


<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p><b>21 June 2017</b></p>		
<p><b>INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JANUARY – 31 MARCH 2017</b></p>		
<p><b>Report of the Interim Director of Audit, Fraud, Risk and Insurance</b></p>		
<p><b>Open Report</b></p>		
<p><b>For Information</b> <b>Key Decision: No</b></p>		
<p><b>Wards Affected:</b> None</p>		
<p><b>Accountable Director:</b> Moira Mackie, Interim Director of Audit, Fraud, Risk and Insurance</p>		
<p><b>Report Author:</b> Geoff Drake – Senior Audit Manager</p>		<p><b>Contact Details:</b> Tel: 0208 753 2529 E-mail: <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a></p>

## **1. EXECUTIVE SUMMARY**

- 1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2017 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. PROPOSAL AND ISSUES**

- 4.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2017, and is for the Committee to note.

## **Internal Audit Coverage**

- 4.1.1. 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.
- 4.1.2. A total of 19 audit reports were finalised in the fourth quarter of 2016/2017 from 1 January to 31 March 2017.
- 4.1.3. 3 Limited assurance reports were issued in this period.
- 4.1.4. The audit of St Thomas of Canterbury Primary School received Limited Assurance with 10 medium priority recommendations being raised. Five of these have been reported as implemented and 5 were not yet due for implementation as at 31 March 2017.
- 4.1.5. The audit of Leasehold Service Charges was given a satisfactory assurance opinion in relation to Operations, and a Limited assurance opinion for Agresso / income collection. 1 medium and 1 high priority recommendation was made. These recommendations were not yet due for implementation at the time of this report.
- 4.1.6. The audit of the MITIE contract quality assurance arrangements, with a final report being issued in February 2017, was reported to Committee in March 2017 and therefore has not been included further in this report.
- 4.1.7. A summary of the limited assurance reports is provided in Appendix D.
- 4.1.8. 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 2 outstanding draft reports at the time of writing. A summary of these reports is provided in Appendix B.

## **Outstanding audit recommendations**

- 4.1.9. The Internal Audit department works with key departmental contacts to monitor the implementation of agreed recommendations.
- 4.1.10. There are now 9 audit recommendations where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or the auditee has not provided any information on their progress in implementing the recommendation. These are shown at Appendix E. This compares to 9 outstanding as reported at the end of the previous quarter. We will continue to work with departments to reduce the number of outstanding issues.

4.1.11. The breakdown of the 9 outstanding recommendations between departments is as follows:

- Adult Social Care – 5
- Children's Services (excluding schools) – 2
- Schools - 2

4.1.12. 7 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.

### Implemented Recommendations

4.1.13. 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.

Year	Number of recommendations due	Number of recommendations implemented
2014/15	202	202
2015/16	269	262
2016/17	104	101

4.2. Internal Audit Service

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the Senior Audit Manager'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 Quarter 4 of the 2016/17 financial year.

### Performance Indicators 2016/17

Ref	Performance Indicator	Target	At 31 March 2017	Variance	Comments
1	% of deliverables completed	95%	95%	0%	89 deliverables issued out of a total plan of 94 (excluding exceptions)
2	% of planned audit days delivered	95%	95%	0%	1125 days delivered out of a total plan of 1188 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	100%	+5%	53 out of 53 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%	94%	-1%	59 out of 63 draft reports issued within 10 working days of exit meeting. Average time of 6 days.
5	% of Final reports issued within 5 working days of the management responses	95%	100%	+5%	38 out of 38 final reports issued within 5 working days.

### 4.3. Audit Planning

4.3.1. Amendments to the 2016/17 year Internal Audit plan are shown at Appendix C.

## 5. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

### LIST OF APPENDICES:

Appendix A	Audit reports issued 1 January to 31 March 2017
Appendix B	Summary of Outstanding Audit Reports
Appendix C	Amendments to 2016/17 audit plan
Appendix D	Summary of Limited Assurance Reports
Appendix E	Outstanding Recommendations

## APPENDIX A

### Audit reports Issued 1 January to 31 March 2017

We have finalised a total of 19 audit reports for the period of 1 January to 31 March 2017 to be reported to this Committee. We categorise our opinions according to our assessment of the controls in place and the level of compliance with these controls.

No.	Audit Plan	Audit Title	Director / Sponsor	Audit Assurance
1	2016/17	Risk Management – Compliance Review	Nigel Pallace	Satisfactory
2	2016/17	Queensmill School	Clare Chamberlain	Satisfactory
3	2016/17	St. Thomas of Canterbury RC	Clare Chamberlain	Limited
4	2016/17	William Morris 6th form Academy	Clare Chamberlain	Substantial
5	2016/17	Corporate Governance (Annual Audit for AGS)	Nigel Pallace	Substantial
6	2016/17	Service Charges	Kath Corbett	Operations: Satisfactory Agresso/Income: Limited
7	2016/17	ASC Supplier Resilience	Mike Boyle	Satisfactory
8	2016/17	VAT	Hitesh Jolapara	Satisfactory
9	2016/17	Security Incident Management	Veronica Barella	Satisfactory
10	2016/17	MITIE Contract Quality Assurance	Nilavra Mukerji	Limited
11	2016/17	Commercial Property Management	Maureen McDonald-Khan	Satisfactory
12	2016/17	Community Support Service	Stella Baillie	Satisfactory
13	2016/17	Carers Assessments	Stella Baillie	Satisfactory
14	2016/17	Anti-Fraud Service	Moir Mackie	Satisfactory
15	2016/17	Information Governance and Exchange - (NHS Toolkit)	Rachel Wigley,	Satisfactory
16	2016/17	Housing Emergency Planning	Nilavra Mukerji	Satisfactory
17	2016/17	iWorld Application	Kath Corbett	Satisfactory
18	2016/17	Asylum Seekers – Unaccompanied Minors*	Steve Miley	Satisfactory
19	2016/17	School Meals Contract*	Rachael Wright-Turner	Satisfactory

\* Undertaken by the RBKC in-house internal audit team.

#### **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 No 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. Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

**APPENDIX B****Internal Audit reports in issue more than two weeks**

There are currently 2 reports in issue more than two weeks at time of reporting.

Ref	Department	Audit Name	Assurance	Date draft report issued	Responsibility	Sponsor (Title)
1	Regeneration, Planning and Housing Services	Departmental Risk Management - Housing	Satisfactory	06/03/2017	Health and Safety Manager	Director for Housing Services
2	Regeneration, Planning and Housing Services	Planning Control	Satisfactory	10/02/2017	Planning Change Manager	Lead Director of Regeneration, Planning and Housing Services

**APPENDIX C****Amendments to 2016/17 Audit Plan**

	<b>Department</b>	<b>Audit Name</b>	<b>Nature of Amendment</b>	<b>Reason for amendment</b>
1	Corporate	Consultancy Service	Added	Added from contingency
2	Adult Social Care	ASC Accounts Receivable	Added	Added to plan to expand upon Corporate Accounts Receivable audit
3	Regeneration, Planning & Housing	Management of Hazardous Materials and Substances	Added	Added at Request of Audit Manager
4	Regeneration, Planning & Housing	Budget and MTFS Savings Management	Added	Added at request of Strategic Finance Director

## APPENDIX D

### Summary of Limited and Nil Assurance Reports

Ref	Audit and Scope	Details	Assurance / Risk
1	<p><b>St. Thomas of Canterbury Catholic Primary School</b></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"> <li>• Governance and Leadership</li> <li>• Financial Management</li> <li>• Procurement</li> <li>• Staff Expenses &amp; Petty Cash</li> <li>• Income</li> <li>• Payroll</li> <li>• Head Teachers Pay</li> <li>• Assets and Inventory</li> <li>• Leasing</li> <li>• Unofficial Funds</li> </ul>	<p>This audit was undertaken as part of the 2016/17 audit plan 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 purpose of the audit is to help Schools establish and maintain robust financial systems.</p> <p>Three low priority recommendations and ten medium priority recommendations were raised. The ten medium priority recommendations were as follows:</p> <ol style="list-style-type: none"> <li>1) The 2016-17 School Development Plan should be developed and approved by the Governing Body. This should include financial costs associated with delivering the agreed outcomes.</li> <li>2) Budget monitoring reports and payroll reports should be reviewed on a monthly basis. Evidence of the review process should be retained.</li> <li>3) The unofficial fund, income, and petty cash reconciliations should be signed by the undertaking officer, and the reviewer on a monthly basis.</li> <li>4) Where costs relating to transactions can be identified in advance, a purchase order should be raised and authorised prior to placing the order with the supplier. Purchases in excess of £10,000 should be approved by the Governing Body or Finance Committee, with quotes obtained in accordance with the School's Financial Regulations. Payment of undisputed invoices should be made within 30 days.</li> <li>5) Quotes should be obtained before entering into contracts, or high value purchases in line with the School's Financial Regulations. Where it is not possible to obtain the required number of quotes, a waiver to the regulations should be sought from the Governing Body, and evidence of this retained.</li> <li>6) Expense claim forms should be signed and dated by the claimant to confirm the receipt of payment. Where payments of significance are made in exceptional circumstances, this should be reported and agreed by the Governing Body.</li> <li>7) The School should ensure that appointment letters, qualifications and references are retained for new starters:</li> <li>8) The School should ensure that the ISR and pay scales for the Head Teacher, Acting Head Teacher, and Deputy Head Teacher are formally approved and documented by the Governing Body. The School should ensure that additional payments to staff are in line with the Pay Policy, and approved by the Governing Body or delegated Committee with justification documented.</li> <li>9) Asset register checks should be undertaken on an annual basis. This should be recorded and presented to the GB or delegated committee.</li> <li>10) Unofficial Fund Account reconciliations should be completed and checked by a second independent officer. The Unofficial Fund Account Audit should be presented to the Governing Body for review.</li> </ol>	Limited



Ref	Audit and Scope	Details	Assurance / Risk
2	<p><b>Service Charges</b></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"> <li>• Policies and Procedures</li> <li>• Identification of Leaseholders</li> <li>• Identification and Allocation of Attributable Costs</li> <li>• Estimates and Invoicing</li> <li>• Collection</li> <li>• Debt Management</li> </ul>	<p>Service charges are levied by Councils to recover the costs incurred in providing services to a building and/or estate. The way in which the service charge is organised is set out in the leaseholder's lease. The charge normally covers the cost of such matters as general maintenance and repairs, insurance of the building and, where the services are provided, lifts, lighting and cleaning of common areas.</p> <p>A satisfactory audit opinion was provided in relation to Operations, and a limited opinion for Agresso / income collection. One high priority recommendation was made in relation to Agresso/Income, which was that:</p> <ol style="list-style-type: none"> <li>1) Management should further escalate the issues raised with the service provider, BT, to resolve the functionality issues in Agresso, preventing service charge income from being automatically allocated to service charge accounts. Once resolved, the Council should develop a plan of action to pursue outstanding service charge debts.</li> </ol>	Limited

## APPENDIX E

### Summary of Outstanding Recommendations

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

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name)	Sponsor (Title)	Status
1	2015/16	Adult Social Care	Continuing Healthcare Funding	Satisfactory	Training should be provided to Health staff regarding the social care aspects of the clients' needs and joint working with the Council.	2	31/10/2016	Stella Baillie	Tri Borough Director of Integrated Care	Training has yet to be formally arranged across health and social care in a systemised way. It is recognised that once the policy had been written - no money had been set aside to facilitate a training programme
2	2015/16	Adult Social Care	Continuing Healthcare Funding	Satisfactory	<p>Panel discussions should be recorded and this should be provided to both Health and Councils. The record should include as a minimum:</p> <ul style="list-style-type: none"> <li>• A list of validated recommendations;</li> <li>• Date on which the responsibility transfers to CCG; and</li> <li>• A list of recommendations where further information and evidence is required, including the rationale for seeking additional information.</li> </ul> <p>A periodic analysis of all cases that are taken to the Panel should be undertaken to assess the number of recommendations that are validated first time and the level and pattern of recommendations that are queried and what happens to these cases. In addition, the proposed review of the Panel should be undertaken to</p>	2	30/09/2016	Stella Baillie	Tri Borough Director of Integrated Care	Panel decisions are being recorded and shared. We need to review whether there have been any disagreements / where further information has been requested/ how many recommendations have been validated. This has not happened because of capacity issues in both of the services.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name)	Sponsor (Title)	Status
					assess their effectiveness.					
3	2015/16	Adult Social Care	Continuing Healthcare Funding	Satisfactory	<p>Management should liaise with Health and agree how best to ensure that all assessments are undertaken by a multi-disciplinary team where applicable and that the results of the assessment are shared.</p> <p>The CHC Panel process should include checking that the Decision Support Tool (DST) for each case presented has been completed by a multi-disciplinary team and sufficient level of input has been made by the social care practitioner where applicable.</p> <p>A copy of Health Needs Assessment (HNA) and DST should be retained on Frameworki for all cases presented to the Panel as evidence of the assessment.</p>	2	31/10/2016	Stella Baillie	Tri Borough Director of Integrated Care	<p>Training has yet to be formally arranged across health and social care in a systemised way. It is recognised that once the policy had been written, no money had been set aside to facilitate a training programme. It is accepted that perhaps this needs to be formally checked. Again there has been delay in doing this because of capacity issues in the services</p>
4	2015/16	Adult Social Care	Continuing Healthcare Funding	Satisfactory	<p>The time taken from the receipt of referral to completion of the assessment and panel date should be monitored for all referrals across the three boroughs and any significant performance issues should be escalated.</p>	2	31/10/2016	Stella Baillie	Tri Borough Director of Integrated Care	<p>Again we still need to formally do this. It was initially hoped that that these actions would have occurred after the training had taken place so that the effectiveness could also be measured.</p>
5	2015/16	Adult Social Care	Section 75 Agreements - Mental Health	Limited	<p>LBHF and WLMHT should ensure the Section 75 agreement is finalised and signed.</p> <p>If necessary, the partners should consider practical ways of facilitating the finalisation and signing of the</p>	1	01/03/2017	Stella Baillie	Tri Borough Director of Integrated Care	<p>The plan is to refresh all three section 75 agreements taking Audit's advice to develop it in such a way that the schedules can be updated on an annual basis.</p> <p>Evidence to be sent.</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name)	Sponsor (Title)	Status
					<p>agreement. For example, certain schedules and appendices that contain detail that is likely to change over the life of the agreement could be included in a separate document that is reviewed and agreed annually by the partners. Such schedules and appendices could include: Schedule 1, Appendix 1 Performance indicators; Schedule 4, section 1 Partnership Staffing; Schedule 4, Appendix 1 Service Line Management Structure; and Schedule 5, Appendix 1 Staff Pay Budgets.</p> <p>The benefit of a Section 75 agreement written in this way is that it is less likely to quickly become out of date due to structural, financial and programmatic changes.</p> <p>Appropriate legal consultation should be made in consideration practical ways of facilitating the finalisation and signing of the agreement.</p>					Implementation is ongoing.
6	2016/17	Children's Services	Old Oak Primary	Satisfactory	<p>The following policies and documents should be subject to review and approval by the Governing Body on an annual basis:</p> <ul style="list-style-type: none"> <li>• Charging Policy;</li> <li>• Pay Policy; and</li> <li>• School Staffing Structure.</li> </ul> <p>Approval should be documented within meeting minutes.</p>	2	30/11/2016	Dave McNamara	Director for Finance and Resources (Children's Services)	School Business Manager provided updated Policy documents 12/05/2017, however, no minutes were provided to evidence approval. Minutes requested.
7	2015/16	Children's Services	Schools Information	N/A	Consideration should be given to whether the following policies should	2	31/10/2016	Dave McNamara	Director for Finance and Resources	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name)	Sponsor (Title)	Status
			Security Self Assessment		<p>be in place at schools:</p> <ul style="list-style-type: none"> <li>• Records Management Policy &amp; Information Security Policy.</li> <li>• Website Privacy Policy.</li> <li>• Records Retention and Disposals Policy.</li> <li>• Freedom of Information Policy.</li> <li>• Cookies Policy.</li> </ul> <p>Where these are required to be maintained by schools, example policies should be provided for schools to adopt.</p>			a	(Children's Services)	
8	2015/16	Children's Services	Schools Information Security Self Assessment	N/A	<p>Schools should be provided with guidance on information sharing arrangements, including:</p> <ul style="list-style-type: none"> <li>• Where information sharing agreements are required and sample agreements.</li> <li>• In which circumstances and how information sharing should be recorded.</li> <li>• When and how to assess security arrangements of other organisations with which data is shared.</li> <li>• In which circumstances security arrangements should be reviewed.</li> </ul>	2	31/10/2016	Dave McNamara	Director for Finance and Resources (Children's Services)	No update received.
9	2016/17	Children's Services	Vanessa Nursery	Satisfactory	<p>For long standing contractors, the market should be periodically tested to confirm that value for money is still being achieved.</p> <p>The Nursery should ensure that copies of all contract agreements are retained.</p>	2	31/01/2017	Dave McNamara	Director for Finance and Resources (Children's Services)	No update received.