


<p>London Borough of Hammersmith & Fulham</p> <p>FULL COUNCIL</p> <p>18 October 2017</p>		
<p>ANNUAL REPORT OF THE CHAIR OF THE AUDIT, PENSIONS AND STANDARDS COMMITTEE 2016/17</p>		
<p>Report of the Chair of the Audit, Pensions and Standards Committee – Councillor Iain Cassidy</p>		
<p>Open Report</p>		
<p>Classification: For Information Key Decision: No</p>		
<p>Wards Affected: None</p>		
<p>Accountable Director: Hitesh Jolapara, Strategic Finance Director</p>		
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1. EXECUTIVE SUMMARY

- 1.1. This report relates to the work of the Audit, Pensions and Standards Committee's work during the period 1 April 2016 to 31 March 2017 excluding all matters relating to pensions and standards. The Audit, Pensions and Standards Committee (the Committee) has a wide ranging 'audit committee' brief that underpins the Council's governance processes by providing independent challenge and assurance of the adequacy of governance, risk management, and internal control. This includes audit, anti-fraud and the financial reporting framework; the Committee is also the Council's Approval of Accounts Committee.
- 1.2. This report details the key successes and work of the Committee in relation to its role as an audit committee in 2016/17. The Committee has overseen transformation in all areas of its responsibilities and has actively contributed to leading and shaping those changes.

2. RECOMMENDATION

- 2.1. To note the contents of this report.

3. REASONS FOR DECISION

- 3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

4.1. The table below details last year's Committee members.

Members of the Audit Committee

Member	Role
Councillor Iain Cassidy	Chair
Councillor Michael Adam	Vice Chair
Councillor Nicholas Botterill	Member
Councillor Mike Cartwright	Member
Councillor PJ Murphy	Member
Councillor Ben Coleman	Member
Councillor Guy Vincent	Member
Councillor Mark Loveday	Member
Councillor Donald Johnson	Member

4.2. Throughout the period the Committee has actively contributed to leading and shaping change in all areas of its responsibilities. Key achievements include:

- Oversight and scrutiny of arrangements for risk management. Regular risk management reports to the committee provide transparency on risk management performance. Services are also required to attend committee to provide additional context to the risk environment. During the period the committee arranged the call-in of service risk registers for scrutiny and review and has considered the monitoring of the Council's exposure to emerging risks. Risks have been compared and contrasted with other London Councils and with large Public Sector institutions as the Council faces new risks, in common with other local authorities, such as Brexit, Cyber Threats and the increased levels of threats of terrorism.
- Continued performance improvements in responding to internal audit reports and recommendations across the Council, and delivery of the Internal Audit plans. This has included asking officers from services that receive limited and nil assurance audit reports to attend meetings to present and answer member questions on the reports;
- Oversight of key issues including the Managed Services programme, Riverside Studios, plus Housing health and safety checks;
- Scrutiny of the Council's Annual Governance Statement;
- Oversight of the Anti-Fraud service;
- Approval of the 2015/16 year annual accounts.

Governance

- 4.3. The Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk. The governance framework comprises the systems, processes, culture, and values by which the authority is directed and controlled and it engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 4.4. The Committee has a responsibility to assess the adequacy and effectiveness of the corporate governance arrangements that have been put in place. This is achieved in a number of ways. The Committee reviews the Annual Governance Statement (AGS) that accompanies the annual accounts, to ensure it properly identifies the Council's governance arrangements, and that it accurately identifies significant control weaknesses. The Committee monitors the action plans put in place to address significant control weaknesses identified through the compilation of the AGS and progress in implementing them at each of their meetings.
- 4.5. The Committee also considers the work of Internal Audit and risk management in identifying and evaluating risks and ensuring arrangements are put in place to manage them in accordance with the Accounts and Audit regulations. The Audit, Pensions and Standards Committee's contribution to the corporate governance of the Council is reflected in the Annual Governance Statement. This year the review of governance re-states that the Council is again compliant with the CIPFA/SOLACE governance guidance issued in 2007.
- 4.6. The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Internal Control

- 4.7. A pivotal role of the Committee is its work in overseeing the Council's internal control and assurances processes culminating in the Annual Governance Statement (AGS). Regulation 6 in section 2 of the Accounts and Audit (A&A) Regulations 2015 require the Council to review the effectiveness of its governance arrangements including the system of internal control and to publish an AGS each year to accompany the financial statements. The information for the AGS is generated through the Council's Assurance framework encompassing:
- Risk management issues;
 - Internal Audit;
 - Anti-Fraud programme;
 - External Audit;
 - Third party assurances such as other inspection and review agencies;

- Annual management assurance statements from departmental heads and specialist interest areas such as IT and procurement.

4.8. The Committee leads this review by receiving reports at every meeting from most of these areas.

Risk Management

4.9. Many challenges have been faced during the year not least as a result of budget restrictions due to austerity measures imposed on us by national government, the uncertainty caused by the Brexit negotiations, a snap election, cyber threats, the increased threat of terrorism, supply chain resilience (loss of CITAS the interpretation and translation service and its successful mitigation), and preparation for the introduction of the General Data Protection Regulations which focusses on how information used in the Council is managed.

4.10. The Council's Audit Pensions and Standards Committee also considered the risks and responses associated with the Managed Services Programme, Shared Services arrangements and performance related matters in connection with the Council's Housing Maintenance Contractor.

4.11. During the period the Committee responded swiftly to other emerging threats including a review of the Council's response to potential cyber risks, hacking and cyber ransoms that other local authorities and public bodies including the NHS have experienced. Service departments risk registers have been re-assessed and recommendations adopted to improve quality and reporting, the Council's risk management strategy was reviewed and approved and benchmarking of risk management was analysed. The Committee were also informed of the outcomes of the Internal Audits of Risk Management both corporately and of services; once more a positive assurance was attained.

4.12. Benefits from management of risk include improved organisational resilience and performance in service delivery to the community, this includes a number of service continuity risks managed during the period including;

- Liquidity concerns regarding the off-site records storage contractor and Waste management provider, the Council's translation and interpretation service where identification of the risk to the suppliers on-going service provision was made early on. This was followed by swift and decisive response from the Council's Service Resilience Group.
- Risks were effectively managed in response to the large IT transition programme, moving services and contracts from the former Hammersmith Bridge Partnership to the new In-house team and service departments also moving of the Council's servers to new providers and protection of the Councils' Information systems during two global cyber attacks.

4.13. This has been delivered through testing economic times, a snap election, cyber threats and increased terrorist activity. Through the period comprehensive scrutiny of risk was undertaken quarterly by the Committee and has this continues to be robust and effective.

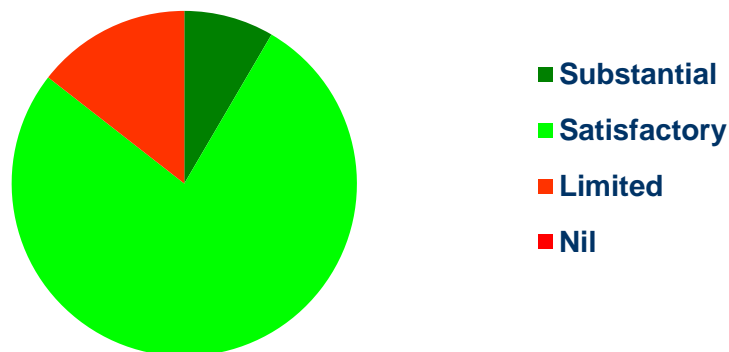
Internal Audit

- 4.14. The Internal Audit plans for the 2016/17 year were developed using the departmental and the corporate risk registers plus the audit universe document as a basis supported by Internal Audit knowledge input. The draft plans were then reviewed and updated with departments through a series of planning meetings with the service directors after which the plans were approved by the Business Board and the Committee.
- 4.15. The annual Head of Internal Assurance Report for the 2016/17 year concluded 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 2017 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report.' The significant internal control issues identified during the 2016/17 from Internal Audit work were as follows:
- Weaknesses were found within the Trading Accounts Audit, mainly relating to limited central guidance and oversight of traded services;
 - 2 Adult Social Care contract management audits and 1 procurement audit received Limited assurance opinions;
 - 2 schools received Limited Assurance opinions. One of these has since become an Academy;
 - The Quality Assurance arrangements related to the MITIE Repairs contract received a Limited Assurance opinion. The assurance opinion provided is based on sample testing across the entire contract period to date. This followed an earlier limited assurance audit report for MITIE Health and Safety Checks which resulted in the Committee requiring progress updates at each subsequent meeting on addressing issues that have arisen.
 - Use of Consultants received a Limited Assurance opinion. Weaknesses identified included a lack of transparent competition when appointing consultants, formal contracts not always being in place, and checks of employment status not being undertaken.
 - Disability Service Direct Payments (DP) received a Limited Assurance opinion. The DP arrangements are operated independently in each Council with staff often undertaking the DP processes as part of a wider role. As a result, the knowledge and expertise around DP was spread thinly across the three Councils.
 - Pensions Administration received a Limited Assurance opinion. Although the audit identified a number of the controls in place for calculating, processing and maintaining the scheme as operated by Surrey County Council are appropriate, the quality and regularity of the information provided by BT has impacted on the overall assurance opinion.
 - Payroll also received a Limited Assurance opinion. The absence of documentation and records on Agresso for payroll transactions meant that the audit trail for many cases tested was incomplete and information could

not be relied upon.

- 4.16. The Council's Internal Audit service delivered 95% of the plans. The work carried out in the financial year 2016/17 found that, in the areas audited, internal control systems were generally effective with 86% of the systems audited achieved a positive assurance, of which 7 audits received Substantial Assurance and no Nil Assurance reports were issued. This compares with 81.4% of audits receiving positive assurance in 2015/16. Where audits received a Limited Assurance and where High and Medium priority recommendations were raised in all audits, in each case action plans are in place to remedy the weaknesses identified. These will be followed up by the Internal Audit service until they are implemented.
- 4.17. It should be noted that a number of issues concerning compliance were directly or indirectly related to the implementation of the Managed Services Programme. To provide the Council with some assurance over their key financial and HR systems, a number of internal audits have been undertaken during 2016/17 including:
- Accounts Receivable (Satisfactory Assurance);
 - Accounts Payable (Satisfactory Assurance);
 - General Ledger (Satisfactory Assurance);
 - VAT (Satisfactory Assurance);
 - Budgetary Control (Satisfactory Assurance); and,
 - Payroll (Limited assurance)
- 4.18. Sample testing has also been undertaken on key areas of the Payroll process and, although the testing has identified a number of exceptions, no material issues were identified. Further audits in respect of managed services will be undertaken in the 2017/18 financial year.
- 4.19. The pie chart below shows the levels of audit assurance achieved for the 2016/17 year including all audits undertaken by the Royal Borough of Kensington and Chelsea and Westminster City Council covering systems that support delivery of LBHF services.

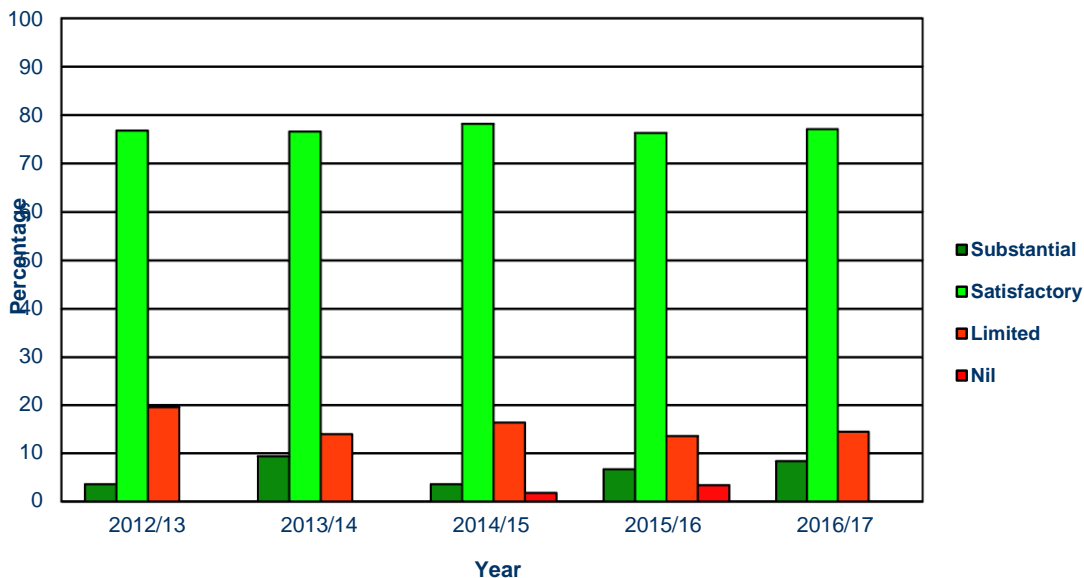
Assurance Levels for the year to 31 March 2017



Note: There were no Nil Assurance audit reports issued

4.20. To help put this into context the bar chart below shows the levels of assurance provided for all systems audited since the 2012/13 financial year. The distribution of assurance opinions shows a relatively stable position with a slight increase in Substantial Assurance reports over the last three years.

Assurance Levels of Reports from 2012/13 to 2016/17



Acceptance and implementation of Internal Audit recommendations

4.21. Almost all of the recommendations made during the year were accepted by management. There were two exceptions reported to the Committee that were noted; management accepted the risks associated with not implementing the recommendations.

4.22. Whilst 15 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.

4.23. 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	102

4.24. In total 75 recommendations arising from Nil and Limited Assurance reports have been followed up by Internal Audit of which 50 were either fully implemented or

no longer relevant, representing 66% of all those tested. If partially implemented recommendations are added this totals 92% of all those tested. This is in line with 2015/16.

- 4.25. The Committee has continued to invite officers responsible for services that receive Limited and Nil Assurance audit reports to attend the Committee to present the report and answer members' questions. This has given members a better understanding of the risks and issues involved in each case and the actions being proposed to mitigate and manage them.

Anti-Fraud

- 4.26. During the 2016/17 year CAFS (Corporate Anti-Fraud Service) identified 145 positive outcomes against a target of 130, including nine prosecutions, 21 recovered tenancies and 14 Proceeds of Crime Act (POCA) recoveries totalling £662,073.
- 4.27. As a consequence of its counter fraud work the unit identified total fraud to the value of approximately £7 million. Where possible a financial value to the Council has been placed on the counter fraud work that CAFS undertakes. It does not take account of any additional value such as the deterrent effect achieved through successful casework and the publicity gained from the results, plus the fraud awareness activity and the proactive work undertaken to prevent fraud occurring in the first place.
- 4.28. During the next financial year 2017/18 CAFS will undertake a review of the fraud values used to better calculate the actual savings to the Council as a result of counter fraud activity.
- 4.29. The fraud newsletter, Fraud in Brief launched in November 2016, helping to enhance the anti-fraud culture and educate staff regarding emerging fraud risks. To underpin this, the CAFS eLearning suite of fraud awareness training and bespoke courses also became available via the intranet.
- 4.30. CAFS has a strong reputation across the anti-fraud community and officers play an active role in many of the professionally recognised forum and working groups including seats on the national executive bodies, Fighting Fraud and Corruption Locally and the National Anti-Fraud Network.
- 4.31. CAFS continues to provide Hammersmith & Fulham with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council.

Annual Accounts and Financial Reporting

- 4.32. The Committee reviewed the 2015/16 year annual accounts in its meeting in September 2016 in undertaking its role as the Approval of Accounts Committee. The Committee reviewed and interpreted the accounts, raising informed questions prior to approving the accounts. As part of this process the Committee also reviewed the Annual Governance Statement (AGS), they then tracked the

action plans arising from the control weaknesses identified in the AGS to consider their appropriateness and then review the progress made against those plans.

- 4.33. The Committee also received and reviewed the External Audit reports issued during the year. These included the Annual Audit Letter, the report on the annual accounts, the grants report, and the External Audit plan.
- 4.34. The Committee also received the Treasury Outturn Report 2015-16 plus the Treasury Management Strategy reports 2017-18 for which the Committee approved the future borrowing and investment strategies outlined in the report and to pay the Housing Revenue Account (HRA) investment income on unapplied HRA receipts and other HRA cash balances calculated at the average rate of interest.

Additional reports requested

- 4.35. The committee received a report on Riverside Studios at its June 2016 meeting produced in response to actions from the Committee at its meeting on 14 December 2015 regarding the planning permission for the redevelopment of the Riverside Studios and Queens Wharf. The Committee resolved to write to Riverside Trust for a full account of the funds provided for the re-provision of a community arts facility and regular updates on progress. The Committee also resolved to contact the developer to clarify who they were negotiating S106 payments with, in particular the £7m S106 payment to the Trust. The Committee also asked Riverside Trust to ensure that the studios will be part of the local community and offer real benefits to residents.

Significant Issues

- 4.36. The Committee dealt with a number of significant issues during the 2016/17 year.
- 4.37. Following a Limited Assurance Internal Audit report on MITIE Health and Safety Checks in the September 2016 meeting, the Committee questioned officers and representatives from MITIE about the processes and controls in place. Concerns were expressed relating to the existing arrangements found by Internal Audit, both in terms of the level of checks being undertaken and the level of oversight by council officers and MITIE. As a result the Committee received progress reports at all subsequent meetings which were reviewed in detail, with further updates being provided in 2017/18.
- 4.38. The Committee invited officers to attend committee meetings for all Limited and Nil Assurance audit reports that were issued to enquire how the position had arisen and the steps being taken to improve the situation. These included reports on Garages, Section 75 Agreements for Mental Health, MITIE Contract Quality Assurance, and Disability Service Direct Payments.

Future developments

4.39. Some of the more significant issues likely to have a focus for the Committee during 2017/18 are considered to include:

- The organisational change programme within the Council including that related to the withdrawal from shared services arrangements. This will include ensuring that control is maintained for existing services and projects, risks are disaggregated and appropriately allocated or transferred, plus ensuring that new processes have control designed into them;
- The programme to re-tender the financial, payroll, and Human Resources systems and consequent changes to controls and processes;
- 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;
- The implications on services of the decision to leave the European Union.
- The continuing implications arising from the Grenfell House fire, including the decisions being made by the Council to address the risks identified from this.
- Transformation programmes and projects continue to be undertaken to deliver savings, particularly 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 time'; and,
- Major repairs to Hammersmith Bridge works to be undertaken which are part funded by TFL and the impact on the local transport network.

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

None.

LIST OF APPENDICES

None.