recommendations were accepted by management for implementation by February 2015.</p>	Limited

Ref	Audit and Scope	Details	Assurance Risk /
2	<p>Managed Services Programme - High Level Review of Controls</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Governance • Implementation Planning • Security 	<p>This audit was undertaken to assess the adequacy of the high level controls established and applied to the Managed Services Programme that involves implementing the Agresso Business World Enterprise Resource Planning (ERP) solution across the Tri-Borough estate. The internal audit assessment was completed in May 2014 during the Lot 1 delivery stage.</p> <p>Three high and four medium priority recommendations were raised. The Principle recommendations were as follows:</p> <ul style="list-style-type: none"> • Cabinet should be updated for their approval of the new total MSP cost position. Accountability and transparency for reporting on the status and clarity of all issues that impact on the MSP financial management position should be improved by separating the responsibility for risk/issue ownership from the responsibility for risk/issue mitigation. • All MSP Delivery, Dependency and Assumptions Log records should be incorporated within a standard RAID reporting framework for the impact of work stream activity inter dependencies and to enable potential gaps to be clearly mapped and understood. (E.g. the impact of build delivery delays on all other MSP work streams) Once a standard RAID log is established, a high level and transparent KPI report on the achievement status and missed or met trends of all RAID records should be provided in conjunction with, and in support of, the MSP work stream board level status reports. • Governance board stakeholders should give formal consideration to incorporating the use and delivery achievement monitoring framework of the best practice Agresso Implementation Methodology (AIM). • The MSP implementation plan changes and revisions should be informed by the status of the RAID log records such as the high risk data migration and build work stream records to help appropriately focus and track achievements within the latest revisions to the MSP implementation plan. • Unambiguous Solution Assurance work stream activity KPIs should be established to help transparently map results. For example, quantify the: <ul style="list-style-type: none"> ○ Total number of actual PMO Standards compliance checks made in period by work stream and the number found compliant or delinquent; ○ Number of previously delinquent checks now confirmed as remediated and resolved by work stream and criticality; and ○ Number of delivery task and risk mitigation action dates checked as missed or met in period by work stream and criticality. <p>All recommendations were accepted by management for implementation by October 2014.</p>	Limited

Ref	Audit and Scope	Details	Assurance Risk /
3	<p>Managed Services Programme – System and User Acceptance Testing</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Test Strategy • Test Scripts • Test Staff and Logging • Test Results • Sign off 	<p>As part of the Tri-Borough initiative, there is a programme of managed services that is to be implemented across the three boroughs – Hammersmith & Fulham, Kensington and Chelsea, and Westminster. Managed Services, which is provided by BT, is a critical programme within the overall convergence of services that is being undertaken across the three boroughs, with the overall objective being the realisation of the benefits offered from the pooling of services.</p> <p>Systems and user acceptance testing are critical steps to the success of the Managed Services Programme. Adequate systems and user testing of the Agresso solution will help to ensure that the system is operating in line with defined system requirements.</p> <p>The findings of this audit represent the position at the time the audit was undertaken. It should be noted that this work was undertaken at a time when discussions were underway regarding delaying the go live date.</p> <p>One high and four medium priority recommendations were raised. The Principle recommendations were as follows:</p> <ul style="list-style-type: none"> • Timescales to address IST, Service Now and any future issues should be appropriately assessed ensuring that they are realistic and achievable. Consideration should also be given to producing a Critical Path Analysis where some critical activities are not delivered and the subsequent impact on Go-Live. • Timescales for completion of IST sign should be provided so that UAT and other activities can be planned to achievable timelines. Additionally, where delivery of key functionality is delayed, additional regression testing, IST and UAT will need to be planned and performed. • The re-planning exercise should take the issues experienced from earlier versions of the plan into consideration and items such as factoring in contingencies, are incorporated into future revisions of the plan. <p>All recommendations were accepted by management for implementation by September 2014. A number of recommendations raised were implemented during the audit.</p>	Limited

Ref	Audit and Scope	Details	Assurance Risk /
4	<p>Public Health (PH) – Governance.</p> <p>The objectives of this review were to assess and evaluate the areas forming the <i>Good Governance Standard for Public Services</i>, namely the following:</p> <ul style="list-style-type: none"> • Focusing on the organisation’s 	<p>As of 1st April 2013 local authorities became responsible for Public Health and with it a key role in improving the health and wellbeing of their local population, working in partnership with clinical commissioning groups and other health institutions. This involves commissioning and collaborating on a range of public health services. Westminster City Council (WCC), the London Borough of Hammersmith & Fulham (LBHF) and the Royal Borough of Kensington and Chelsea (RBKC) agreed to provide a public health service under a tri-borough arrangement. The bulk of the PH activity and the associated budgets transferred from the National Health Service from April 2013.</p>	Limited

Ref	Audit and Scope	Details	Assurance / Risk
	<p>purpose and on outcomes for citizens and service users;</p> <ul style="list-style-type: none"> • Performing effectively in clearly defined functions and roles; • Promoting values for the whole organisation and demonstrating the values of good governance through behaviour; • Taking informed, transparent decisions • Risk Management; • Developing the capacity and capability of the governing body to be effective; and • Engaging stakeholders and making accountability real <p>(Undertaken by WCC Internal Audit)</p>	<p>The public health function is led by the Tri-Borough Director of Public Health who reports directly to the Chief Executive of WCC and is also accountable to the Joint Chief Executive for LBHF and RBKC. Annual expenditure on Public Health across the Tri-borough is in excess of £75m.</p> <p>No High and six medium priority recommendations were raised as follows:</p> <ul style="list-style-type: none"> • Business Plans/Service Delivery Plans should have greater focus and detail on risk to ensure that Members receive sufficient information on matters that may impact on the achievement of the agreed objectives. • The Annual Assurance Statement for 2013/14 should be formally approved by the Director of Public Health and evidence retained to demonstrate this. • Robust systems should be implemented to monitor contracts and to monitor performance against the achievement of the objectives identified within the Business Plan with appropriate evidence retained to demonstrate this. • Matters identified within the Public Health Transition Programme Board Lessons Learnt Report have been/are being addressed, and whether residual activities have been followed up and resolved where appropriate. • As identified by the Public Health Senior Management Team (SMT), greater importance should be placed upon performance monitoring to ensure that the SMT are able to determine how well the service is performing in relation to identified targets/outcomes stated in the business and service delivery plans; and • Meeting minutes should be in sufficient detail to demonstrate the review of the monitoring of the achievement of objectives identified within the business plan. This should include both the Public Health SMT and the Tri-borough Members Public Health Steering Group. <p>All recommendations were accepted by management for implementation by July 2014.</p>	

Ref	Audit and Scope	Details	Assurance / Risk
5	<p>Total Facilities Management</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Service Objectives; • Performance Management; • Change Control; • Payment and Cost Allocations; • Complaints Management; 	<p>The facilities management services for some 2023 building assets across the Tri-borough were outsourced through a contract with Amey from October 2013. The contract runs for 10 years with an option to extend it by a further three years. The first year cost of the contract is estimated to be £18.4m split as follows:-</p> <p>Hard and Soft Services £15.3m Help Desk and Managed Service £2.8m Other services and redundancy costs £0.3m</p> <p>The contract transferred the risk of providing the range of traditional facilities management services to Amey. The services provided under the contract range from building cleaning and maintenance to document storage and reprographics. Amey's 40 in-house staff and the 20 officers of the Tri-borough LINK team are responsible for</p>	Limited

	<ul style="list-style-type: none"> • Management Information; and • Governance Arrangements <p>(Undertaken by RBKC Internal Audit)</p>	<p>monitoring Amey's performance and share office space located in Kensington Town Hall.</p> <p>This review considered the adequacy of the controls in place in relation to contract management by the LINK team and the service's migration to a fully outsourced service during the initial 6-month mobilisation and transition period. Three High and seven Medium priority recommendations were raised as a result of the audit review, the principle recommendations were as follows:</p> <ul style="list-style-type: none"> • A review of Amey's tender invitation processes relating to ad-hoc projects should be conducted. The review should also include the depth of Amey's select list of contractors as well as bench marking against the Royal Boroughs Tenders and Contracts Regulations; • Amey progress towards upgrading their IT system and ensuring that it is able to provide monitoring information in accordance with contractual requirement should be continually monitored; • The LINK team should determine whether the deadline given by Amey for upgrading their IT system will enable reliable information for the timely and accurate apportionment of costs of the service between the tri-borough Councils • The planned set of Performance Indicators (PIs) for the LINK team operations should be fully developed and should be appropriate and SMART. Bench marking should be introduced as part of the assessment process to ensure that the LINK team performance can be assessed against best practice in similar organisations; • LINK officers should ensure that the full set of PIs are introduced from July 2014 and are effectively monitored to ensure Amey's performance is at the required levels; • LINK management should ensure Amey take the appropriate actions to improve their process and the timeliness and accuracy of their claims. Link's Programme Operations Manager in conjunction with Amey's Project Consultant should agree and assign key milestone deadlines for project delivery. As part of monitoring Amey's management of the project, Link's Project Managers should review Amey's performance against the milestone deadlines; • LINK management should urgently devise formal risk management processes along with a suitable risk register for the contract and ensure the SPB receive regular updates on the risks and their management; and • LINK management should take the actions necessary to improve the performance of Amey in supporting claims for variable works under the contract. The Business Manager should define and agree with Amey the nature of the evidence that is deemed acceptable in support for an application for payment. <p>All recommendations were accepted by management for implementation by April 2015.</p>	
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