


<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p style="text-align: center;">15 June 2016</p>		
HEAD OF INTERNAL AUDIT ANNUAL REPORT 2015/16		
Report of the Director for Audit, Fraud, Risk and Insurance		
Open Report		
Classification: For Information Key Decision: No		
Wards Affected: None		
Accountable Director: Moyra McGarvey, Director for Audit, Fraud, Risk and Insurance		
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1. EXECUTIVE SUMMARY

- 1.1. This Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2015/16 financial 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 or substantial 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).

2. RECOMMENDATIONS

- 2.1. To note the contents of this report.

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

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Appendix B - Internal Audit Performance – 2015/16

Appendix C - Internal Audit work for which an assurance opinion was not provided

Appendix D - Follow up Audits



THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA



City of Westminster

London Borough of Hammersmith and Fulham | The Royal Borough of Kensington and Chelsea | Westminster City Council

London Borough of Hammersmith and Fulham

2015/16 Head of Internal Audit Annual Assurance Report

June 2016



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1. Executive Summary

- 1.1. From the Internal Audit work undertaken in 2015/16, it is our opinion that we can provide reasonable 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 2016 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 2.

2. Introduction

- 2.1. The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. This opinion statement is provided for the use of the London Borough of Hammersmith & Fulham and is used to support its Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 2.2. From the Internal Audit work undertaken in 2015/16, it is our opinion that we can provide reasonable 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 2016 accords with proper practice, except for any details of significant internal control issues as documented at section 8.

3. Scope of Responsibility

- 3.1. 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.
- 3.2. 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.

4. The Purpose of the System of Internal Control

- 4.1. 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.

5. The Internal Control Environment

- 5.1. The CIPFA Public Sector Internal Audit Standards defines the control environment as providing the discipline and structure for the achievement of the primary objectives of the

system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

6. 2015/2016 Year Opinion

6.1. From the Internal Audit work undertaken in 2015/16, it is our opinion that we can provide reasonable 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 2016 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 8.

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

- a) The whole programme of internal audit work undertaken by Mazars between 1 April 2015 and 31 March 2016. This included a review of the Council's Corporate Governance and Risk Management arrangements;
- b) Internal Audit work undertaken by the Royal Borough of Kensington and Chelsea and Westminster City Council on shared services.
- c) An independent review of Internal Audit against CIPFA's Public Sector Internal Audit Standards which provided a positive result;
- d) 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 C; and
- e) Follow up of audits undertaken in the previous years. A summary of the outcome of these follow up visits can be found in Appendix D.

Internal Control

6.3. The system of internal 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 indicate financial performance against the forecast;
- Setting targets to measure financial and other performance;
- Clearly defined capital expenditure guidelines; and
- A formal programme and Project management discipline

Managed Services

- 6.4. The Managed Services Programme (MSP) was set up to introduce an external managed service delivering HR and finance processes. The programme went live on 16 March 2015 with a further programme of staged implementation originally extending to 30 April 2015 that has continued to be extended since. Overall, the programme work plans were reviewed by MSP post go-live and this established key deliverables with new baseline due dates. These plans and the target date for 'Business as Usual', now being referred to as 'Steady State', have necessarily slipped and a more recent review of plans has re-set due dates which now stretch through into the 2016/17 financial year.
- 6.5. During the first nine months of Managed Services being operational, an internal audit was started on the high level controls within the system. Progress on this audit was slow and, due to difficulties in meeting with appropriate staff at BT to undertake all aspects of this review, a number of areas could not be reviewed and a limited assurance opinion was given on the adequacy of the high level controls. It was apparent from this audit that in some of the areas reviewed significant changes had been made since implementation.
- 6.6. In addition to the High Level Controls review, a review of the bank reconciliations process has been undertaken as an advisory piece of work which has been discussed with the Finance Leads for the three Councils and an audit of the established interfaces with Managed Services is due to be reported in May 2016.
- 6.7. The main audits due to be undertaken in 2015/16 on various aspects of the Managed Service could not be undertaken for a number of reasons including a lack of appropriate auditor access and delays in implementing some aspects of the system. In order to undertake an effective internal audit whereby reliance can be placed on the testing undertaken, there needs to be independent assurance that the system is operating in a stable environment with changes properly controlled and tested prior to being implemented. Apart from the high level controls review, which indicated that there were a number of areas where assurance on controls could not be given, Internal Audit have not independently reviewed the system controls and have therefore not undertaken any substantive testing during 2015/16 in the key areas of HR, Payroll and Finance.
- 6.8. However, in order to obtain assurance on the accuracy of the information being processed through the Managed Services environment and feeding into the Council's financial management system, officers within the Council's Finance Team have undertaken testing in all of the key financial areas as part of the year end accounts processes. Internal Audit has reviewed this testing and it has been confirmed as thorough and focused on the key areas of risk. Corrective action is being undertaken by both Council staff and by the Managed Service provider and mitigating actions have been taken by the Council to minimise the impact of any errors identified on the Council's financial management information. Although the Council has been proactive in identifying errors and weaknesses to the Managed Services provider, it should be noted that until robust controls and systems are embedded, the potential for further related or unrelated errors, cannot be ruled out.

Governance

- 6.9. In my opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE and updated in 2013. This opinion is based on the work of Internal Audit as described in Appendix A, which provided a 'satisfactory' level of assurance as to the Corporate Governance systems in place.

Risk Management

- 6.10. Three risk management audits were completed as part of the 2015/16 audit plan. Namely, Corporate Risk Management Compliance Review and audit of risk management of both Corporate Services and what was Environment, Leisure and Residents Services.
- 6.11. A Satisfactory assurance opinion was provided for the Corporate Risk Management Compliance Review. Recommendations were raised that related to:
- Completing all fields on the risk register.
 - Following the standard risk register template and defining when all services should transfer to the new risk register template.
 - Organising the way risk registers are filed on SharePoint for easier review and access
- 6.12. A Satisfactory assurance opinion was provided for the audits of Corporate Services and Environment, Leisure and Residents Services. Recommendations raised related to:
- Existing controls should be recorded for all risks, and where controls are absent, this should also be stated in the register. Inherent risk scores should be reviewed to ensure they reflect the impact of these existing controls.
 - A risk register owner should be appointed for the Finance risk register with overall responsibility for ensuring that this is up to date, and to act as the single point of contact for any queries regarding the register.
 - The responsible officer for each risk should be assigned to an individual officer where possible.
 - Risk scoring and existing controls on the Legal Services Risk Register should be reviewed and amended to help ensure that risk scoring is logical, and an accurate indicator of the inherent and residual risk exposure.

Qualifications to the opinion

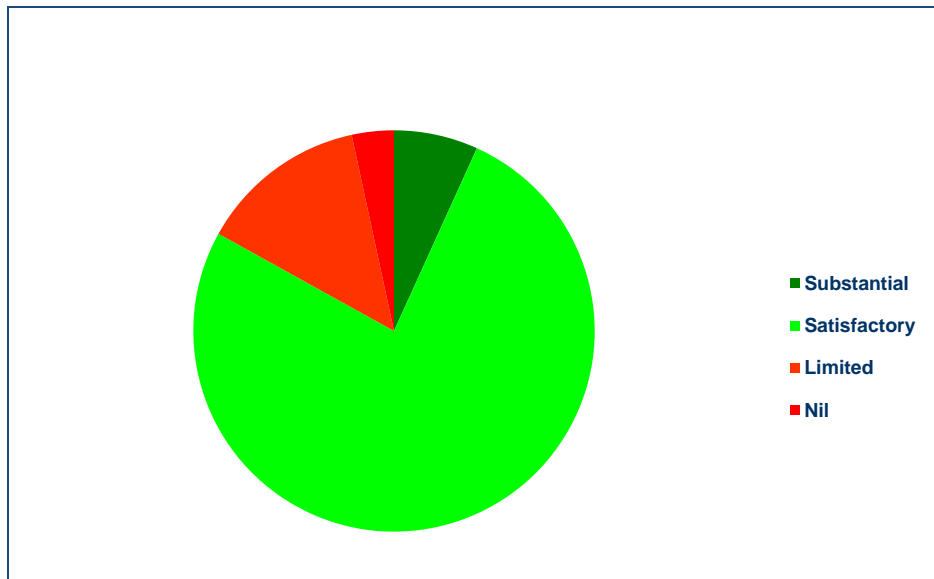
- 6.13. Internal Audit has had unrestricted access to all areas and systems across the Authority and has received appropriate co-operation from officers and members.

7. Basis of Assurance

- 7.1. We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Public Sector Internal Audit Standards and additionally from our own internal quality assurance systems.
- 7.2. Our opinion is limited to the work carried out by Internal Audit based upon the internal audit plan. Where possible we have considered the work of other assurance providers, including External Audit and the Internal Audit services of Royal Borough of Kensington and Chelsea and Westminster City Council as part of the shared services arrangement.
- 7.3. The audit work that was completed for the 2015/16 financial year is listed in Appendices A, C and D. Appendix A lists all the audits where assurance opinions are provided.
- 7.4. The pie chart below shows the levels of audit assurance achieved for the 2015/16 year including internal audits undertaken by the Royal Borough of Kensington and Chelsea and Westminster City Council, so that it covers all audits covering systems that support delivery of LBHF services.

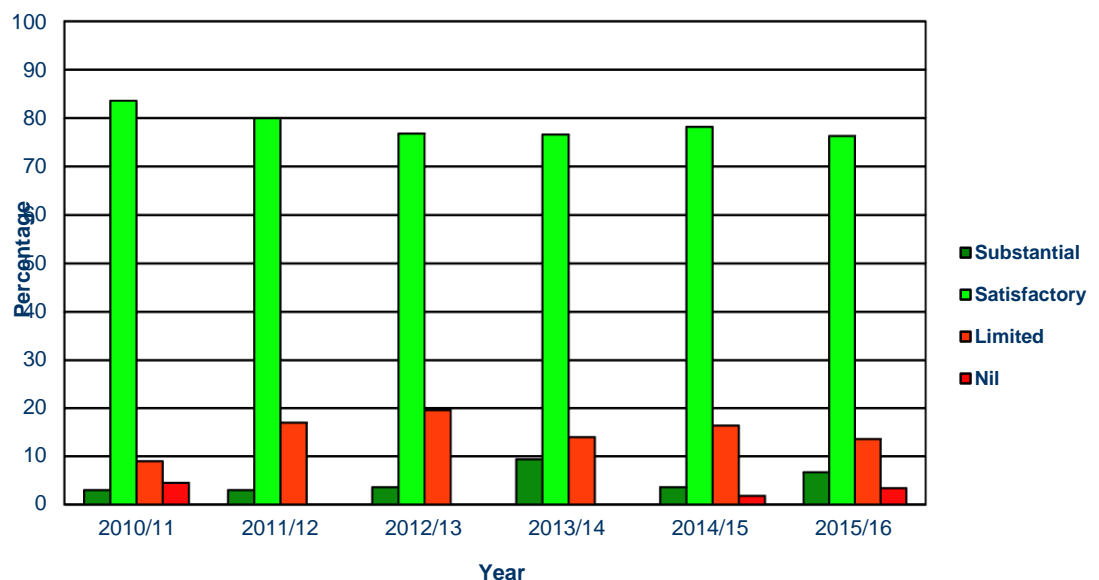
7.5. 83.1% of the systems audited achieved an assurance level of Satisfactory or higher, of which four audits received Substantial Assurance. 13.6% received a Limited Assurance, plus three Nil Assurance reports were issued in 2015/16 of which two were schools.

Assurance Levels for the year to 31 March 2016



7.6. To help put this into context the bar chart below shows the levels of assurance provided for all systems audited since the 2010/11 financial year. The distribution of assurance opinions shows a relatively stable position in the number of Limited assurance and substantial assurance reports although Nil assurance numbers have increased from one to three.

Assurance Levels of Reports from 2010/11 to 2015/16



Acceptance and implementation of Internal Audit recommendations

7.7. All of the recommendations made during the year were accepted by management. Whilst 11 reports remain at the draft report stage we have been provided with assurance by

management as part of the debrief meeting process that the recommendations made will be implemented.

7.8. 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.

Year	Number of recommendations due	Number of recommendations implemented
2013/14	248	247
2014/15	202	192
2015/16	99	80

7.9. In total, 49 recommendations have been followed up by internal audit, of which 39 were either fully implemented or no longer relevant, representing 80% of all those tested. If partially implemented recommendations are added this totals 96% of all those tested. This is an improvement since 2014/15 and provides reasonable confidence that recommendations reported as implemented have been effectively actioned. The results of our follow up visits can be seen in Appendix D.

8. Significant Control Weaknesses

8.1. 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 2015/16, the following significant issues were identified:

- Two limited assurance reports were issued in relation to the Managed Services Programme: A High Level review new Controls and Processes, and; Implementation Planning.
- Weaknesses were found within the Premises Licensing Audit, mainly related to the implementation of the Agresso system. The implementation of Agresso also affected a number of other audits but not sufficiently to impact on the assurance opinion provided.
- Weaknesses were found in the governance of Mental Health Section 75 Agreements;
- One school received Limited Assurance opinions (Kenmont Primary School), and two schools received Nil Assurance opinions (Brackenbury and Fulham Primary Schools); and
- Weaknesses were found within the letting and management of Council owned garages.
- The main Managed Services audits due to be undertaken in 2015/16 could not be undertaken for a number of reasons including a lack of auditor access and delays in implementing aspects of the system. In order to obtain assurance on the accuracy of the information being processed through the Managed Services environment and feeding into the Council's financial management system, officers within the Council's Finance Team have undertaken testing in all of the

key financial areas as part of the year end accounts processes. Internal Audit has reviewed this testing and it has been confirmed as thorough and focused on the key areas of risk. Corrective action is being undertaken by both Council staff and the Managed Service provider and mitigating actions have been taken by the Council to minimise the impact of any errors identified on the Council's financial management information. Although the Council has been proactive in identifying errors and weaknesses to the Managed Services provider, it should be noted that until robust controls and systems are embedded, the potential for further related or unrelated errors, cannot be ruled out.

Annual Governance Statement

- 8.2. The Council's Annual Governance statement states:
- 8.2.1. 'We have been advised of the results and implications of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.
- 8.2.2. Money received by Hammersmith and Fulham Council from central government is reducing significantly every year. Funding reduced by £18m in 2015/16 (to £57.6m) and is forecast to further reduce by £33.6m from 2015/16 to 2019/20. Based on the Local Government Finance Settlement the 2016/17 grant reduction is £8.2m. In addition, Government has imposed £3.4m of new responsibilities on LBHF without providing any funding. As part of the Local Government Finance Settlement the government announced that authorities can charge a 2% social care precept. This would raise £1.1m for Hammersmith and Fulham and is included in Government projections of LBHF's spending power. The Government also included an assumed further 1.75% increase in council tax in LBHF's spending power projection, meaning a total council tax increase of 3.75% is assumed in the spending power projection. The Council's administration does not wish to apply any tax increase to residents, so it does not form part of the 2016/17 budget proposals. In the context of this, the Council will continue to prioritise and endeavour to maintain strong governance arrangements, focusing on the purpose of the Council and on outcomes for the community, engaging with stakeholders, and promoting values for the authority whilst demonstrating the values of good governance through upholding high standards of conduct and behaviour. Further to this, proactive risk management arrangements will be enhanced to support the delivery of the Council's key objectives
- 8.2.3. Contract management arrangements require improvement across the Council and generally there is limited assurance on compliance with the exemptions to Contract Regulations. The monitoring of contract performance has been inconsistent across the Council, especially where performance frameworks do not exist and there has been a general lack of proactive contract management by services. The Council has recognised the significance of the issues identified in this area and has responded by designing new internal control and governance arrangements that include establishing a new team with a Commercial Director within the Chief Executive's Department. The primary responsibility of this team is to improve standards in both the procurement and contract management activities of the Council. Going forward this team will design and implement processes and procedures to embed a culture of best practice within these key activities across the Council.
- 8.2.4. The Managed Services Programme was procured by Westminster City Council in 2013 to

provide transactional Human Resources, including payroll, finance services and a Shared Service help desk for the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and the City of Westminster Councils. The programme overran its original delivery date of 1 April 2014 and went live on 16 March 2015 with a further programme of staged implementation originally extending to 30 April 2015 that has continued to be extended since. Overall, the programme work plans were reviewed by the Programme post go-live and this established key deliverables with revised due dates. These plans and the target date for to achieve a steady state, have slipped and a more recent review of plans has re-set due dates which now stretch through to June 2016.

- 8.2.5. The Council has recognised through its Audit Committee and Contract management arrangements that the contract with BT has had significant issues. During the year, the Council discontinued the use of Westminster City Council's Chief Executive as the SRO for the contract with BT and appointed the Council's Chief Executive as its SRO for the contract with BT. Officers and members from the Council held regular meetings with BT to review plans to improve performance, including making sure measures were taken to ensure internal controls operated. Work is on-going with BT to address the issues raised in this statement and additional resources are being applied by them and the Council to resolve the issues as soon as possible, although over the period improvements have been made we are unable to say with confidence when the system and service will be fully operational. In order to undertake an effective internal audit whereby reliance can be placed on the testing undertaken, there needs to be independent assurance that the system being reviewed is operating in a stable environment with changes properly controlled and tested prior to being implemented. Apart from the high level controls review of the Managed Service, which indicated that there were a number of areas where assurance on controls could not be given, Internal Audit have not been able to independently review the system controls and have therefore not undertaken any substantive testing during 2015/16 in the key areas of HR, Payroll and Finance. Due to problems with the system, additional internal finance and HR resources were engaged during the year by the Council to support HR and finance work, including to assist the production of the final accounts.'

9. ICT

- 9.1. Internal Audit undertook 7 ICT or ICT related audits in 2015/16. Five audits received a Satisfactory assurance opinion, 1 limited (MSP Interfaces) and one report was issued for which no assurance opinion was required (IT Contract Documentation).
- 9.2. We found the areas audited in 2015/16 to be generally well controlled. Areas of strength identified included controls related to Cyber Security, Software Licensing and 3rd Party Remote Access.
- 9.3. An internal audit of the Managed Services Interfaces was undertaken and is currently at draft stage. A Limited assurance opinion was provided with 4 medium and one high priority recommendations being raised. The audit identified improvements in interface error identification controls and issue resolution procedures since the system go live in April 2015. Although controls are in now place to help mitigate the risks detailed below, there is little transparency via interface management activity Key Performance Indicator and trend analysis reports to demonstrate the effectiveness of the service improvement initiatives

10. Finance

- 10.1. Of the 9 finance related audit reports issued in the 2015/16 financial year, 1 received Substantial assurance, 4 received Satisfactory assurance and 4 received Limited assurance of which 3 related to the Managed Services Programme, the other relates to Mental Health Section 75 Agreements. There are concerns relating to Managed Services which have already been outlined at paragraphs 6.4 to 6.8.
- 10.2. This represents a similar position to 2014/15 where 3 reports issued received Limited Assurance all of which related to Managed Services.
- 10.3. The 2015/16 internal audit plan included an audit of MTFs savings where a sample of savings was selected to confirm their delivery can be supported by evidence. This work was in progress at the time of writing. Issues identified so far include responses not being provided to Internal Audit, a reasonable basis or rationale used to set targets not always being available for inspection; and inaccurate information reported relating to the savings achieved.
- 10.4. No significant error or fraud against the Council was detected as a result of our audit work.

11. Procurement and Contract Management

- 11.1. Of the 10 procurement and contract management related audits undertaken in 2015/16 three received Satisfactory Assurance; 2 received a split Satisfactory / Limited assurance opinion due to issues arising from the Agresso Implementation and 1 received a Nil Assurance. A management letter was issued for 3 pieces of Audit work and no assurance opinion was provided.
- 11.2. This shows a deterioration on 2014/15, where 1 Limited assurance report was issued. The introduction of Agresso from the 1st April 2015 negatively impacted on services' ability to monitor income and manage payments Other than this the results of the audits have identified no significant common weaknesses related to procurement and contract management in 2015/16.

12. Schools

- 12.1. Overall the results in 2015/16 has remained stable since the previous year, with eight schools receiving Satisfactory Assurance opinion, one schools receiving a Limited Assurance opinion and two schools receiving a Nil Assurance opinion. This compares to nine schools receiving Satisfactory Assurance opinion and four schools receiving a Limited Assurance opinion in 2014/15.
- 12.2. 18 high priority recommendations were raised as a result of the schools audits 2015/16 in comparison to nine in 2014/15. The main issues identified were:
 - Evidence of value for money not being retained for large value purchases and appropriate ordering of goods and services for low value payments (i.e. raising and authorising purchase orders);
 - The adequacy of school income records and the audit trail between income collected and cash banked; and
 - The maintenance of Assets & Inventory records.

13. Key Issues for 2016/17

13.1. There are a range of key issues that are likely to be of significance for the 2016/17 year and beyond that Internal Audit need to be aware of. These include:

- The continued impact of the current economic climate on the Council's finances through reduced levels of income with councils facing further reductions in the amount of money they receive from Government. This is coupled with other factors such as likely increases in demand for services and the performance levels and financial stability of organisations the Council works with;
- Transformation programme and projects continue to be undertaken to deliver savings, particularly, implementation of Managed Services and transformation within the Adult Social Care Department. This degree of change brings challenges in implementing a series of interconnected transformation projects successfully without impacting on service delivery. We would expect continued Internal Audit involvement in transformation projects and new initiatives, both to provide assurance and provide early support for new systems being 'right first
- With continued staffing cuts, reorganisation and the increasing move to outcomes based delivery, managing culture is a key factor in helping to achieve objectives. Furthermore, risk management processes and systems of internal control are only effective if the people operating and overseeing them exhibit the right behaviours.
- With increasing volumes of data being collected, generated and handled, the Council is facing increasing challenges in protecting this information and delivering value from it. In addition, at a time when a significant proportion of activity takes place in the digital space and through mobile working, all organisations need to consider the impact of any cyber security breaches they may have.
- With Managed Services continuing to be put in place during the 2016/17 year and the need for the underlying application to be upgraded there continues to be a need for an audit focus on this service.

14. Internal Audit Performance

Audit Plan

- 14.1. The Operational Plan for the 2015/16 year drew on corporate and departmental risk registers and other issues brought to the attention of Internal Audit, as well as the use of an audit universe that identifies all organisational activities that can be considered for audit coverage. We agreed and discussed the audit plan with Executive Directors, Directors and Heads of Service. We also consulted various other sources and coordinated the plan with those of the Royal Borough of Kensington and Chelsea and Westminster City Council.
- 14.2. 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.
- 14.3. The level of Internal Audit resources was considered adequate for the 2015/16 year. Also the Internal Audit service continued to maintain its independence from the day to day operations of the organisation, the chief mechanisms for this were the use of a contractor, Mazars, to deliver the core audit service plus the use of the audit services from RBKC and WCC to

deliver parts of the audit programme.

Internal Audit Assurance Levels

- 14.4. Appendix A sets out the level of assurance achieved on each systems audit and the change in assurance opinion where the audit has been undertaken previously. Three areas audited this year have shown deterioration in control since the last time they were audited: Brackenbury Primary School, Fulham Primary School and Contracts Register.
- 14.5. Of the ten audits that received a Limited or Nil Assurance opinion (eight final and two draft) three were schools, one was corporate, one related to Children's Services, one to Adult Social Care, two to Housing and Regeneration and the remaining two to the Managed Services Programme. In all cases, audit 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.
- 14.6. Five follow up visits were undertaken in 2015/16 to determine if recommendations raised within previous audit visits had been implemented. A summary of our findings can be found in Appendix D.
- 14.7. In total, 49 recommendations have been followed up, of which 39 were either fully implemented or no longer relevant, representing 80% of all those tested. If partially implemented recommendations are added this totals 96% of all those tested. This is an improvement since 2015/16. The follow up regime will continue, and will be expanded from April 2016 for a trial period to include all high and medium priority recommendations, so that it can continue to provide assurance going forward and the result of all follow ups will continue to be reported to the Audit Pensions and Standards Committee.
- 14.8. The results of our follow up work can be seen in appendix D.

Internal Audit Performance

- 14.9. Appendix B sets out pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against targets. Overall performance of Internal Audit is broadly in line with 2015/16, with all targets being achieved or narrowly missed.
- 14.10. One target that was missed by 14% was to issue 95% of draft reports within 10 working days of the exit meeting. However the average time from exit meeting to draft report was 6 days.
- 14.11. Focus will be given to maintaining or improving these performance standards in 2016/17.

Compliance with CIPFA Public Sector Internal Audit Standards

- 14.12. Internal Audit has comprehensive quality control and assurance processes in place and we can confirm that we comply with the CIPFA Public Sector Internal Audit Standards. Our assurance is drawn from:
 - a) Quality reviews carried out by both the Hammersmith and Fulham Internal Audit section and Deloitte / Mazars;
 - b) An internal review in May 2015 against the new enhanced PSIA Standards.
 - c) An independent external review of the service against the PSIA Standards

Working with External Audit

- 14.13. The Council's external auditors do not intend to rely on the work of internal audit at this stage other than our work on the Managed Services Programme however they have asked for

copies of a number of audit reports issued in 2015/16. We have been in liaison with External Audit and will continue to offer information and support where requested.

Internal Audit Provision Going Forward

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

- Shared working with Westminster and RBKC has led to increased coordination of the 2015/16 planning process across the three boroughs. This approach aims to increase the level of assurance received by each Council as well as better coordinating audit work across the three boroughs. Mazars has also been appointed as the sole outsourced internal audit provider for the three boroughs via call off contracts with the London Borough of Croydon. Previously two outsourced providers were used.
- As transformation projects and changes to service delivery continue to be undertaken, there is likely to be continued requirement for Internal Audit involvement in transformation projects and new initiatives at an early stage to provide both assurance and support but with the minimum of disruption.

APPENDIX A - Assurance Levels 01/04/2015 – 31/03/2016

The table below provides a summary of the assurances assigned to each of our audits. Where the direction of travel column is blank, no similar audit has previously been conducted.

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
FINALISED						
Corporate / Finance	Corporate Procurement					16/10/2015
Corporate / Finance	Council Tax			↔		11/06/2015
Corporate / Finance	Call centre administration					01/09/2015
Corporate / Finance	Prevent					23/11/2015
Corporate / Finance	Concessionary Fares taxi cards & blue badges			↔		04/03/2016
Adult Social Care	Community Independence Service					09/03/2016
Adult Social Care	Project management: Customer Journey					09/03/2016
Adult Social Care	NHS S75 agreement (was Health - services integration)					27/01/2016
Adult Social Care	Mental Health Section 75 Agreement (was NHS Pooled Budgets)					27/01/2016
Children's Services	Askam Contact Centre					25/01/2016
Children's Services (School)	All Saints C of E Primary			↔		19/10/2015
Children's Services (School)	Avonmore Primary School			↔		04/03/2016
Children's Services (School)	Brackenbury Primary School	←				05/02/2016
Children's Services (School)	Kenmont Primary School		↔			29/10/2015
Children's Services (School)	St Mary's RC Primary School			↔		13/07/2015
Children's Services (School)	St.Stephen's C of E Primary			↔		23/02/2016
Children's Services (School)	Sullivan Primary School			↔		26/10/2015
Children's Services (School)	Wood Lane High School			↔		13/07/2015
Transport and Technical Services	Premises Licensing		←			10/12/2015
Transport and Technical Services	H&S and Food safety (Bibo)					07/12/2015

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
Environment Leisure and Residents Services	Registrars			→		18/11/2015
Environment Leisure and Residents Service	Grounds Maintenance Contracts					25/11/2015
Environment Leisure and Residential Services	Mortuary Service					24/05/2016-
Corporate / Finance	Departmental Risk Management - ELRS					31/05/2016
Corporate / Finance	Election Expenses				→	11/05/2016
Corporate / Finance	Risk Management Compliance Review					13/05/2016
Housing and Regeneration	Garages					13/01/2016
Housing and Regeneration	Housing Revenue Account			↔		16/03/2016
Housing and Regeneration	Strategic Housing Stock Options Appraisal					11/12/2015
Housing and Regeneration	Housing strategy: housing demand					11/02/2016
Housing and Regeneration	Temporary Accommodation Procurement					22/09/2015
Housing and Regeneration	Tenancy Management					24/08/2015
Housing and Regeneration	Housing Rents			↔		24/05/2016
IT	IDOX IT System (H&F)					05/02/2016
IT	IT Disaster Recovery arrangements			→		05/11/2015
Managed Services	MSP - High Level Review of Controls					24/03/2016
Managed Services	Implementation Planning					26/01/2016
Public Health	Joint Strategic Needs Assessment					14/04/2016
Transport and Technical Services	Building Control					31/05/2016
Environment Leisure and Residential Services	Service Review: Parks Police					26/05/2016
Draft						
Housing and Regeneration	Terminations, transfers and exchanges					27/04/2016
Children's Services (Schools)	Cambridge School			→		15/04/2016

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
Adult Social Care	Transition Young People to Adults					08/04/2016
Corporate / Finance	Departmental Risk Management - Corporate Services					22/04/2016
Corporate / Finance	Corporate and Partnership Governance			↔		21/04/2016
Corporate / Finance	Asset Management			↔		21/04/2016
Children's Services (School)	Fulham Primary School					22/01/2016
Children's Services (School)	Pope John RC Primary School			↔		18/11/2015
Environment Leisure and Residents Services	Recycling and Waste Reduction					04/04/2016
Housing and Regeneration	MITIE Health and Safety Checks					25/11/2015
Corporate / Finance	Managed Services - Interfaces		*			13/05/2016
In Progress						
Corporate / Finance	Housing Benefit					-
Corporate / Finance	NNDR					-
Adult Social Care	Continuing Healthcare Funding					-
Adult Social Care	Departmental Governance					-
Children's Services	Departmental Governance					-
Children's Services	Departmental Performance Management					-
Public Health	Departmental Governance					-
Total		2	7	37	4	

Total Reports (including those not yet issued)	57
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* Assurance opinion of Limited at draft report stage, but currently in dispute.

In addition to the work detailed above, the table below provides a summary of the assurances assigned to each audit undertaken by the RBKC or WCC internal audit teams that relate to shared services functions involving LBHF.

		Audit Opinion				
Department	Audit	None	Limited	Satisfactory	Substantial	Issued
FINALISED						
Adult Social Care	S117 Mental health Care					30/09/2015
Children's Services	Adoption and Fostering					15/09/2015
Corporate	Business Intelligence					19/11/2015
Corporate	Contracts Register	←				06/01/2016
Environment, Leisure and Residents Services	Commercial Waste			↔		13/10/2015
Housing and Regeneration	Right To Buy			↔		01/03/2016
Corporate	Software Licensing					10/02/2016
Corporate	Third Party Remote Access					29/01/2016
Corporate	Cyber Security					25/01/2016
Transport and Technical Services	Carriage and Footway Maintenance			↔		08/12/2015
DRAFT						
Children's Services	Schools Health and Safety					10/03/2016
Public Health	Sexual Health Service Delivery					11/04/2016
Total		1	1	8	0	

A split opinion was issued for Commercial waste. Satisfactory assurance was provided for Operations and Limited Assurance for Income Management due to the impact of Managed Services.

A split opinion was issued for Commercial was. Satisfactory assurance was provided for Operations and Limited Assurance for payments to contractors and claims to TFL due to the impact of Managed Services.

Assurance Levels

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

Substantial Assurance	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.
Satisfactory Assurance	While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Direction of travel

→	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.

APPENDIX B - Internal Audit Performance – 2015/16

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		Annual Target	Performance	Variance
1	% of deliverables completed (2014/15)	95%	93%	-2%
2	% of planned audit days delivered (2014/15)	95%	96%	+1%
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	98%	+3%
4	% of Draft reports issued within 10 working days of exit meeting	95%	81%	-14%
5	% of Final reports issued within 5 working days of the management responses	100%	100%	-

* Average time to issue draft report following exit meeting was 6.2 days against the target of 10 days

APPENDIX C: Internal Audit work for which an assurance opinion was not provided

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

Department	Audit	Issued
Final		
Corporate/Finance	IT Contract Documentation	26/06/2015
Corporate/Finance	MS Licence Procurement	04/06/2015
Environment Leisure and Residential Services	Lessons Learnt – Janet Adegoke Pool and Phoenix Gym	18/11/2015
Adult Social Care	Better Care Fund	15/04/2016
Children’s Services	Schools Thematic Review – Information Security	04/04/2016

APPENDIX D - Follow up Audits

Follow visits were undertaken in 2015/16 on the following audits that received a 'Limited' or 'Nil' assurance opinion in their audit visit. The number of recommendations found to be implemented was as follows:

Department	Audit	Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
Corporate	Supply Chain Resilience	7	4	2	1	-
Adult Social Care	ASC Risk Management	7	4	2	1	-
Children's Services	St Thomas Canterbury School	19	19	-	-	-
Children's Services	Jack Tizard School	12	10	2	-	-
Corporate	Follow up of High Priority Recommendations	4	2	2		
	Total	49	39	8	2	-
	%		80%	16%	4%	-