



# AUDIT AND PENSIONS COMMITTEE

17 February 2011

**CONTRIBUTORS**

**Subject**

**WARDS**

Internal Audit Manager

**Audit Commission recommendations  
updates & Annual Governance Statement  
2010 Action Plan**

**All**

This report sets out progress on the implementation of previous Audit Commission recommendations and on progress against the Annual Governance Statement 2010 Action Plan.

**RECOMMENDATION:**

**That the Committee notes the report.**

## **Internal Audit**

### **Update on Audit Commission report recommendations**

The table attached as Appendix 1 shows updates on recommendations from Audit Commission reports which have been previously reported. Updates on 8 recommendations have been sought for this report provided including those contained in the 2009/10 Annual Audit Letter which have not previously been reported. Six recommendations have been reported as either fully implemented or ongoing whilst the remaining two will require further updates at future meetings including one for which no update has been received. We will continue to report progress on all outstanding recommendations at future meetings together with recommendations contained in any newly received reports.

### **Annual Governance Statement Action Plan**

The 2010 Annual Governance Statement (AGS) was first considered by the Audit and Pensions Committee at its June 2010 meeting.

Attached as Appendix 2 is the latest update to the action plan relating to the control weaknesses identified in the statement and report on its progress.

The action plan is a necessary result of producing the AGS. Because these issues are considered to be significant the action plan and the progress made in its implementation should be periodically reported to the Audit and Pensions Committee to agree and then to monitor progress. The action plan should provide sufficient evidence to show that the individual significant control weaknesses taken from the AGS will be resolved as soon as possible, preferably in-year before the next statement is due.

Failure to act effectively on the significant control issues would increase the exposure of the council to risk.

The schedule at Appendix 3 shows the current stated position as reported by the identified responsible officers.

Unless otherwise stated, Internal Audit has not verified the current position reported in either appendix and can therefore not give any independent assurance in respect of the reported position.

The Audit and Pensions Committee is invited to note the updates provided by operational management.

**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.	External Audit report recommendations progress update	Internal Audit Manager Ext. 2505	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU
2.	Annual Governance Statement Action Plan	Internal Audit Manager Ext. 2505	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU

**Audit Commission Recommendation updates**

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
<b>Grants 2008-09</b>					
<i>New Deals for Communities</i>					
	<p><b>R9</b> Review the NDC asset register to ensure it only records expenditure which is capital in nature, over the de minimis of £5,000 and is clearly traceable to a tangible asset.</p>	<p>It is agreed that improvements need to be made to ensure that the NDC asset register is maintained in accordance with CLG guidelines. Guidance has been drafted by the departmental finance officer responsible and this will be reviewed by corporate finance colleagues and an Audit Commission view sought before implementation to correct the register for 2009/10. (<b>Target March 2010</b>)</p>	<p>Housing Finance Manager</p>	<p>The NDC asset register has been reviewed and updated in line with the recommendation. This will now be passed to corporate finance colleagues and the Audit Commission for review before implementation.</p> <p><b>{Target Date: December 2010}</b></p>	<p><b>Currently awaiting update from responsible officer</b></p>

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
<b>2009/10 Annual Governance Report</b>					
	<p><b>R1</b> Ensure a full set of working papers is available for the agreed date of the commencement of the audit.</p>	<p><i>To achieve an even quicker conclusion to the audit process, the Council will ensure all working papers are produced for the agreed start date of the audit</i>  <b>{Target Date: June 2011}</b></p>	<p>Deputy Director of Finance</p>	<p>All working papers are being reviewed and improvements implemented where appropriate. Corporate Finance is co-ordinating quarterly in year closing to ensure all balance sheet, revenue and capital entries are properly scrutinised before the year end. This will reduce the amount of time required to close the accounts post 31<sup>st</sup> March 2011 and give more time for working papers to be produced and quality checked before the commencement of the audit.</p> <p><b>{Target Date: June 2011}</b></p>	<p><i>The working paper requirements for 2010-11 accounts have been received from the Audit Commission and Corporate Finance will be contacting all relevant officers to inform them of what is expected. A closing timetable will be published by mid February which will detail all tasks and working papers with deadlines for completion. The closing programme will be monitored and reviewed on a regular basis by FSB (Financial Strategy Board) and FDB (Finance Development Board) to ensure deadlines are met.</i></p> <p><b>This recommendation is now closed and no further updates will be reported.</b></p>

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
	<p><b>R2</b> Review the £2.3 million of unallocated receipts in the sales ledger.</p>	<p><i>This has been accounted for correctly, however, as part of the WCFM programme, unallocated cash in AR will be dealt with under a series of agreed options {Target Date: December 2010}</i></p>	<p>Deputy Director of Finance</p>	<p>These unallocated receipts are currently being analysed by department and ledger and preliminary discussions have taken place with IT to formulate possible options. It is intended that possible options will be produced by the end of December and agreed early in January 2011 for immediate implementation.</p> <p><b>{Target Date: January 2011}</b></p>	<p><i>The balance has been reviewed and a plan was agreed by FDB (Finance Development Board) in December 2010. This involves staff from all departments and it is expected that at least 80% of the balance will be cleared by 31<sup>st</sup> March 2011. A process for clearing unallocated cash on an ongoing basis has also been agreed and this is now in place.</i></p> <p><i>This recommendation is now closed and no further updates will be reported.</i></p>

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
<b>Annual Audit Letter 2009/10</b>					
	<p><b>R1</b> Improve the timeliness and quality of the working papers to support the Pension Fund financial statements.</p>	<p>The Council recognises the need to improve in both these areas. An action plan has been produced which assigns responsibilities to named individuals with deadlines and clear expectations. Particular problems were encountered in reconciling membership numbers between the council and the LPFA and this is being addressed with the LPFA with monthly reconciliations taking place (from September 2010). It is hoped that regular monitoring and reconciliations during the year (on a monthly basis) will allow the working papers to be produced earlier and to a higher standard.</p> <p><b>{Immediate and Ongoing}</b></p>	<p>Deputy Director of Finance</p>	<p><i>Not previously reported</i></p>	<p><i>Implementation of this recommendation continues to be ongoing.</i></p> <p><b>Further updates will not be provided as a matter of course.</b></p> <p><b>This recommendation is covered by R1 Annual Governance Report.</b></p>

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
	<p><b>R2</b> Ensure the capacity of the finance team is maintained.</p>	<p>The Council recognises the challenges ahead in respect of accounts preparation and readiness for audit. Plans are in place to replace members of the team who have recently left and existing staff are working flexibly to resource areas such as IFRS implementation and quality and timeliness of working papers. The position is monitored on a regular basis by the Financial Strategy Board (FSB) and the Financial Development Board (FDB).</p> <p><b>{Ongoing}</b></p>	<p>Deputy Director of Finance</p>	<p><i>Not previously reported</i></p>	<p><i>Implementation of this recommendation continues to be ongoing.</i></p> <p><b>Further updates will not be provided as a matter of course.</b></p>



Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
	<p><b>R3</b> Improve the quality of working papers provided in support of the Teachers' Pension Grant Claim.</p>	<p>It is recognised that improvements need to be made in the quality of working papers submitted and in the responses to auditors' queries. A review of the 2009/10 issues is underway and an action plan will be produced by December 2010 to address them. The plan for the 2010/11 audit will be shared with the Audit Commission to ensure it meets the grant certification requirements and this will form the basis for information produced and submitted in support of the claim.</p> <p><b>{Target Date: April 2011}</b></p>	<p>Assistant Director (Human Resources)</p>	<p><i>Not previously reported</i></p>	<p>A bi-monthly report of all teachers pension contributions on Trent is now produced which enables any anomalies to be corrected immediately. The total contributions are reconciled to the payments made to Teachers Pensions on a monthly basis to ensure they balance.</p> <p>There is now only one school using an external which does provide monthly listings of contributions so these are being checked as above.</p> <p>A meeting will be set up with Audit Commission in advance of submission of working papers to ensure both parties are clear what will be required and the format submitted, paper, spreadsheets etc.</p> <p><i>This recommendation is now closed and no further updates will be reported.</i></p>

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
	<p><b>R4</b> Improve the level of compliance with internal procedures when making housing benefit claimant assessments.</p>	<p>The Subsidy team was established 3 years ago and has been successful in reducing the errors in the overall subsidy claim to a net £21k in the 2008/09 claim. Whilst the system of quality checking has made improvements we accept in now needs to be reviewed to maximise the impact of the quality checking that we can currently resource. This will be undertaken after the 2009/10 subsidy claim audit has been completed.</p> <p><b>{Target Date: May 2011}</b></p>	<p>Assistant Director (H&amp;F Direct)</p>	<p><i>Not previously reported</i></p>	<p><i>The 2009/10 audit was completed in December, but some outstanding queries are still being finalised and therefore the claim has still to be signed off. It is expected that this should be by middle of January 2011.</i></p> <p><i>As planned the review of the process and type of quality checking will be reviewed over the next few months.</i></p> <p><b>Further updates to be provided to future meetings</b></p>

Report	Recommendation/Areas of Improvement	Initial response	Responsible Officer	Position previously reported to Audit Committee	Current Position Updates provided December 2010
	<p><b>R5</b> Underpin closer collaboration and integration with the City of Westminster Council and the London Borough of Kensington &amp; Chelsea with appropriate governance arrangements.</p>	<p>Hammersmith &amp; Fulham, Westminster and Kensington &amp; Chelsea are looking at plans to share more services. Various working groups are being set up to develop and study options for four main areas: children's services, environmental services, adult social care and corporate services. A variety of options are being considered and all are at an exploratory stage. All viable proposals will be presented to the Leaders and Chief executives of the three boroughs in an official report by the end of February 2011.</p> <p><b>{Ongoing}</b></p>	<p>Chief Executive and Director of Finance &amp; Corporate Services</p>	<p><i>Not previously reported</i></p>	<p><i>Implementation of this recommendation continues to be ongoing.</i></p> <p><b>Further updates will not be provided as a matter of course.</b></p>

**2009/10 Annual Governance Statement****Action Plan**

AGS Finding re Significant Control Weakness	Responsible Officer	December Update	Update for February Audit and Pensions Committee meeting
<p><b>Budget Estimation</b></p> <p>Corporate Capital and Revenue monitoring identified variances to budgets during the 2009/10 year. These were brought to the attention of the council's Financial Strategy Board as part of the standard monitoring process. Consequently departmental procedures have been strengthened through more explicit standard setting by Corporate Finance complimented with written guidance. Financial Regulations were updated and republished in 2009. An internal Audit review of the process will be undertaken during the 2010/11 year to gain an assurance on the effectiveness of the process improvements.</p>		<p>Audit work has been carried out and a draft management letter on Budget Variances was issued in January. Once management responses have been received the letter will be finalised within quarter 4. The management letter includes 3 recommendations for further action.</p>	
<p><b>Reconciliation of Financial Systems</b></p> <p>The Council has progressed well in redeveloping financial systems and processes over the past few years and acknowledges the project to move towards World Class Financial Management. However there are outstanding recommendations from External Audit relating to reconciliations that remain to be fully resolved.</p>	<p>Head of Corporate Accountancy</p>	<p>The financial systems stream of the WCFM project has identified improvements to the reconciliation of financial systems which are being implemented now.</p>	<p>Improvements continue to be made and a comprehensive schedule of systems reconciliations is being compiled which will form the workplan for the centralised systems team which is part of the new WCFM structure currently out for consultation.</p>

AGS Finding re Significant Control Weakness	Responsible Officer	December Update	Update for February Audit and Pensions Committee meeting
<p><b>Business Continuity IT</b></p> <p>A paper has been submitted to Cabinet, and approved, recommending the implementation of a Business Continuity project to increase IT resilience. This will take some time to complete however it is anticipated that once in place arrangements should prove robust in the event of an IT service interruption.</p>	<p>Head of IT Strategy</p>	<p>The Business Continuity paper was approved in February 2010. H&amp;F Bridge Partnership have negotiated with suppliers on data storage, made proposals for cost containment and determined a suitable supplier for the future Storage Area Network, which is a key part of the BC proposals. Procurement has taken place. Though the plan was originally to have a the new BC service ready in December 2010, an unexpected issue causing a delay arose in relation to the installation of upgraded air conditioning in the Hammersmith Town Hall computer room. This work cannot now complete until the end of November which means that user acceptance testing for the whole service has had to be put back to complete in February, at which point the whole service can go live.</p> <p style="text-align: right;"><b>{Target Date 28/2/11}</b></p>	<p>Upgraded air conditioning has now been installed in the Hammersmith Town Hall computer room, permitting HFBP to begin the real work of installing new servers and storage for Business Continuity. HFBP have come up with an innovative way of completing testing which will allow the user acceptance testing for the whole service to be done largely in normal work time, starting mid January. This is now planned to complete end of February 2011, at which point the whole service can go live.</p> <p style="text-align: center;"><b>{Target Date 28/2/11}</b></p>

AGS Finding re Significant Control Weakness	Responsible Officer	December Update	Update for February Audit and Pensions Committee meeting
<p><b>Contract Management of Consultants</b></p> <p>The Audit Committee has received a report that identifies a number of weaknesses in managing these contracts that need to be addressed. The corporate Procurement team are leading a piece of work across departments to strengthen the management of consultants and the area will be re-audited in the 2010/11 audit programme.</p>	<p>Principal Consultant (Strategic Procurement)</p>	<p>The Quarterly Internal Audit report to the September meeting of the Committee included the following update on the follow-up audit work carried out in relation to the 2009/10 <i>Use of Consultants</i> Internal Audit report.</p> <p>“A follow-up audit has now been carried out which will be formally reported as part of the quarterly report to the next meeting. This found that 2 priority 1 recommendations had been fully implemented. The remaining 1 priority 1 recommendation and 3 priority 2 recommendations were found to be only partly implemented. The partly implemented recommendations relate to controls that should exist within departments. As a result of this additional centralised controls are being introduced in the relevant areas.”</p>	