



HILLINGDON  
LONDON



## Audit Committee

### Members on the Committee

Rajiv P Vyas (Chairman)  
Richard Lewis (Vice-Chairman)  
Tony Eginton (Labour Lead)  
George Cooper  
Susan O'Brien

**Date:** TUESDAY, 17 MARCH 2015

**Time:** 5.00 PM

**Venue:** COMMITTEE ROOM 3A -  
CIVIC CENTRE, HIGH  
STREET, UXBRIDGE UB8  
1UW

**Meeting  
Details:** Members of the Public and  
Press are welcome to attend  
this meeting

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**Published:** Monday, 9 March 2015

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This Agenda is available online at:

<http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CIId=256&MIId=2037&Ver=4>

***Putting our residents first***

Lloyd White  
Head of Democratic Services  
London Borough of Hillingdon,  
3E/05, Civic Centre, High Street, Uxbridge, UB8 1UW  
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# Terms of Reference

The Constitution defines the terms of reference for the Audit Committee as:

## Introduction

The Audit Committee's role will be to:

- Review and monitor the Council's audit, governance, risk management framework and the associated control environment, as an independent assurance mechanism;
- Review and monitor the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and/or weakens the control environment;
- Oversee the financial reporting process of the Statement of Accounts.

Decisions in respect of strategy, policy and service delivery or improvement are reserved to the Cabinet or delegated to Officers.

## Internal Audit

1. Review and monitor, but not direct, Internal Audit's work programmes, summaries of Internal Audit reports, their main recommendations and whether such recommendations have been implemented within a reasonable timescale, ensuring that work is planned with due regard to risk, materiality and coverage.
2. Make recommendations to the Leader of the Council and Cabinet Member for Finance, Property and Business Services on any changes to the Council's Internal Audit Strategy and plans.
3. Review the Annual Report and Opinion and Summary of Internal Audit Activity (actual and proposed) and the level of assurance this can give over the Council's corporate governance arrangements.
4. Consider reports dealing with the management and performance of internal audit services.
5. Following a request to the Corporate Director of Finance, and subject to the approval of the Leader of the Council and Cabinet Member for Finance, Property and Business Services, to commission work from Internal Audit.

## External Audit

6. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
7. Monitor management action in response to issues raised by External Audit.

8. Receive and consider specific reports as agreed with the External Auditor.
9. Comment on the scope and depth of External Audit work and ensure that it gives value for money, making any recommendations to the Corporate Director of Finance.
10. Be consulted by the Corporate Director of Finance over the appointment of the Council's External Auditor.
11. Following a request to the Corporate Director of Finance, and subject to the approval of the Leader of the Council / Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.
12. Monitor effective arrangements for ensuring liaison between Internal and External audit, in consultation with the Corporate Director of Finance.

### **Governance Framework**

13. Maintain an overview of the Council's Constitution in respect of contract procedure rules and financial regulations. And, where necessary, bring proposals to the Leader of the Council or the Cabinet for their development.
14. Review any issue referred to it by the Chief Executive, a Deputy Chief Executive, Corporate Director, or any Council body.
15. Monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the corporate risk register and seeking assurances that action is being taken on risk related issues.
16. Review and monitor Council policies on 'Raising Concerns at Work' and anti-fraud and anti-corruption strategy and the Council's complaints process, making any recommendations on changes to the Leader of the Council and the Deputy Chief Executive and Corporate Director of Residents Services.
17. Oversee the production of the authority's Statement of Internal Control and recommend its adoption.
18. Review the Council's arrangements for corporate governance and make recommendations to the Corporate Director of Finance on necessary actions to ensure compliance with best practice.
19. Where requested by the Leader of the Council, Cabinet Member for Finance, Property and Business Services or Corporate Director of Finance, provide recommendations on the Council's compliance with its own and other published standards and controls.

### **Accounts**

20. Review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are

concerns arising from financial statements or from the auditor that need to be brought to the attention of the Council.

21. Consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Review and reporting**

22. Undertake an annual independent review of the Committee's effectiveness and submit an annual report to Council on the activity of the Audit Committee.

# Agenda

- 1 Apologies for Absence
- 2 Declarations of Interest in Matters coming before this meeting
- 3 Minutes of the Meeting held on 16 December 2015 (**Pages 1-6**)
- 4 Exclusion of Press and Public  
To confirm that all items marked Part I will be considered in public and that any item marked Part II will be considered in private.
- 5 Deloitte - Annual Grant Audit Letter (**Pages 7-18**)
- 6 Annual Governance Statement 2014/15 - Interim Report (**Pages 19-30**)
- 7 Corporate Fraud Investigation Progress Report April 2014 to February 2015 and Forward Plan for 2015/16 (**Pages 31-40**)
- 8 Balances and Reserves Statement (**Pages 41-50**)
- 9 Revisions to the Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2019/20 (**Pages 51-70**)
- 10 Internal Audit - Updated Internal Audit Charter 2015/16 (**Pages 71-76**)
- 11 Internal Audit - Progress Report for Quarter 4 2014/15 (**Pages 77-96**)
- 12 Internal Audit - Draft Internal Audit Plan 2015/16 (**Pages 97-120**)
- 13 Audit Committee Forward Programme 2015/16 (**Pages 121-124**)
- 14 Update on Progress of Skills Matrix and Training and Development Plan for Audit Committee Members  
**Oral update to be provided.**

## **PART II**

- 15 Internal Audit - Draft Internal Audit Strategy 2015 - 2020 (**Pages 125-142**)
- 16 Risk Management Report - 2014/15 (**Pages 143-162**)

## Minutes

**Audit Committee**  
**Tuesday 16 December 2014**  
**Meeting held at Committee Room 3- Civic Centre,**  
**High Street, Uxbridge UB8 1UW**



	<p><b>Independent Member:</b> Rajiv Vyas (Chairman).</p> <p><b>Members Present:</b> Councillors George Cooper, Tony Eginton, Richard Lewis and Susan O'Brien.</p> <p><b>Officers Present:</b> Garry Coote (Corporate Fraud Investigation Manager), Dan Kennedy (Head of Performance and Improvement), Sarah Hydrie (Assistant Internal Audit Manager), Sian Kunert (Chief Accountant), Muir Laurie (Head of Internal Audit), Nancy Le Roux (Deputy Director of Strategic Finance), Paul Whaymand (Corporate Director of Finance) and Khalid Ahmed (Democratic Services Manager).</p> <p><b>Others Present:</b> Heather Bygrave and Jonathan Gooding (External Auditors - Deloitte).</p>
24.	<p><b>DECLARATIONS OF INTEREST</b></p> <p>Councillor Cooper declared a Non-Pecuniary Interest in Agenda Item 6 - Corporate Fraud Investigation Progress Report because one of the prosecutions detailed in the report related to a Constituent who he knew as a resident. He remained in the room and took part in discussions on the item.</p> <p>Councillor Eginton declared a Non-Pecuniary Interest in Agenda Item 5 – Deloitte - 2014/15 Annual Audit Plan because he was a deferred Member of the Local Government Pension Scheme. He remained in the room and took part in discussions on the item.</p>
25.	<p><b>MINUTES OF THE MEETINGS HELD ON 23 SEPTEMBER 2014</b></p> <p>Agreed as an accurate record.</p>
26.	<p><b>EXCLUSION OF THE PRESS AND PUBLIC</b></p> <p>It was agreed that all the items on the Agenda be considered in public with the exception of Agenda Item 11 - Risk Management.</p>
27.	<p><b>DELOITTE - 2014/15 ANNUAL AUDIT PLAN</b></p> <p>Consideration was given to a report which set out the initial plans for the 2014/15 audit by Deloitte.</p> <p>The Committee was provided with the key developments for</p>

	<p>the audit and was informed that the expected level of materiality calculated on the basis of gross expenditure for the full year would be £10.1m.</p> <p>The significant audit risks were identified and the main areas on which specific audit work would focus would be</p> <ul style="list-style-type: none"> <li>• Recognition of grant income</li> <li>• Recording of capital spend</li> <li>• Management override of key controls</li> <li>• Upgrade of Oracle financial system</li> </ul> <p>Reference was made to the scope of the work and approach which included six key areas:</p> <ul style="list-style-type: none"> <li>• Financial Statements</li> <li>• Annual Governance Statement</li> <li>• Value for Money conclusion</li> <li>• Assurance report on the Whole Government Accounts return</li> <li>• Pensions Audit</li> <li>• Grants</li> </ul> <p>Discussion took place on Risk Management and reference was made to the identification of accounting of schools as being a potential audit risk. Members were informed that CIPFA had not issued final guidance on the practical considerations of accounting for schools. Deloitte would monitor this potential risk and work closely with the Council Finance Team to address it.</p> <p><b>RESOLVED -</b></p> <p><b>1. That the Committee noted the report.</b></p>	<b>Action By:</b>
28.	<p><b>CORPORATE FRAUD INVESTIGATION PROGRESS REPORT</b></p> <p>The Committee was provided with a progress report from the Council's Corporate Fraud Investigation Manager. Reference was made to a range of activities which the team had been involved in since April 2014. These included:-</p> <ul style="list-style-type: none"> <li>• Social Housing Fraud</li> <li>• Council Tax/ Business Rates inspections</li> <li>• Right to Buy Investigations</li> <li>• First Time Buyer Investigations</li> <li>• Proceeds of Crime Investigations</li> <li>• Temporary Accommodation and Housing Needs Reception</li> <li>• Grants and Blue Badge prosecutions</li> <li>• Empty Properties Project</li> <li>• Single Fraud Investigation Service pilot</li> </ul>	





	<p>about the processes and procedures in place.</p> <p>Members were informed that this had been a good example of joint working as corrective management action had been taken in response to Internal Audit findings.</p> <p>The Committee was also informed that other assurance audits which had been finalised this quarter had included Business Continuity, Housing Temporary Accommodation and the thematic cross cutting reviews which had taken place at schools on payroll.</p> <p>The Head of Internal Audit reported that in relation to follow up work on previous Internal Audit recommendations, there had only been 4% outstanding high and medium risk recommendations. This compared favourably to last year.</p> <p>The Committee was informed that Internal Audit recommendations were monitored and implemented by using Internal Audit's software, TeamMate, and details of how this software worked was reported.</p> <p>Reference was made to a number of client comments on performance of Internal Audit, which had been positive.</p> <p><b>RESOLVED –</b></p> <ol style="list-style-type: none"> <li><b>1. That the Internal Audit progress report for 2014/15 Quarter 3 be noted.</b></li> <li><b>2. That the coverage, performance and results of Internal Audit activity be noted.</b></li> </ol>	<b>Action By:</b>
30.	<p><b>TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2015/16 TO 2019/20</b></p> <p>Members were reminded that the Annual Treasury Management Strategy was agreed by Council as part of the budget setting process in February. A draft of the strategy was brought before this Committee to enable greater scrutiny.</p> <p><b>RESOLVED -</b></p> <ol style="list-style-type: none"> <li><b>1. That the contents of the Treasury Management Strategy Statement and Investment Strategy be noted.</b></li> </ol>	
31.	<p><b>PROPOSED 2015/16 TRAINING &amp; DEVELOPMENT PLAN FOR AUDIT COMMITTEE MEMBERS</b></p> <p>The Committee was provided with a proposed training and development plan for Audit Committee Members, which was</p>	



	<b>6.20pm</b> <b>Next meeting: 17 December 2015 at 5.00pm</b>	
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These are the minutes of the above meeting. For more information on any of the resolutions please contact Khalid Ahmed on 01895 250833. Circulation of these minutes are to Councillors, Officers, the Press and Members of the Public.

## **Deloitte - Annual Grant Audit Letter**

**Contact Officer:** Sian Kunert  
**Telephone:** 01895 566578

### **SUMMARY**

This report provides a summary of the key findings on the grant work undertaken by Deloitte for the year ended 31 March 2014.

### **RECOMMENDATIONS**

**The Committee is asked to note the report.**

### **INFORMATION**

The attached report addressed to the Audit Committee on 2014 Grant Certifications has been completed by the Council's external auditors Deloitte to communicate the key issues arising from their 2013/14 grant certification work.

Deloitte were responsible for certifying 2 claims and returns under the contract with the Audit Commission, both of which were certified by the required deadline. Their key findings from this work were that as a result of errors identified during the audit, an adjustment was made to 1 return prior to certification and a qualification letter was issued in respect of the same grant claim. The reason for the qualification was as follows:

- Housing and Council Tax benefit scheme (BEN01) – initial testing of 60 cases identified errors on 4 cases. As a result further testing was carried out including cases with a past history of error. The subsidy claim was amended as a result for one of these errors.

The total fees charged for the grant certification work for 2013/14 was £37,179 plus an additional £8,100 payable for the audit of the Teachers Pensions return

### **LEGAL IMPLICATIONS**

There are no legal implications arising from this report.

Audit Committee 17 March 2015  
PART I – MEMBERS, PUBLIC & PRESS

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London Borough of Hillingdon

Report to the Audit Committee  
on the year ended 31 March 2014  
Certification work

Final Report

# Contents

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# 1. Executive summary

We have pleasure in setting out in this document our key findings from our claims and returns certification work of the London Borough of Hillingdon (“the Authority”) for the year ended 31 March 2014. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

<b>Certification deadlines</b>	We have certified both claims and returns required under our contract with the Audit Commission (see Section 4 for details) for the year ended 31 March 2014. Both claims and returns we reported on were certified by the original required deadline.
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<b>Results of our claims and returns certification work</b>	<p>As a result of errors identified through the performance of our procedures, an adjustment was made to one of the claims/returns prior to certification. We have summarised the number of adjustments identified and our conclusion on whether our opinion was qualified in the table below. We have included additional comments below the table where we issued a qualification letter in 2013/14:</p> <table border="1"> <thead> <tr> <th>Claims/returns</th> <th>Value of claim £</th> <th>Number of adjustments made</th> <th>Financial impact Increase/ (Decrease) £</th> <th>Qualified in 2012/13</th> <th>Qualified in 2013/14</th> </tr> </thead> <tbody> <tr> <td>Pooling of Housing Capital Receipts (“CFB06”)</td> <td>£10,210,284</td> <td>-</td> <td>-</td> <td>NO</td> <td>NO</td> </tr> <tr> <td>Housing and Council Tax Benefit Subsidy (“BEN01”)</td> <td>£152,196,630</td> <td>1</td> <td>-</td> <td>YES</td> <td>YES</td> </tr> </tbody> </table> <p><b>Summary of qualification letters</b>  <b>Housing and Council Tax Benefit Subsidy (“BEN01”)</b>            Our initial sample testing of 60 cases on this claim identified 4 errors. In addition, as a result of these and prior year errors, additional testing highlighted a further 4 errors. We have included details of all errors in our qualification letter. The subsidy claim was amended as a result of one of these errors.            See Section 3 for more details.</p>	Claims/returns	Value of claim £	Number of adjustments made	Financial impact Increase/ (Decrease) £	Qualified in 2012/13	Qualified in 2013/14	Pooling of Housing Capital Receipts (“CFB06”)	£10,210,284	-	-	NO	NO	Housing and Council Tax Benefit Subsidy (“BEN01”)	£152,196,630	1	-	YES	YES
Claims/returns	Value of claim £	Number of adjustments made	Financial impact Increase/ (Decrease) £	Qualified in 2012/13	Qualified in 2013/14														
Pooling of Housing Capital Receipts (“CFB06”)	£10,210,284	-	-	NO	NO														
Housing and Council Tax Benefit Subsidy (“BEN01”)	£152,196,630	1	-	YES	YES														

<b>Fees</b>	<p>Total fees charged in respect of the work performed on the 2 claims and returns (2013: 4) certified by Deloitte LLP were £37,179 (2013: £90,200).</p> <p>Section 4 of this report sets out the fees charged on each of the 2 claims and returns we certified.</p>
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## 2. Introduction

### **Purpose of this report**

This letter is addressed to the Audit Committee of the Authority and is intended to communicate key issues arising from our 2013/14 certification work. This Letter will be published on the Authority's website.

### **Our responsibilities**

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

The respective responsibilities of the audited grant paying body, authorities, the Audit Commission and appointed auditors in relation to claims and returns are set out in the 'General Certification Instructions' produced by the Audit Commission.

Auditors presented with any claim or return that is not covered by a certification instruction should refer the matter to the Audit Commission for advice. If the Audit Commission has formally declined to make certification arrangements for a scheme, an auditor cannot act in any capacity. However, if the Audit Commission has not formally declined to make arrangements, the auditor can decide to act as a reporting accountant.

### **The scope of our work**

Auditors appointed by the Audit Commission are required to:

- review the information contained in a claim or return and to express a conclusion whether the claim or return is: i) in accordance with the underlying records; or ii) is fairly stated and in accordance with the relevant terms and conditions;
- examine the claim or return and related accounts and records of the Local Authority in accordance with the specific grant certification instructions;
- direct our work to those matters that, in the appointed auditor's view, significantly affect the claim or return;
- plan and complete our work in a timely fashion so that deadlines are met; and
- complete the appointed auditor's certificate, qualified as necessary, in accordance with the general guidance in the grant certification instructions.

These responsibilities do not place on the appointed auditor a responsibility to either:

- identify every error in a claim or return; or
- maximise the authority's entitlement to income under it.

We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the certification procedures. Our aim is to deliver a high standard of service which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your cooperation and support.

### 3. Results of our claims and returns certification work

#### **Claims and returns certified without adjustment or a qualification letter**

We were able to certify the following claim/return without adjustment or a qualification letter:

- Pooling of Housing Capital Receipts (CFB06)

#### **Claims and returns certified with an adjustment and with a qualification letter**

The Housing benefit subsidy (“BEN01”) was certified with a qualification letter and one amendment was made.

Errors were identified on 4 cases from our initial testing of 60 across the various benefit expenditure types. Further testing was performed in response to types of error in our original sample which could result in an overpayment in subsidy to the Council. There was only one error in our original sample which fell into this category.

No further testing was required in response to the other 3 errors in our original sample. This is because the nature of the original error does not give rise to a risk that the claim is overstated..

The remaining error that resulted in an overpaid benefit was deemed to be not isolated after performing an extended 40+ sample. We noted that the same type of error had been made by the same assessing officer in the prior year. In response, we tested all cases processed by the officer across the affected cells of the claim.

One amendment was made to the claim form in relation to the overpaid benefit as the tax credit was deleted for the case. This did not affect the headline cell (cell 11), but affected cell 14 and 26.

### 3. Results of our claims and returns certification work (continued)

BEN01 – Housing and council tax benefit subsidy	
<b>Qualification details</b>	<p><b>Rent Allowances (cell 94)</b>  <b>Total expenditure £111,636,778</b></p> <p><b>Incorrect Processing of Earnings</b></p> <p>Testing of the initial sample identified 1 case where the Authority had incorrectly processed earnings, resulting in an underpayment of £55.43. As this type of error where the Authority has included too much earnings would always result in an underpaid benefit, no extended 40+ testing was performed.</p> <p>Testing of the initial sample identified 1 case where the Authority had incorrectly processed earnings, resulting in an underpayment of £62.46. As this type of error where the Authority has included too much earnings would always result in an underpaid benefit, no extended 40+ testing was performed.</p> <p><b>Incorrect Rent Calculation</b></p> <p>Testing of the initial sample identified in the same case as above that the Authority incorrectly calculated rent, resulting in an underpayment of £394.01. As this type of error where the Authority failed to input the rent increase, would always result in an underpaid benefit, no extended 40+ testing was performed. Due to our cumulative audit knowledge and knowledge of the local area we expect the rent to increase rather than decrease for a London Borough, which would always result in an underpaid benefit rather than overpayment.</p> <p>CAKE testing identified the following error in income earnings:</p> <ul style="list-style-type: none"> <li>• 1 case where the benefit was underpaid by £11.20 because of incorrectly calculated earnings. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect the subsidy and have not been classified as errors for subsidy purposes.</li> </ul> <p>As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified do not affect subsidy and has not, therefore, been classified as errors for subsidy purposes. Similar findings have been included in the qualification letter in the previous two years for the processing of earnings and pension contributions.</p>
	<p><b>Rent rebates (Cell 055)</b>  <b>Total expenditure £34,226,151</b></p> <p>CAKE testing identified the following error in claimant's earnings:            1 case where the benefit was overpaid because the claimant's earnings were calculated on a monthly payslip rather than 4 weekly.            The gross overpayment from the 1 overpaid case above totals £544.48. The effect of this error is to overstate Cell 61 and to understate Cell 65; there is no effect on cell 55.</p>

## 4. Results of our claims and returns certification work (continued)

<b>BEN01 – Housing and council tax benefit subsidy</b>	
<b>Qualification details (continued)</b>	<p><b>Rent Rebates (cell 11)</b> <b>Total expenditure £6,732,031</b></p> <p>CAKE testing identified the following error in claimant's earnings:</p> <ul style="list-style-type: none"><li>• 1 case where the benefit was overpaid because of an incorrect earnings calculation. This resulted in an overpaid benefit of £18.24 and a corresponding underpaid benefit of £13.43.</li><li>• 1 case where the benefit was overpaid because of an incorrect earnings calculation. This resulted in an overpaid benefit of £284.39 and a corresponding underpaid benefit of £58.53.</li></ul> <p>The gross overpayment from the 2 overpaid cases above totals £302.63 (excluding underpaid cases). The effect of this error is to overstate Cell 14 and to understate Cell 26; there is no effect on cell 11.</p>

Since certifying the claim form we have provided management with a summary of the errors found to allow early planning for next year's testing.

We do not have any specific control recommendations as a result of the work performed for the 2013/14 claim.

## 4. Certification information

Our certification work on Authority's claims and returns for the year ended 31 March 2014 is now complete and the table below summarises the results of this work and our fees by claims and returns.

From 2012/13 onwards, the Audit Commission has replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work

Certification instruction	Within Audit Commission framework	Claim/ return	2014 value of claim (£)	2014 results of certification work	2014 audit fee (£)	2013 audit fee (£)
BEN01	Yes	Housing and council tax benefits subsidy	152,196,630	Qualified	32,593	75,397
CFB06	Yes	Housing Capital Receipts	10,210,284	No adjustment or qualification	4,586	2,262
LA01	No	National non-domestic rate return	N/A	N/A	N/A	6,271
PEN05	No	Teachers' pension return	N/A	N/A	N/A	6,270
<b>TOTAL</b>					<b>37,179</b>	<b>90,200</b>

## 5. Responsibility statement

The Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns, issued by the Audit Commission, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as appointed auditors and this report is prepared on the basis of, and the grant certification procedures are carried out, in accordance with that statement.

The matters raised in this report are only those that came to our attention during our certification procedures and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented.

This report sets out those matters of interest which came to our attention during the certification procedures. Our work was not designed to identify all matters that may be relevant to the Members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

A handwritten signature in blue ink that reads "Deloitte LLP".

### **Deloitte LLP**

Chartered Accountants

St Albans

27 February 2015

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## Delivering the Annual Governance Statement (AGS) 2014-15

Contact Officer: Kevin Byrne  
Telephone: 0665

### SUMMARY

1. The London Borough of Hillingdon is required to prepare an Annual Governance Statement (AGS) to meet its responsibilities for safeguarding public money and managing business functions in accordance with the Accounts and Audit Regulations 2011. The Council also has a duty under the Local Government Act 2003 to conduct a continuous assessment and improvement of business functions and demonstrate Economy Efficiency and Effectiveness.
2. The Council is utilising the framework it has developed over the past six years to evaluate the management of internal controls, risk and control assurances across all services. This will conclude with a formal statement outlining overall performance and any measures needed to address identified weaknesses as part of the Statement of Accounts. The Corporate Governance Working Group (CGWG) will provide leadership and support to compile the 2014-15 AGS.

### REASON FOR REPORT

3. To provide Audit Committee with an update on the process to be adopted and approach to be taken in compiling the Annual Governance Statement.

### RECOMMENDATION

4. **Members are invited to note the sources of management information and assurance used to produce the AGS.**

### BACKGROUND INFORMATION

#### AGS Requirements

5. Under regulation 4(2) of the Accounts and Audit Regulations 2011 the London Borough of Hillingdon is required to review and report annually on the effectiveness of its systems of internal control. Following the review the relevant body or committee must approve the statement
6. The AGS is the process for self-assessing the council's management of internal control systems across all services, with the publication a formal statement outlining overall performance and measures needed to address any identified risks. This framework combines assessment of governance

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arrangements and risk controls, making it a holistic approach towards conducting an annual internal review that relates to the whole organisation.

#### Progress on the AGS 2014-15

7. The AGS will combine a broad range of management information and assurances from across the council and external sources. The key sources contributing to the AGS include:
  - Performance management & data quality
  - Risk Management processes
  - Improvement and transformation
  - Legal and regulatory assurance
  - Financial control assurances
  - Service delivery assurances from Directors and Heads of Service
  - Annual Internal Audit report and assurance
  - External inspection reports and assurances
8. The Corporate Governance Working Group will guide and oversee the delivery of the AGS. The group will ensure that key changes to governance arrangements and control systems are reported, review actions against control weaknesses identified in the AGS 2013-14 and highlight cross-council assurance sources.
9. Gathering assurance statements is a central component of the AGS. In discharging this accountability senior officers are responsible for putting in place proper risk management processes and internal controls to ensure the right stewardship of resources. Group Directors and Heads of Service are required to submit assurance statements by the 17<sup>th</sup> April 2014.
10. The 2014-15 draft AGS will be presented to the Audit Committee in July 2015 for comment and approval.
11. The 2013-14 AGS is attached for information.

# London Borough of Hillingdon

## Annual Governance Statement 2013-14

### 1 Scope of Responsibility

The London Borough of Hillingdon is responsible for ensuring that 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. The London Borough of Hillingdon also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Hillingdon is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions that include arrangements for the management of risk.

The London Borough of Hillingdon is following a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework '*Delivering Good Governance in Local Government*'. This statement explains how the authority has complied with the code and also meets the requirements of Regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of an Annual Governance Statement.

### 2 The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 Hillingdon'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.

The governance framework has been in place at the London Borough of Hillingdon for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

### 3 The Governance Framework

The London Borough of Hillingdon has brought together the underlying set of statutory obligations, management systems and principles of good governance to establish a formal governance framework. The key elements outlined below demonstrate how Hillingdon maintains effective internal controls and an effective governance system.

- 1 **The London Borough of Hillingdon's Constitution**, sets out how the authority operates, how decisions are made, and the procedures that are followed to ensure that they are efficient, transparent and accountable to local people. The constitution is regularly reviewed at full Council meetings and also more comprehensively on an annual basis at each AGM.

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- 2 Part 2 of the constitution outlines the **roles and responsibilities** of the Executive, Non-executive, Mayor, Overview and Scrutiny committees, Standards committee and officer functions. There is an ethical framework governing the conduct of members and co-opted members, introduced by the Localism Act 2011, which came into force on 1<sup>st</sup> July 2012. The governance arrangements for Hillingdon comprise:
  - A structure of the Leader of the Council, a Cabinet and Policy Overview and Scrutiny Committees
  - A Corporate Management Team
  - Senior Management Teams
  - The Audit Committee, led by an independent chairman
  - Standards Committee and a Code of Conduct for Members and Co-opted Members
- 3 Part 2, article 7 of the Constitution sets out the '**Cabinet Scheme of Delegations**'. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet members. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Director's responsibilities. Executive decision-making is transparent and undertaken in accordance with regulations and the law, with flexibility for urgent decisions. Cabinet meetings are open to the public and media to attend and report on.
- 4 Part 2, articles 6 and 8 (including Part 4,E) set out how the Council's non-executive decisions by Members are taken. **Policy Overview and Scrutiny Committees** undertake regular monitoring of services, performance and the budget and an annual programme of major Member-led service reviews involving witness testimony aimed at influencing executive policy. Statutory scrutiny of health and police bodies is undertaken annually. Regulatory decisions on planning, licensing and related matters are undertaken judiciously by experienced and trained Elected Councillors, in accordance with the Council's high ethical standards. A new Major Applications Planning Committee established in 2013 has strengthened the way the Council determines major developments and commercial / business applications.
- 5 Part 3 of the Constitution sets out the '**Scheme of Delegations to Officers**'. This governs the responsibility allocated to officers of the London Borough of Hillingdon to perform the authority's activities. This is periodically updated to reflect the changes to Director's responsibilities in line with business priorities. Within this, each Directorate has individual Schemes of Delegations, setting out how Directors' responsibilities are sub-delegated. Following organisational restructuring, the scheme of delegations for Adult Social Care and Children and Young Peoples Services are in the process of being updated.
- 6 Part 5 of the Constitution sets out formal '**Codes of Conduct**' governing the behaviour and actions of all elected Council members and Council officers. An updated 'Code of Conduct for Members and Co-opted Members' was adopted on 5 July 2012 to meet the provisions of the Localism Act 2011. The code ensures that councillors conduct themselves appropriately to fulfil their duties and that any allegations of misconduct are investigated. There is a separate 'Code of Conduct for Employees', which applies to all Council officers and is part of their contract of employment. The authority regularly reviews the code and guidance to ensure these requirements reflect changes to the Council structure.
- 7 The Council, as opposed to adopting a Code of Corporate Governance ensures that Hillingdon's governance structure, decision making process and areas of responsibility are covered in the Council's Constitution and schemes of delegation.

- 8 **A Member training programme** is devised for each municipal year. Training on the new Code of Conduct took place in the Autumn of 2012, delivered by the Borough Solicitor and Head of Democratic Services and further training will be delivered to Members following the local elections in May 2014. Complaints about alleged breaches of the Code are handled in accordance with the requirements of the Localism Act 2011. A Whips Protocol has been introduced as part of the new framework and complainants are now expected to use it first, with complaints only to be escalated to the Monitoring Officer and Standards Committee if they cannot be resolved through this process. The Council has also put in place an induction and training programme for Members along with specific training on scrutiny, planning and licensing rules.
- 9 **A Member 'Register of Interests'** records the interests of elected members of the London Borough of Hillingdon. There is a separate 'Related Parties' register that members and senior officers are required to complete each year declaring the relationship and nature of any related party transactions, which the authority has entered into.
- 10 **A Member / Officer Protocol** to govern and regulate the relationship between the London Borough of Hillingdon's elected members and appointed officers. This has been developed in consultation with the political leadership, all Council members and officers.
- 11 **A formal whistle-blowing policy**, which is based on the Public Interest Disclosure Act 1998, allows Council staff and contractors working for the authority to raise complaints regarding any behaviour or activity within the authority, ranging from unlawful conduct to possible fraud or corruption. The Monitoring Officer has overall responsibility for maintaining and operating the policy, along with reporting on outcomes to the Standards Committee. A recent Internal Audit review in this area identified some areas requiring improvements relating to the process surrounding the recording of whistle-blowing allegations to ensure the right officers are promptly notified and sufficient records are maintained.
- 12 **The London Borough of Hillingdon** has set out its vision of 'Putting Our Residents First' and established four priority themes for delivering efficient, effective and value for money services. The priority themes are; 'Our People, 'Our Heritage, 'Our Environment' and 'Sound Financial Management'. The delivery of these priorities will be achieved through a combination of strategic management programmes, which include: the Hillingdon Improvement Programme, Business Improvement Delivery programme and the financial and service planning process (Medium Term Financial Forecast).
- 13 **The Hillingdon Improvement Programme (HIP)** is Hillingdon's strategic improvement programme which aims to deliver excellence as set out in the Council vision – 'Putting Our Residents First'. The HIP Vision is to build a more customer focused organisation, to modernise business processes and to free up resources to provide improved services for our residents. HIP has helped to change the culture of the organisation and to improve the services delivered to residents. This can be evidenced through the high satisfaction rates received from residents about customer care, waste and recycling services, libraries, our primary and secondary schools and how well they feel informed, through regular feedback. HIP is consistently trying to improve Hillingdon by continuing to deliver a range of innovative projects, drive forward major cultural change and enhance Hillingdon's reputation. The programme is led by the Leader of the Council, and the Chief Executive and Corporate Director for Administration is the programme director. Cabinet members and directors are also responsible for specific HIP projects.
- 14 **The Business Improvement Delivery (BID)** programme is a key part of HIP and has been designed to fundamentally transform the way the Council operates. Through the programme,

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savings of £17.1 million were delivered in 2013-14 taking total savings over the last four years to over £70 million. The BID programme delivery and expenditure is overseen by the Leader of the Council, and the Deputy Chief Executive and Corporate Director of Residents Services.

- 15 **The Medium Term Financial Forecast (MTFF)** process is the system of service, financial and annual budget planning. This runs from the preceding March to February with a robust challenge process involving Members and Corporate Directors. Monthly reports on key financial health indicators are produced and communicated through the finance management team.
- 16 **Hillingdon Partners** aims to bring together the local public, private, voluntary and community sector organisations to improve the quality of life for all those who live in, work in and visit Hillingdon. The Partnership works to promote the interests of Hillingdon beyond the borough's boundaries with external organisations, regional bodies and central government. The Partnership has agreed 10 priority areas for the focus of its work, with actions to address local priorities delivered through five theme groups.
- 17 **A Joint Strategic Needs Assessment (JSNA)** outlines the current and future health and wellbeing needs of the population over the short-term (three to five years) and informs service planning, commissioning strategies and links to strategic plans such as the Health and Wellbeing Strategy. Following a redesign of the JSNA in 2011, further work has been undertaken to maintain the content through 2013. The JSNA is 'live' and can be accessed via the Council's website and as such is updated throughout the year rather than refreshed annually.
- 18 **An Independently Chaired Audit Committee** operates to oversee the financial reporting, provide scrutiny of the financial and non-financial systems, and provide assurance on the effectiveness of risk management procedures and the control environment. The Audit Committee has been set up with terms of reference generally consistent with CIPFA's 'Audit Committees – Practical Guidance for Local Authorities 2005'. Internal audit carried a review of the effectiveness of the Audit Committee in 2013/14 and identified some inconsistencies between the current arrangements and the CIPFA recommended best practice.
- 19 The **Performance Management Framework** is a Council-wide framework requiring service areas and teams to set annual team plans, targets, identify risk and report performance against Council priorities. Performance is monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the results of which are regularly presented to Senior Management Teams and reported quarterly to the Corporate Management Team.
- 20 The London Borough of Hillingdon has established an effective **risk management system**, including:
  - **A corporate risk management framework** outlining the, roles, responsibilities and processes for capturing, reporting and taking action to mitigate key corporate and directorate risks. Directorate and corporate risk registers enable the identification, quantification and management of risks to delivering the Council's objectives. Group risk registers are regularly updated, reviewed by each Senior Management Team and the most significant risks are elevated to the Corporate Risk Register. The framework is reviewed annually. During 2013/14 Internal Audit highlighted a number of areas for further improvement.
  - **A Corporate Risk Management Group (CRMG)**, chaired by the Corporate Director of

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Finance, reviews the risk registers on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. Twice annually, the risk reporting arrangements are reported to the Audit Committee. Where appropriate, the Medium Term Financial Forecast (MTFF) embraces the potential financial impact of significant risks.

- **Risk management training** is provided when required. An e-learning training package is in place and accessible for all staff and will form part of the induction programme for key new staff.

- 21 The Council acknowledges that there is a need for robust and effective risk management processes and procedures that will help to mitigate against the potential increases in **insurance costs** as a result of the hardening of the insurance market.
- 22 **Occupational Health and Safety Services** provide advice and support to the Corporate Safety Forum, Group Health and Safety Advisors and managers regarding health and safety issues. The Corporate Safety Forum assists in ensuring a consistent approach to health and safety management is adopted throughout the Council. It reviews health and safety performance across the Council and discusses matters of topical and strategic interest that have corporate health and safety consequences.
- 23 A Council-wide officer group, the **Hillingdon Information Assurance Group** (HIAG), chaired by the Senior Information Risk Owner on behalf of the Corporate Management team, meets every two months to review progress on the agreed information governance work plan. Policies, procedures and guidelines for staff are updated regularly, mandatory data protection training has been rolled out to all staff, briefings have been delivered to Elected Members and where identified, learning from cases has been implemented.
- 24 The London Borough of Hillingdon has an **Anti-Fraud and Anti-Corruption Strategy** approved by Cabinet and communicated to all staff. It is underpinned by and refers to the full range of policies and procedures supporting corporate governance arrangements such as Codes of Conduct, Standing Orders, Register of interests and whistle-blowing. Following an Internal Audit review of the Council's Corporate Anti-Fraud and Anti-Corruption arrangements it was identified, along with other areas of concern, that the strategy and some of the supporting policies needed updating in light of changes in the Council's organisational structure (see 5.12).
- 25 **The Committee Standing Orders** (Part 4B), Procurement & Contract Standing Orders (Part 4H) & Scheme of Delegation to Officers (Part 3) are incorporated in the Constitution and reviewed annually. The Scheme of Delegation specific to each directorate is available on the Hillingdon's internal web pages.
- 26 The London Borough of Hillingdon **monitors legislative changes** consider implications and opportunities and ensure that the authority is substantially compliant with laws and regulations. The Policy Team leads on briefing the Corporate Management Team on upcoming changes and agreeing actions, reporting to Cabinet on specific issues as required. Legal Services review Member and Cabinet decisions for legal compliance.
- 27 **Hillingdon's training and development programme** enables staff and senior officers to access and complete a wide range of learning and development opportunities through the internal Learning & Development pages on 'Horizon' to ensure they have the skills, knowledge & behaviours to deliver the Council's priorities. This includes induction programmes, e-learning packages and a range of vocational development courses under the Qualifications and Credit Framework. In addition, the Hillingdon Academy is now well

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established as a leadership programme aimed at providing the Council's future leaders. The Council also offers staff the opportunity to achieve professional qualifications and meet their continuing professional development (CPD) requirements.

- 28 The **Performance and Development Appraisal (PADA)** process requires all officers and senior managers, to record employee's key objectives and tasks, set targets for when these must be delivered and identify staff learning and development needs. There are competency frameworks for staff, managers, senior officers and Directors, with descriptors outlining the performance that is expected at each level. Performance reviews are completed on a bi-annual basis against the relevant competency framework and PADA guidance is available to support both staff and managers through the process.
- 29 Hillingdon has a set of **consultation/engagement standards** that demonstrate a commitment for building strong relationships with residents, visitors and businesses throughout the borough. The standards set out Hillingdon's commitment to engage, consult and respond to the views of local communities. The standards also support Hillingdon's commitment to transparency and the need for sharing information with residents. Resident and stakeholder feedback supports and informs corporate intelligence, which drives business planning, policy and decision making including commissioning and procurement of services. An annual customer engagement plan is in place covering all Council services to align customer engagement to support the delivery of Council priorities
- 30 **Hillingdon's Pride of Place** initiative encourages residents to contribute their ideas on neighbourhood improvements so that they can feel PROUD to live in Hillingdon. The aim is to raise civic pride by showing how residents can make a real difference and contribute directly to a range of activities and specific projects to improve their local area. The initiative brings together other successful programmes such as 'Street Champions' and 'Chrysalis', and gives residents the opportunity to meet informally with their ward councillors and discuss improvements directly with Council officers through a variety of community engagement events across the borough.
- 31 The Council has in place a well-established **Petition Scheme**, including e-Petitions. This is widely used by people in the borough to submit their views on local matters directly to decision-makers. The scheme was reviewed and revised by the Council in May 2013.

#### 4 **Review of Effectiveness**

The London Borough of Hillingdon has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Overall the review of effectiveness concluded that internal control systems have been in place for the financial year ended 31 March 2014 and, except for the internal control issues detailed in section 5, management and control systems are operating effectively in accordance with good practice.

The review has been informed by a range of management information and improvement action, including:

- 1 A comprehensive annual programme of scrutiny and review by the Policy Overview and Scrutiny Committees and the Audit Committee.

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- 2 The role and responsibilities of the Corporate Director of Finance, detailed in the Finance scheme of Delegations. As a key member of the Corporate Management Team leadership, his role is to act as and exercise the functions of the “Chief Finance Officer” meaning the officer designated under section 151 of the Local Government Act 1972. As such he is actively involved in all material business decisions to safeguard public money and sound financial management on behalf of the authority.
- 3 The work of the external auditors as reported in their annual audit letter.
- 4 The work of Internal Audit service, which develops its annual work plan after an assessment of risk. The Head of Audit reported regularly during the year to both the Corporate Management Team and the Audit Committee and has provided a reasonable level of assurance on the internal control environment in 2013-14.
- 5 The internal control assurance statement template was updated for the 2013-14 review. The template provides more detail on the assurances required and the evidence to support them. Statements were received from all Deputy Directors and Heads of Service covering the financial year 2013-14. Statements provide confirmation that the control environment is operating effectively to safeguard the delivery of services and that any significant control issues have been raised and are being dealt with appropriately.
- 6 The London Borough of Hillingdon has continued to maintain effective financial management throughout the financial year, with unallocated reserves increasing to £35.9 million by 31 March 2013.
- 7 The London Borough of Hillingdon has a clear commitment to a capable and fit for purpose procurement function. Working to a Category Management approach, Procurement ensures a best value approach to expenditure commitment. By engaging with directorates, Procurement supports the delivery of financial and service level requirements to meet the wider corporate objectives with a ‘Resident First’ approach. It is recognised that through the Category Management approach, contact management and monitoring has improved. Relationships have also improved between Procurement, Legal Services and Service areas.

## 5 Significant Governance Issues

The London Borough of Hillingdon has implemented a range of improvement actions, as part of its overall continuous improvement programme, to strengthen governance arrangements and control systems. Through the Council's BID programme, current ways of working are being rigorously challenged and tested against processes and procedures applied in the business world, which is unusual for Local Government. This has meant that Hillingdon's approach has identified issues and, therefore, improvements that other Local Authorities may not.

All internal control issues reported in the 2011-12 AGS have been resolved, except that:

1. Following historical weaknesses in the monitoring and control of some construction projects, new processes and procedures, including ‘Gateway Sign Off’s’ have been implemented across all Asset Management functions, including Housing and Facilities Management. Further work is underway to bring together all property, construction and maintenance functions in a consistent and coherent way.

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All internal control issues reported in the 2012-13 AGS have been resolved, except that:

2. Significant progress has been made through the Tenancy Sustainment and Housing BID programmes in reviewing and reshaping Housing Services. Further work is underway to enhance operational processes and procedures to reflect new ways of working, ensure effective contract management and create a strong corporate, joined up approach. Closer working relationships between Housing and other corporate services areas, for example Procurement, are ensuring that issues, once identified, are addressed and resolved in a more timely manner.

Following a review of the effectiveness of the system of internal control, the following governance issues have been identified in 2013-14:

3. A lack of direct Local Authority control over the recruitment process for school staff means that assurance in this area is significantly lacking. This has given some cause for concern during 2013-14. Internal Audit are working on a themed audit to identify ways to improve control and governance. Recommendations will be picked up through the Local Authority Designated Officer offering support to schools through their safeguarding work.

4. Following an Internal Audit Review in 2013-14, a lack of understanding amongst staff about the importance of declaring financial and non-financial interests was highlighted. There are key service areas that are more at risk of conflicting interests for example where a contract or supplier relationship is in place. A review is being completed of a number of employee related codes and guidance in the constitution as recommended by Audit. These include the guidance on declaring interests, gifts and hospitality and also Member/ Officer protocol and Officer Code of Conduct.

5. In November and December 2013 Ofsted conducted an inspection of services for children in need of help and protection, children looked after and care leavers. The Services were judged by Ofsted as 'require improving'.

The inspection found many strengths including the visible and committed leadership from the Leader of the Council, the Deputy Leader of the Council and senior officers to transform services; recognition that the new ways of working being implemented was the right model; the council is working well with partners to keep children safe; a strong commitment to improve the lives of children looked after; a good adoption service; and effective support for children who leave care.

The council needs to ensure consistency in practice, including assessments, care planning and reviews; establish strong management oversight and performance management of case work; and embed a sustainable approach to improvement, including the recruitment and retention of a high calibre workforce.

In response to the inspection findings, the Director of Children and Young People's services has established an action plan to achieve a 'good' Ofsted grade by addressing the 11 issues identified by Ofsted. Lead officers have been identified for all areas, and progress and targets are monitored by the Director every two weeks. Performance reports and the findings from practice audits are reviewed to measure what difference the action plan is making. The action plan and progress has been reported to the Leader of the Council and Ofsted.

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6. Following an Internal Audit review which was published in May 2014, a number of control issues were identified with regards the data reporting and accuracy of housing rent arrears during 2013-14. Significant delays were also highlighted in the setting up of some rent accounts. Management action is in place to address the issues and Internal Audit are following up on its implementation.

7. An Internal Audit Assurance Report for Looked After Children Placed out of Borough highlighted some issues in the areas of management of care plans, specifically:

- The timeliness of approving plans and scanning documents into Civica
- The review of exception reports in Protocol ICS

Both these issues have been resolved by the Service Teams working closer with ICT and the Performance and Intelligence team and improvements in management practices.

8. Effective information governance remains a high priority for the local authority, however there have been some Data Protection breaches during 2013-14, which have been quickly identified and addressed in line with expected procedures. During 2014/15 all staff will be undertaking refresher data protection training to ensure standards in information governance remain high and key policies and guidelines will be reviewed.

9. An incident occurred in the Payments Team, whereby a member of the team used the bank details provided on the AP02 payment form rather than independently verifying the payees bank details. This meant that two payments to a landlord were issued to an incorrect payee. The Council recovered the money in full but a full review of the process was undertaken with Strategic Finance and more stringent controls have now been implemented including a new AP02 form.

10. The legislation outlining the responsibility for provision of post 19 education places for students with Learning Disabilities changed during 2012-13 with responsibility passing from the Education Funding Agency to Local Authorities. A stage 3 complaint during 2013-14 highlighted a need for greater clarity around Hillingdon's process and control for dealing with the changes. A policy is now in place and responsibility lies within the all-age disability pathway programme.

11. The need to continually review and transform services to drive improvements and efficiencies continues under the government's austerity measures. Hillingdon's successful BID programme has delivered significant savings to date and will be applied further over coming years. There is a need therefore to constantly review and update policies and procedures to take account of changes, for example in the areas of roles and responsibilities, scheme of delegations, succession plans and structure charts.

12. An Internal Audit Assurance Report on the Council's Corporate Anti-Fraud and Anti-Corruption arrangements identified a number of areas requiring improvement. Positive action has been proposed by senior management and progress is under way to strengthen the Council's arrangements in this area.



Fran Beasley  
Chief Executive  
01 September 2014



Cllr Ray Puddifoot MBE  
Leader of the Council  
01 September 2014

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## **Corporate Fraud Investigation Progress Report April 2014 to February 2015 and Forward Plan for 2015/16**

**Contact Officers:** Garry Coote  
**Telephone:** 01895 250369

### **REASON FOR ITEM**

To inform members of the work undertaken by the Corporate Fraud Investigation Team (CFIT) from April 2014 to February 2015 and the forward plan for 2015/16.

### **OPTIONS AVAILABLE TO THE COMMITTEE**

**The Committee is asked to consider and note the Corporate Fraud Investigation Team report.**

### **INFORMATION**

#### **1. Roles and Responsibilities**

- 1.1 The Council has a responsibility to protect the public purse through proper administration and control of the public funds and assets to which it has been entrusted. The work of the Corporate Fraud Investigation Team supports this by providing efficient value for money anti-fraud activities and investigates all referrals to an appropriate outcome. The Team provides support, advice and assistance on all matters of fraud risk including prevention, fraud detection, other criminal activity and deterrent measures.
- 1.2 In September 2014 the Leader agreed a Business Case to re-structure the Corporate Fraud Investigation Team (CFIT) with effect from October 2014. This re-structure has ensured a fully resourced Fraud Team to deliver the Councils aim to detect and prevent fraud through a zero tolerance approach and take appropriate action against offenders.
- 1.3 Corporate Investigation Team activities since April 2014 included:
  - Single Person Discount (SPD)
  - Temporary Accommodation and Housing Needs Reception
  - Social Housing fraud
  - Council Tax/Business Rates inspections
  - Right to Buy investigations
  - First time buyer investigations
  - Proceeds of Crime investigations
  - Empty Properties Project
  - Grants and Blue Badge prosecutions
  - Procurement fraud
  - Single Fraud Investigation Service (SFIS) pilot (Q1 only).

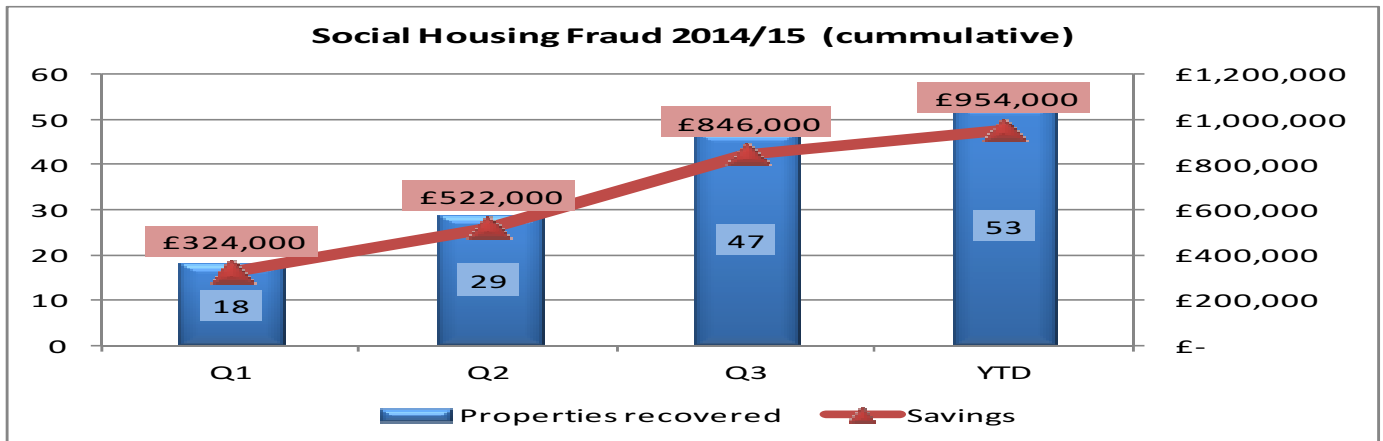
## 2. Performance Outcomes April 2014– February 2015

### 2.1 Social Housing Fraud

Table 1

Social Housing Fraud								
2014/15								
	Q1		Q2		Q3		YTD (Feb 2015)	
	Number	Savings*	Number	Savings*	Number	Savings*	Number	Savings*
Properties recovered	18	£324,000	11	£198,000	18	£324,000	53	£954,000

\*The Audit Commission estimates that every property recovered represents a saving of £18,000

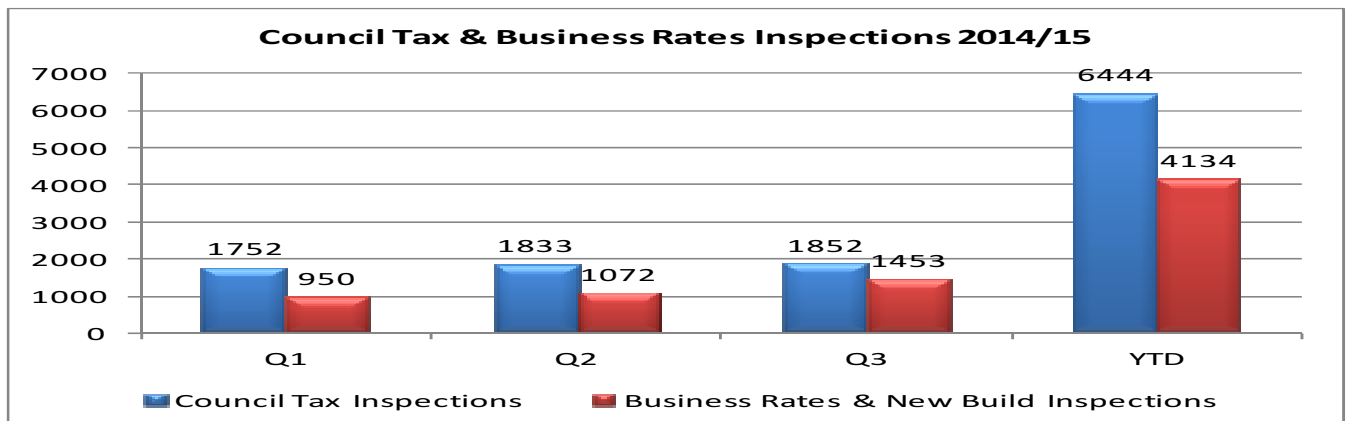


### 2.2. Council Tax and Business Rates Inspections

Table 2

Council Tax and Business Rates Inspections					
	2014/15				Income*
	Q1	Q2	Q3	YTD	
Number of Council Tax Inspections	1752	1833	1852	6444	Increase in CT revenue
Number of Business rates and New Build Inspections	950	1072	1453	4134	Increase in Business Rate/New Build revenue

\*Data is not specifically recorded of the increased revenue from CFIT inspections. This additional income contributes to the overall Council Tax and Business Rates revenue.



Temporary Accommodation & Housing Needs Reception		
	YTD 2014/15	Savings per week
Temporary Accommodation Cancelled	27	*£7,765
Referrals from Housing Needs reception	31	
Number of cases withdrawn after CFIT contact	8	
Number of cases prosecuted	1	

\*Average B&B placement = 13 weeks calculates to £100,945 annually

## 2.4 Right to Buy

Table 4

Right to Buy					
	2014/15			YTD	Savings
	Q1	Q2	Q3		
Number of Right to Buy visits	11	41	23	81	
Number of applications rejected	3	1	1	6	<b>£439,000</b> (discount)

## 2.5 First Time Buyer Applications

Table 5

First Time Buyer Applications		
	YTD 2014/15	
	Number	Income
Number of First Time Buyer Visits	72	
Number of cases under investigation	1	£12,025

## 2.6 Proceeds of Crime Investigations

Table 6

Proceeds of Crime Investigations			
	Investigations	YTD 2014/15	
		Confiscation Orders	Incentivisation*
Planning	1	£170,000	£63,750
Trading Standards	3	£1,000,000	£375,000
Internal fraud (staff)	1	£75,537	£28,326
<b>Total Income due</b>			<b>£467,076</b>

\*Hillingdon receives 37.5% of the Confiscation Order as a an incentive to investigate under the Proceeds of Crime Act

## 2.7 Grants and Blue Badge Fraud

Table 7

Grants and Blue Badge Fraud		
	YTD 2014/15	Fine/Costs
Disabled Facilities Grant prosecution	1	£ 6,000
Blue Badge pending prosecution	1	£483

## 2.8 Empty Properties Project

Table 8

Empty Properties Project		
	YTD 2014/15	Revenue
Number of properties identified as occupied	53	£85,000

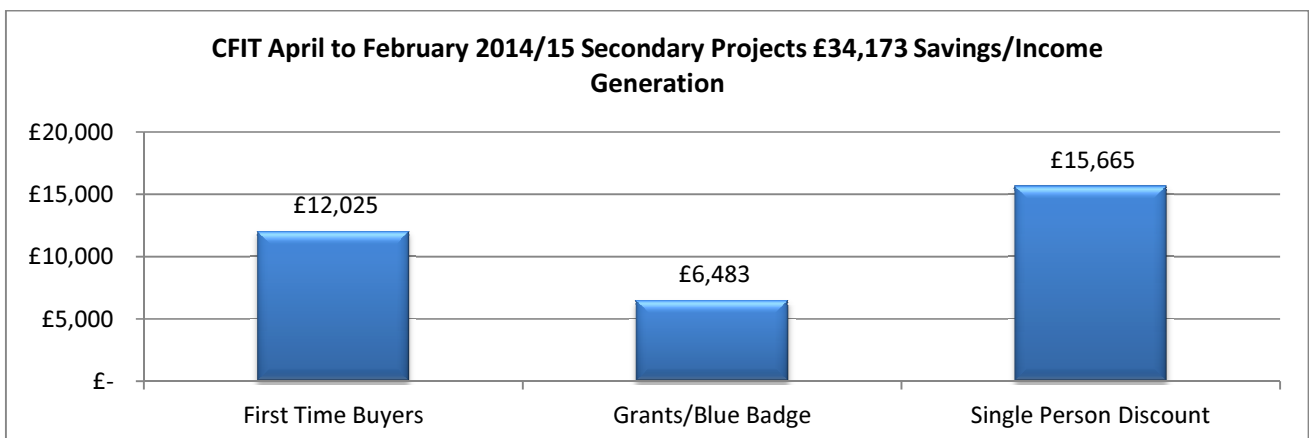
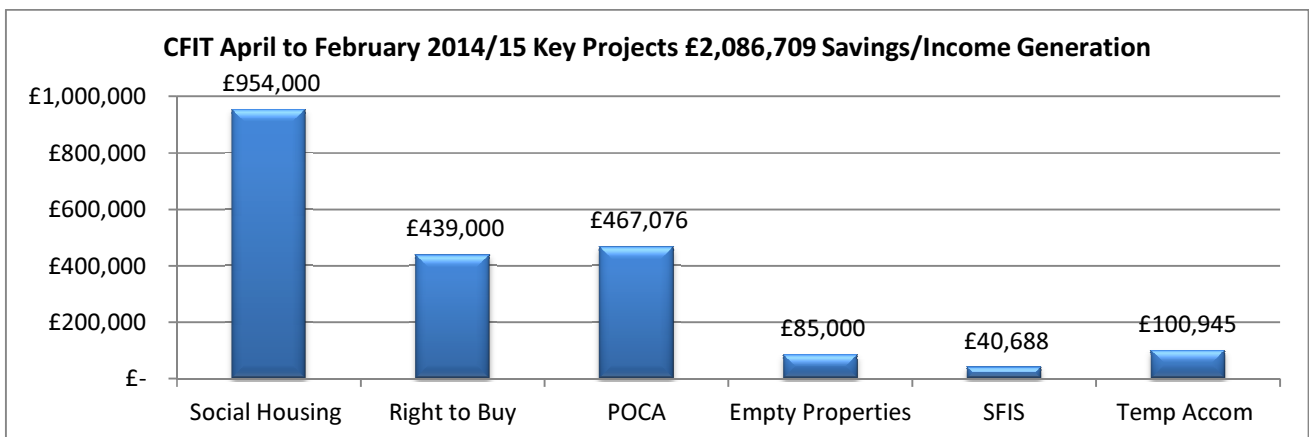
## 2.9 Single Fraud Investigation Service (SFIS) pilot (Q1 only).

From 1<sup>st</sup> July 2014 benefit investigations were transferred back to Department for Works and Pensions (DWP). From April to June the CFIT had 5 successful prosecutions which resulted in a savings in benefit payments of £40,688.

Table 9

Benefit Prosecutions - Q1		
	Number	Saving
Prosecutions	5	£40,688

## 2.10 Total Saving/Income Generation from CFIT Activity - £2,120,882





### **3. Projects developments since January 2015 and forward plan for 2015/16.**

#### **3.1 Single Person Discount (SPD)**

Currently 30,500 people are registered for Single Person Discount for Council Tax in Hillingdon, this equates to 28% of Hillingdon residents. Since January the CFIT have developed 3 work streams to match internal data sources against SPD claims.

Under the first work stream SPD records have begun to be matched against Hillingdon First cards, this is a new data matching exercise and therefore only a sample of records have been analysed so far. The matching exercise establishes if more than one person is registered for a Hillingdon First card at an address where SPD is being claimed. To date 9 SPD cases have been stopped resulting in an overpayment of £3,187 which will be recovered as additional revenue.

The second work stream concerns 'notices of the intention to marry' submitted to the Registrar's Office. Couples have to include their current residence on these applications and these details have been matched to SPD claims. Records from April 2014 are in the process of being checked and to date 2 cases have been identified resulting in an overpayment of £1,715 which will be recovered.

The third work stream involved data matching SPD records with the Electoral register, this work is still in progress. To date 38 cases have been identified resulting in additional income of £10,763 for recovery.

If a suspected SPD fraud is identified the CFIT carries out additional background checks on the claimant, such as housing records, benefit records, school records and Equifax online credit reference checks. A member of the CFIT then contacts the claimant either by telephone, letter or personal visit to discuss the claim and the evidence indicating fraudulent activity. In most instances as a result of this contact claimants choose to resolve matters swiftly and make arrangements to repay the Council any monies they have previously claimed in discount. They are keen to settle the matter and avoid any repercussions.

In April 2015 a CFIT project team will commence a significant data matching exercise with the credit reference agency Experian. This will match all SPD claims with credit reference information to establish if applications for SPD are genuine. Officers from the CFIT will investigate all relevant cases. The CFIT has set a target to achieve a minimum income of £300,000 in 2015/16 on this project.

Identification of SPD fraud is important to Hillingdon as it results in substantial income generation. The average SPD discount is £350 a year, therefore if 100 cases are identified this would result in £35,000 additional income for this year and future years. Each case of SPD fraud identified is also subject to recovery of back dated awards if applicable. Therefore if SPD had been claimed for 4 years and it has been found to be fraudulent for this period of time the Council will take proceedings to recover 4 years underpaid Council Tax from the tax payer. In cases where there is evidence of serious fraud the CFIT will look to pursue the prosecution of the claimant.

An article to publicise this project will be included in the March/April edition of Hillingdon People. This is to raise awareness of the work of the CFIT and may also promote residents making fraudulent claims to cancel their SPD. Any cancellations will be monitored to determine if there is a case to pursue backdated discounts.

This project has also been promoted in Team Hillingdon and has requested members of staff to suggest other internal records that could be used to identify SPD fraud.

### **3.2 Temporary Accommodation and Housing Needs Reception**

The aim of this project is to prevent illegal claims for housing from people that do not qualify for housing support from Hillingdon. This means people who are misrepresenting themselves as homeless and therefore do not have a genuine housing need.

The CFIT carry out unannounced visits to Bed & Breakfast/Temporary Accommodation to verify residency. The project commenced in August 2014 and has resulted in 27 cases being cancelled. This represents a saving of approximately £7,765 a week. The average duration of a bed & breakfast placement is 13 weeks. Therefore to date this year approximately £100,945 has been saved through this activity.

The CFIT have been working with Housing Officers to identify applicants where there is a suspicion that a fraudulent claim has been made. This might include applicants submitting false wage slips in an attempt to verify economic activity. This would indicate financial independence which is a condition for some claimants to secure a tenancy and increase welfare benefits. Another example is where people falsely claim they are being evicted from an address in Hillingdon when they have never actually been a resident at this address. They are often giving this fraudulent information to attempt to meet the 10 year residency rule. Officers from the CFIT have trained Housing Officers on the identification of possible fraudulent claims. These cases are then referred to the CFIT for investigation.

To date 8 applicants have withdrawn their claim for housing support as a result of contact with the CFIT. One case resulted in a prosecution and the person has been fined £200 plus £200 towards costs. This case will be published in the March/April edition of Hillingdon People.

From March 2015 the CFIT will continue to work with Housing Officers to prevent fraudulent homelessness claims and will also examine cases where people have been in temporary accommodation and are likely to be offered a permanent tenancy in the near future. The CFIT will examine these cases to ensure that the claims are still valid and their circumstances mean they are eligible for secure tenancy. Going forward into 2015/16 the CFIT will expand this work to verify the claims of those people in temporary accommodation on a regular basis to ensure that only those with a genuine housing need are in receipt of this support.

The Temporary Accommodation and Housing Needs Reception project is a high profile development because of the significant costs of housing stock and temporary accommodation costs.

### **3.3 Social Housing Fraud**

In October 2013 the Government passed legislation to criminalise sub-letting fraud. On conviction, tenancy fraudsters face up to two years in prison or a fine. Hillingdon will use these powers to prosecute suitable cases.

The CFIT investigates suspected cases of social housing fraud which are identified either by direct referral from Housing Officers, data matching exercises or telephone calls to the fraud hotline. Since April 2014 The CFIT has recovered 53 properties which are now available to be re-let to residents in genuine housing need.

The Audit Commission, in their report 'Protecting the Public Purse 2014' estimated that nationally it costs councils on average £18,000 a year for each family placed in temporary accommodation. Using this calculation the savings for Hillingdon this year are £954,000. The target set by CFIT for 2015/16 is to recover 52 properties (1 a week).

To promote this project the Blow the whistle on Housing Cheats poster appears in every issue of Hillingdon People, this helps to generate calls to our fraud hotline, all referrals are fully investigated.

Examples of combating social housing fraud are also publicised in Hillingdon People. These articles often describe the improved quality of life for Hillingdon residents who have been allocated the tenancy of a recovered property. This generates positive feedback from residents and encourages reporting of suspected social housing fraud.

To increase awareness of social housing fraud with residents the Corporate Fraud Investigation Team will be promoting their work at residents meetings from April 2015 as part of the forward work programme.

### **3.4 Council Tax and Business Rates Inspections**

The inspection role for Council Tax and Business Rates within the Corporate Fraud Team is crucial in terms of maximising the Councils revenue income.

From April 2014 to February 2015 10,578 visits were carried out. The visiting programme is very intense and officers are trained in all areas of work to ensure an efficient and planned approach to all visits.

Council Tax Inspections are generally reactive and identify the status of those claiming discounts and exemptions. Where the visit establishes the wrong amount of Council Tax is being charged the account is changed and the person re-billed. 6,444 Council Tax inspection visits have been made from April 2014 to February 2015.

Business Rate inspection visits are carried out to check occupation status of commercial premises to ensure the Council maximises the non domestic rate revenue. Similarly, the new build visits are carried out to ensure properties are rated for domestic or business rates as soon as they are completed. It is estimated that for the 2 year period from April 2014 there will be approximately 1,400 new build properties being developed in Hillingdon. This represents a significant amount of additional revenue. 4134 visits were made between April 2014 and February 2015 to check Business Rates and New Build Inspections.

Initiatives to identify Business Rates avoidance include data matching Business Rates records to highlight new or unregistered businesses. Business Rate revenue is also maximised through expanding charging opportunities, for example charging business rates for advertising hoardings.

The robust visiting programme will continue in 2015/16 working with internal partners such as planning to monitor new developments with the aim of maximising revenue potential.

### **3.5 Right to Buy**

From 1<sup>st</sup> July 2014 all Right to Buy applications have been verified by the Corporate Fraud Investigation Team. Prior to this date only applications associated with housing benefit were

examined. In 2014/15 so far 6 cases were cancelled as a result of the CFIT verification processes. This work will continue in 2015/16.

### **3.6 First Time Buyers/Discount Market Sales**

Unannounced visits are carried out to verify owner details and to ensure that the conditions of the scheme are not being abused. Year to date 1 case has been investigated where there was evidence that the first time buyer was sub letting their property. This was clearly an abuse of the scheme; as a result of our investigations the owner repaid £12,025. The CFIT will continue to verify and review these applications in 2015/16. A case under the Discount Market Sales Scheme was referred to CFIT by the scheme manager and the application was withdrawn following CFIT investigation.

### **3.7 Proceeds of crime (POCA)**

The role of the Financial Investigation Officer within the Corporate Fraud Team is crucial in the fight against fraud. The aim is not only to prosecute serious offenders but also to look at recovering additional monies where a criminal lifestyle can be demonstrated, this is where a person has been able to purchase assets as a result of their fraud. These investigations are complex and are often challenged by the offender which results in lengthy legal processes.

Therefore it may take many months for a case to reach court and a settlement to be agreed and paid.

Since April 2014 the CFIT have been working on 11 investigations of which 5 have progressed to Proceeds of Crime Court Hearings. Settlements have been agreed and the offenders have been ordered to pay Hillingdon compensation which will be settled by the end of the financial year.

A new project commenced in February 2015 to work with the Planning Enforcement Team to establish cases where the Proceeds of Crime Act can be applied to breaches of planning law.

Although the focus would be rogue landlord cases, POCA could apply to any case where a planning enforcement notice has not been complied with. The Councils first planning POCA case was very successful. A resident converted his house and outbuildings into a hotel without planning permission and a Confiscation Order was granted under POCA for £170,000, of which Hillingdon receives an Incentivisation amount of £63,750.

For 2015/16 the CFIT will be examining other areas across the Council in which POCA can be applied.

### **3.8 Empty properties**

In July 2014 a project commenced to look at properties in the borough which were not registered for Council Tax and therefore were classified as empty. Identification of these properties increases Council Tax revenue.

In addition, the Governments New Homes Bonus is payable for properties that are found to be occupied but have been recorded as being unoccupied for more than six months. Overall 99 properties in Hillingdon have been identified under this scheme, raising £140k in revenue. The work of the CFIT identified 53 of these properties.

This exercise will be repeated in 2016/17.

### **3.9 Insurance Claims**

In January the CFIT commenced a project to examine insurance claims against the Council to establish if they are bona-fide. This exercise has been carried out in another Local Authority with very positive outcomes where claims were reduced by £368,000 in one year. Currently 1 suspected fraud case is being reviewed concerning a claim for damage to a car as a result of a raised kerb stone. Further insurance project activities will be under taken during 2015/16.

### **3.10 Enhanced Recruitment Verification**

From April 2015 work will commence with HR to carry out enhanced checks to verify identity, qualification, education documents and employment history. This will ensure eligibility to work and effective recruitment. The CFIT has previously identified staff through routine data matching who were ineligible to work because of their immigration status. Expanding these checks in the recruitment process would prevent the future employment of fraudulent applicants. This would prevent damage to the Councils reputation, reduce unnecessary recruitment costs and ensure the appointment of suitably qualified staff.

### **3.11 Blue badge**

In 2015/16 the CFIT as part of the team re-structure will be recruiting an additional Officer whose work will include targeted Blue Badge operations. These exercises will be conducted in partnership with the police in different areas of the borough.

### **3.12 Procurement fraud**

In January 2015 the CFIT secured £112,500 funding, through a bid process, from the Government to investigate procurement fraud in partnership with the Police. In 2015/16 a project will be developed with the Police to establish methods to detect and investigate procurement fraud effectively to maximise results.

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## Balances and Reserves Statement 2015/16

**Contact Officer:** Paul Whaymand  
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### SUMMARY

The budget reported to Cabinet and Council in February 2015 contained an extract from the Balances and Reserves Statement 2015/16 which summarised the recommended range for unallocated balances. This Balances and Reserves Statement provides further detail on the Council's approach to the management and measurement of these, outlining technical accounting guidance used and analysis of specific risks that lead to a determination of a prudent reserves and balances range.

### RECOMMENDATION

**That the contents of the report are noted.**

### REASONS FOR OFFICER RECOMMENDATIONS

The balances and reserves statement has been produced based on an assessment of key risks and requirements for which balances and reserves need to be held by the Council, as part of exercising the Section 151 officer's professional duties with regard to budget setting.

### INFORMATION

- 1 The Corporate Director of Finance, as the Council's Section 151 officer has a legal duty to comment on the robustness of budget estimates for the forthcoming year including the adequacy of the Council's reserves as part of the statutory annual budget setting process. This duty stems from the financial governance framework established under the Local Government Act 2003.
- 2 For Hillingdon, this duty is exercised through an extract of the Budget Report to Cabinet and Council in February of each year. This statement expresses a prudent level of unallocated General Fund balances that the Council should hold as a range based on assessment of the key strategic, operational and financial risks faced by the Council.
- 3 The recommended range for unallocated balances remains consistent with 2013/14 at £15m to £30m, with the overall upper limit for balances £15m higher, at £45m, to take account of the planning drawdown from reserves included in the Medium Term Financial Forecast from 2015/16.
- 4 The attached Balances and Reserves Statement contains an underlying assessment against CIPFA criteria considering both internal and external financial risks to determine an identifiable recommended range for unallocated balances contained within the Budget Report.

## **LEGAL IMPLICATIONS**

Decisions made by the Cabinet or a Cabinet Member must be 'Wednesbury' reasonable, i.e. Council officers need to present all the facts that are relevant to Members before they make a decision - otherwise decisions can be open to legal challenge.

## **BACKGROUND PAPERS**

The Council's Budget: Medium Term Financial Forecast 2015/16 - 2019/20 - report to Cabinet and Council February 2015

Local Authority Accounting Panel (LAAP) Bulletin 77 –Local Authority Reserves and Balances (November 2008)



## STATEMENT ON 2015 ANNUAL REVIEW OF RESERVES

### SUMMARY

The Council's Corporate Director of Finance has a duty under the Local Government Act 2003 to comment on the robustness of the Council's budget for the coming year. This comment is also required to consider the adequacy of the Council's reserves and balances. The Corporate Director of Finance has recommended that based on the 2015/16 budget an appropriate level of unallocated balances for the authority is in the range from £15m to £30m. In addition to these unallocated balances, further sums in the range from £5m to £15m are recommended to manage the combined impact of a number of severe funding reductions.

### 1. BACKGROUND

- 1.1 Under the Local Government Act 2003 the Corporate Director of Finance has a duty to recommend to Cabinet the level of reserves and balances required by the Council. This requirement is met through the inclusion each year in the Budget Report to Cabinet and Council the results of a review of reserves and balances. This is done in line with current CIPFA guidance, which states that when reviewing the Medium Term Financial Forecast and budget the Council should consider the establishment and maintenance of reserves. These can be held for three main purposes:
- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
  - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
  - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements – earmarked reserves are accounted for separately but remain legally part of the General Fund.
- 1.2 When assessing the appropriate level of reserves the Corporate Director of Finance considers that the reserves are not only adequate, but also necessary.
- 1.3 To do this, the strategic, operational and financial risks facing the Council are taken into account. The Council should retain adequate reserves to cover unexpected expenditure, allow contingency against implementation of major funding cuts and to cushion the potential impact of proposed changes to funding regimes. Equally the Council should seek to utilise the maximum resources available to achieve its objectives and to ensure that current resources are used for the benefit of the current tax payer. CIPFA do not recommend a stated amount or percentage of budget to be set as a reserve level recognising the many factors involved when considering an appropriate range can only be assessed locally.
- 1.4 Over the years, the Council has improved its level of reserves to an appropriate level from a relatively low base.
- 1.5 Each category of earmarked reserve is subject to its own review of adequacy and each of these is detailed within the Statement of Accounts.

## **2. ADEQUATE LEVEL OF UNALLOCATED GENERAL FUND RESERVES**

- 2.1 To determine the recommended level of reserves the Council has assessed the risks it currently faces. Criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 77 (November 2008) have been followed for this purpose, alongside more recently identified financial risks arising in the medium term as a result of specific government proposals and transfer of new responsibilities to the Council. Details of which are shown in Appendix 1 and include:
- The robustness of the financial planning process (including treatment of inflation and interest rates, estimates of locally raised income and timing of capital receipts);
  - How the Council manages demand led service pressures;
  - The treatment of planned savings / productivity gains and implementation of the Council's BID programme;
  - The financial risks inherent in any major capital project, outsourcing arrangements or significant new funding changes;
  - The strength of the financial monitoring and reporting processes;
  - Cash flow management and the need for short term borrowing;
  - The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions;
  - The general financial climate to which the Council is subject and its previous record in budget and financial management.
- 2.2 Most of the Council's balances are held to deal with the common risks outlined above that most local authorities need to manage on an ongoing basis, however there are a number of key issues for Hillingdon that drive the need to hold additional balances.
- 2.3 Hillingdon has seen substantial population growth, evidenced by the latest GLA/ONS population estimates, which is set to continue into a period of further central government funding cuts over the medium term. Continuing pressures arising from demographic growth will see increased demand for key services, including Adult Social Care, Education, Housing and Waste Collection and Disposal. Secondly, a number of issues arise from the presence of Heathrow Airport within the borough. In particular this is the driver of the Council's exceptional asylum caseload, which has a fragile, unpredictable and inadequate funding stream attached to the support for asylum seekers.
- 2.4 In addition to these local issues, the 2012 Local Government Finance Act resulted in a significant transfer of risks from Central Government in relation to both the localisation of Business Rates Income and introduction of a local Council Tax Reduction (CTR) Scheme. While such localisation is expected to provide a mechanism to benefit from local economic growth, the corresponding transfer of risk is reflected in the recommended level of balances
- 2.5 The array of risk factors that determine the need to hold balances and reserves have been reviewed since last year's budget setting process and the level of cover against each risk criteria refreshed, although the overall recommended

level of reserves remains unchanged from 2014/15. To take account of the continuation of Central Government's austerity programme and increasing reliance on locally raised income, provision against these risks has been increased, while the continuation of a low inflation environment has enabled a reduction in the provision held against interest and inflation risk.

- 2.6 The recommended range for unallocated balances therefore remains unchanged at £15m to £30m. The upper end of this range represents the highest level of unallocated balances that the Council could reasonably justify holding. As balances are above the upper level, the Corporate Director of Finance has recommended the use the excess balances in the Council's broader financial planning.
- 2.7 In addition to unallocated balances, these excess balances will be required to support the Council's Medium Term Financial Forecast, smoothing the impact of substantial funding government funding cuts over the period to 2019/20. A further £5m to £15m is included in the overall level of appropriate balances to support this strategy. Appendix 1 summarises movements in the level of balances recommended to manage the criteria set out above, with the headline range for General Balances during 2015/16 being £20m to £45m.
- 2.8 The approved budget for 2015/16 includes a drawdown of £5m from the 2014/15 outturn balances, which are projected to reach £40m by 31 March 2015 as at Month 9, and would result in forecast balances of £35m by 31 March 2016.
- 2.9 The General Fund revenue budget proposals for 2015/16 also included a contingency of £10.3m which is identified against specific in year risks that are funded within the budget. Many of these risks, although not precisely quantifiable, have a high degree of certainty that they will be called upon in the year.

### **3. EARMARKED RESERVES**

- 3.1 The Council has ring fenced earmarked reserves with balances as at 31 March 2014 Which are set out in Table 2 below:

Table 2: Reserves (excluding General Fund Working Balance)

Reserves	Balance as at 31 March 2014 £000's
<b>General Fund Reserves</b>	
Earmarked Reserves	
- Grants Unapplied	6,487
- Member Initiatives	8,317
- Other Reserves	5,457
- Public Health Reserve	1,284
- Parking Revenue Account / New Roads & Street Works Act	459
<b>Total General Fund Reserves</b>	<b>22,004</b>
Housing Revenue Account Reserves	34,245
Schools Delegated funds Reserves	17,669
<b>Total Reserves</b>	<b>45,173</b>

3.2 Movement in and out of Earmarked reserves is generally determined on out-turn, however it is expected that Schools Delegated Funds will decrease due to the withdrawal of schools reserves on becoming academies.

3.3 An explanation as to the function and source of funds for these reserves can be found in note 2 of the Statement of Accounts.

#### 4. UNFUNDED RESERVES

4.1 Local authorities also hold other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves, which are not resource-backed and cannot be used for any other purpose, are also detailed in the Council's Statement of Accounts.

#### Risk Management

5.1 The Code of Audit Practice makes it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks need to be assessed in the context of the Council's overall approach to risk management.

5.2 The process by which the contingency budget is constructed links directly into the Council's risk management process. Significant risks are identified and recorded in risk registers which are regularly reviewed and updated as part of the risk management process. The process provides for review by senior officers, Group Directors, Cabinet Members and the Audit Committee addressing both executive functions and governance requirements. This process is integral to ensuring the effectiveness of the budget strategy. The key financial risks identified in the corporate risk register are reflected either directly

in the budget strategy or are covered by the retained level of unallocated balances and reserves.

**Further detail on Assessment of Required General Fund Revenue Balances**

Area of Risk	Details	Reserves Required 2015/16 (£m)	Reserves Required 2014/15 (£m)
The general financial climate to which the Council is subject	Sustained reductions in funding over the medium term with the reductions in spend in the public sector likely to continue beyond 2020, with the December 2014 Autumn Statement implying an acceleration in funding cuts during 2016/17 and 2017/18.	1.5 - 4.5	1.5 - 4.0
The overall financial standing of the authority	The financial strength of the council continues to improve with prudent assumptions factored into the MTFF for growth in income, while a comprehensive development and risk contingency is funded for 2015/16.	1.5 – 2.0	1.5 – 2.0
Estimates of level of locally raised income	With the local retention of business rate revenues together with Council Tax and other income streams now amount to more than 70% of the council's corporate funding. There continues to be a risk from volatility in this income which would impact upon the Council's finances.	2.0 – 4.0	2.0 – 3.5
The treatment of planned efficiency savings / productivity gains	The budget for 2015/16 contains £9.9m of savings, which are substantially developed and ready for implementation in 2015/16. Whilst governance and monitoring arrangements have been strengthened, with regular reporting on delivery of savings to Cabinet, delivering these savings on top of the substantial already delivered since 2010 becomes more difficult and therefore the risk of slippage or non delivery increases.	2.0 – 4.0	2.0 – 4.0
The treatment of inflation and interest rates	Limited inflation has been included in the 2015/16 budget to reflect the latest intelligence, however there remains a possibility that an improving economy could lead to earlier than projected growth in inflation.	1.0 – 1.0	1.0 – 2.0
The financial risk inherent in any major outsourcing arrangements	The Council is reliant on external providers for a range of key services, especially in social care for residential and nursing care provision, and housing providers for temporary accommodation. Some of these suppliers are reliant on private finance linked to asset values for their viability. In the current financial climate this poses an increased risk of service failure to the Council. Although the Council has outsourced facilities management, and revenues services, some services have been in sourced including leisure management. These contracts continue create residual risks to be managed by the Council.	1.0 – 2.0	1.0 – 2.0
The treatment of demand	The Council has a robust financial planning process (MTFF) embedded across	2.0 – 4.0	2.0 – 4.0

Area of Risk	Details	Reserves Required 2015/16 (£m)	Reserves Required 2014/15 (£m)
led pressures	the organisation. Through this process, reasonable assumptions about demand and funding pressures have been made and a prudent view of demand led pressures has been taken. All known pressures across the Council are included as funded items in the MTFF, with additional funding in future years linked to forecast demand. The budgeted contingency and development fund is largely to take account of potential demand led pressures on key expenditure and income streams.		
The financial risks inherent in any major capital developments	The Capital Programme includes substantial investment in primary and secondary schools and for new facilities such as a theatre and museum, which alongside the potential for extensive investment within the Housing Revenue Account will result in a corresponding increase in the level of financial risk arising from this significant investment.	1.0 – 3.5	1.0 – 3.5
Estimates of the level and timing of capital receipts	The estimate of the capital receipts in the 2015/16 Capital Programme is based on a schedule of assets that have been identified for sale. If disposals are lower than projected then alternative options to achieve disposals or compensatory improvements to asset utilisation will be considered.	1.0 – 2.0	1.0 – 2.0
The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions	Whilst there remains a continuous risk, the level of reserves has increased and an adequate level of provisions has been built into the budget.	2.0 - 3.0	2.0 - 3.0
Planned drawdown from balances from 2015/16	To manage the impact of funding further reductions in the council's budget from 2015/16 drawdown from reserves are included in the MTFF.	5.0 - 15.0	5.0
	<b>Total General Fund Balances</b>	<b>Range £20-£45</b>	<b>Range £20-£35</b>

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## **Revisions to the Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2019/20**

**Contact Officer:** Sian Kunert  
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### **SUMMARY**

Audit Committee considered the draft Annual Treasury Management Strategy Statement and Investment Strategy for 2015/16 to 2019/20 at the meeting on 16 December 2014. This was in advance of the final Statement being agreed at Cabinet and Council in February 2015.

As part of the scrutiny process members requested that a further report should be brought to the March Audit Committee detailing the changes from the draft to the final version of the Statement.

### **RECOMMENDATIONS**

**That the contents of the report are noted.**

### **INFORMATION**

#### **Amendments to the Annual Treasury Management Strategy Statement and Investment Strategy for 2015/16 to 2019/20**

Since the draft TMSS was considered at Audit Committee in December a number of minor changes have been made to the final document to reflect updates to the Council's Capital Programme and to amend a few minor errors.

1. Paragraph 1.3 the interest rate increase projection has been updated to reflect changes in economic development as a result of low inflation caused by a fall in oil prices. The first increase is not now forecast until early 2016.
2. The Council's projection for its capital financing requirement has been updated to take into effect the final changes in the Capital programme. The expected opening CFR for 2015/16 has reduced to £407m from £412m due to a reduction in prudential borrowing required under the 2014/15 Capital programme. Future year projections have also been revised as a result of amendments in the programme, this change is reflected in paragraph 2.1 and Tables 1, 7 and 8
3. The Council has been advised that HM Treasury (HMT) are taking the necessary legislative steps to abolish the Public Works Loan Board (PWLB) in the near future however HMT have confirmed its lending functions will continue to be unaffected under a different body. This has resulted in a change to paragraph 3.3 to include the PWLB successor body as an approved source of borrowing.

4. Paragraph 4.7 and Table 12 have been amended to take into effect the change in the legal structure of Nordea Bank. Nordea Group has moved its London branch, which facilitates UK local authorities' investments, from being under Nordea Bank Finland Plc to be under Nordea Bank AB – the Swedish parent company. This change helps reduce the councils exposure to the eurozone as any investment in Nordea Bank will be held with a Swedish counterparty.
5. Paragraph 4.8 and table 12 have been amended to include an additional UK counterparty Coventry Building Society which is an A- rated institution. After a recent capital injection Coventry Building Society is now better capitalised than any other medium or large UK bank or building society and has been added as a recommended counterparty to help reduce Bail-in risk to the Council.
6. As a result of final amendments to the Council's agreed Capital programme the Authorised Limit and the Operational Boundary, detailed in tables 3 and 4, have been updated. In addition the prudential indicators in Appendix B have all been refreshed following these programme changes.
7. Table 6 showing upper limit for principle sums invested over 365 has been amended on the approved limit for 2014/15 as a result of a typo, to reflect the approved 2014/15 strategy. The estimated upper limit for 2015/16 has been increased from £30m to £32m as a result of rephrasing of the capital programme.
8. Table 12 for limits for specific investments has been amended to reflect the reduced confidence in unsecured deposits compared to secured deposits. Exposure to unsecured deposits has been reduced to 5% per institution, down from 10% the 2014/15 strategy assigned to Secured deposits and the 2014/15 strategy. This change brings the strategy in line with risk parameters suggested by the Treasury advisors.
9. The recommended Pooled Fund [SWIP] Sterling Investment Cash Fund has been updated to its new title Aberdeen Sterling Investment Cash Fund, due to the change in ownership of the fund. The change in ownership does not affect the decision to include this counterparty, as there is no change to the fund composition or controls.
10. In addition there have been minor amendments to wording and grammar throughout.

A copy of the final version of the strategy report is attached.

# TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2015/16 to 2019/20

## SUMMARY

The Treasury Management and Investment Strategy represent the Council's operating guidelines on the daily management of cash, investments and borrowing. Through daily cashflow management, surplus cash is invested with security of investments being the prime consideration. Only then are the liquidity of investments and yield, within the Council's risk parameters, considered.

Over the longer term, the Council considers the need to borrow money to fund its major capital projects and when the best time is to do this. The strategy is to minimise borrowing and make use of internal funds where available. Currently, there is no expectation to take out new debt until 2016/17. As interest rates are expected to remain low in the near future, using internal funds rather than borrowing will reduce interest costs, lower credit risk, and relieve pressure on the Council's Counterparty List.

This report details the investment instruments and counterparties in which the Council can invest. All institutions on the Counterparty List are regularly monitored assessing risk and determining the duration and value of limits on investments with counterparties. From January 2015, new banking legislation has been introduced removing government support of failing banks which increases the risk facing Local Authorities unsecured investments. To offset this risk the Council has introduced access to secured deposits through Reverse Repurchase Agreements and proposes adding Covered Bonds and Pooled Funds to the available investment instruments.

To further diversify exposure the Council has increased the number of eligible counterparties in which it can place funds including more highly rated overseas banks plus UK bank Goldman Sachs International and Coventry Building Society. The proposed overseas banks have a superior credit rating to most of the UK banks currently being used.

## 1. INTRODUCTION

- 1.1 Under the Local Government Act 2003 the Council has a legal obligation to have regard to both the CIPFA Code and DCLG Guidance on local authority investments in determining their Treasury Management Strategy Statement (TMSS), Prudential Indicators and Minimum Revenue Provision Statement for the following financial year. The strategy is developed as part of the Council's MTFP process.
- 1.2 The Council has significant investments and borrowing and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. As such treasury management operations are fundamentally concerned with managing risk. Whilst there are regulations and controls in place designed to minimise or neutralise risk there is still some risk exposure due to the nature of managing loan and investment portfolios and cash flow activities. Active monitoring of both the economic outlook and changes in regulations is undertaken which define many of the changes in treasury management strategy and risk parameters.
- 1.3 Whilst there is evidence of growth in the UK economy, the general market expectations is that interest rates will not begin to rise until the start of 2016. Once the base rate begins to rise, it is expected to rise slowly levelling off around 2.5% to 3.5%. Returns on

investments during 2015/16 are therefore forecast to remain low and as a result, internal resources will be used rather than taking out new debt to support the Capital programme.

## 2. BALANCE SHEET AND TREASURY POSITION

- 2.1 The underlying need to borrow for capital purposes is reflected by the Capital Financing Requirement (CFR) which measures the cumulative capital expenditure that has not yet been financed from Council resources. Estimates of the CFR, based on the projected Revenue Budget and Capital programme over the next five years are shown in table 1. The Council's opening CFR is set at £407m for 2015/16, outstanding loans total £327m at the beginning of the year, resulting in a gross borrowing requirement of £80m. Existing borrowing is identified into separate loan pools for GF and HRA. GF debt is currently £83m and HRA £244m.

**Table 1**

	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund CFR	196	231	263	280	282	276
HRA CFR	211	211	202	194	185	177
<b>Total CFR</b>	<b>407</b>	<b>442</b>	<b>465</b>	<b>474</b>	<b>467</b>	<b>453</b>
Existing Borrowing <sup>1&amp;2</sup>	327	315	307	291	273	256
<b>Gross External Borrowing required to meet CFR</b>	<b>80</b>	<b>127</b>	<b>158</b>	<b>183</b>	<b>194</b>	<b>197</b>
Projected Usable Reserves <sup>3</sup>	133	117	98	75	67	69
Projected Working Capital	40	40	40	40	40	40
<b>Investments / (New Borrowing Required)</b>	<b>93</b>	<b>30</b>	<b>(20)</b>	<b>(68)</b>	<b>(87)</b>	<b>(88)</b>

### Notes:

- HRA borrowing includes £191.6m paid to central government in settlement on the introduction of the self financing regime introduced in March 2012.
  - The existing profile of borrowing does not include potential LOBO loan maturities which may or may not occur. Over the next five years, loans totalling £13m, £14m, £5m, £10m and £6m respectively will be in a state of call. Other long term liabilities include commitments under finance leases and private finance initiatives (PFI's).
  - The balances and reserves figures quoted above relate to core General Fund and HRA balances only. They do not include those balances on the Balance Sheet where the Council has no direct control, such as schools' reserves.
- 2.2 The increasing General Fund CFR is due to the Council's programme of capital investment, particularly the schools Capital programme, whilst the reducing HRA CFR is as a result of repayment of debt transferred from central government. The Council expects to require additional borrowing from 2016/17 to meet the costs of the Capital programme.

- 2.3 Under the Prudential Code for Local Authorities, the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this requirement.
- 2.4 The Council's projected Capital programme over the next five years, alongside the projected financing, is fundamental in determining a borrowing strategy. Appendix A provides detail on the Prudential Indicators associated with capital expenditure projections and its incremental impact on council tax and housing rent levels.

### **3. BORROWING STRATEGY**

- 3.1 The Council's external debt at 31 March 2015 will be £327m, a decrease of £9.3m on the previous year as a result of debt maturing naturally. There were no opportunities to repay debt early in 2014/15 and £12.3m is scheduled for repayment in 2015/16. The Council's loan portfolio currently has average interest rate of 3.00%.
- 3.2 Projected capital expenditure levels, market conditions and interest rate levels are monitored throughout the year. This enables the Council to adapt borrowing strategies to minimise borrowing costs over the medium to longer term whilst maintaining financial stability. Table 1 above shows the Council does not expect to need to borrow until 2016/17. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains negative and this is expected to continue through 2015/16. The 'cost of carry' associated with medium and long term borrowing compared to temporary investment returns means that new fixed rate borrowing would not be cost effective when internal balances and working capital can be utilised over borrowing in advance of need. This also reduces credit risk and takes pressure off the Council's Counterparty List.
- 3.3 If however market conditions change and the Council takes out new borrowing the Council will consider the following approved sources of borrowing:
- Public Works Loan Board and its successor body
  - UK local authorities
  - Any other bank or building society authorised to operate in the UK
  - UK public and private sector pension funds (except Hillingdon Pension Fund)
  - Capital market bond investors
  - Municipal Bonds Agency (subject to Cabinet approval)
- 3.4 Although a mix of borrowing options will always be considered, the PWLB (or equivalent) will remain the primary source of long-term and variable rate borrowing whilst rates remain closely linked to government gilts. The Council currently has access to the preferential PWLB "certainty rate", which is 0.2% lower than normal PWLB lending rates.
- 3.5 Where temporary borrowing is required this will be attributed directly to either the GF or HRA loan pools. Interest costs will be separated between the two pools and allocated accordingly.

- 3.6 To cover unexpected cash flow shortages, the Council may borrow short term loans, normally for up to one month, which would mainly be sourced from other local authorities.

### **Interest Rate Risk**

- 3.7 The Council holds a mixture of loans, with £266m of fixed rate loans protected against interest rate rises. Variable rate loans of £61m take advantage of favourably low rates and although exposed to increases in rates, any additional costs would be offset by a corresponding increase in investment income. Additionally, the variable rate loans held can be prematurely repaid with minimal cost should the need arise.
- 3.8 The Council has £48m of Lender's Option Borrower's Option (LOBO) loans of which £13m will be in their call period in 2015/16. It is highly unlikely that the loans will be called given interest rates are now lower than those at the inception of the loan. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the new terms and also the option of repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan by borrowing from the approved sources. The default position however will be early repayment without penalty. The Council does not intend to utilise LOBOs as an instrument for new borrowing during 2015/16.

### **Debt Rescheduling**

- 3.9 The PWLB allows authorities to repay loans before maturity at a premium or discount. The Council may take advantage of this and replace some loans with new loans or repay early without replacement. The rationale for rescheduling is to reduce interest costs with minimal risk; balance the volatility profile (i.e. the ratio of fixed to variable rate debt); or amend the profile of maturing debt to reduce any inherent refinancing risks.
- 3.10 Rates and markets are regularly monitored to identify opportunities for rescheduling and any borrowing and rescheduling activity is reported monthly to Cabinet. However, current market conditions are resulting in significant early redemption costs and unless these are significantly reduced, it is unlikely any debt rescheduling will be undertaken in 2015/16.
- 3.11 Rather than the early redemption of debt the Council may consider transfer of debt between the GF and HRA. Transfer of debt will be undertaken at a zero premium, with the debt specified for transfer based on a "last in, first out" basis and matched to optimise maturity profiles and financing costs.
- 3.12 The Council will limit and monitor large concentrations of fixed rate debt needing to be replaced. The percentage limits in table 2 are intended to control excessive exposure to volatility in interest rates on refinancing of maturing debt. The first scheduled LOBO call option is included as maturity date within this indicator.

**Table 2**

<b>Maturity structure of fixed rate borrowing</b>	<b>PWLB Estimated level at 31/03/15 %</b>	<b>Market LOBO 1<sup>st</sup> call option at 31/03/15 %</b>	<b>Lower Limit for 2015/16 %</b>	<b>Upper Limit for 2015/16 %</b>
under 12 months	3.76	3.98	0	25
12 months and within 24 months	2.23	4.28	0	25
24 months and within 5 years	15.85	4.59	0	50
5 years and within 10 years	23.82	1.83	0	100
10 years and within 20 years	17.74	0.00	0	100
20 years and within 30 years	13.17	0.00	0	100
30 years and within 40 years	1.53	0.00	0	100
40 years and within 50 years	7.22	0.00	0	100
50 years and above	0.00	0.00	0	100
<b>Total</b>	<b>85.32</b>	<b>14.68</b>	<b>0</b>	<b>100</b>

3.13 Prudential indicators in relation to borrowing limits and interest rate exposure are shown in Appendix A.

#### **4. INVESTMENT STRATEGY**

4.1 In accordance with Investment Guidance from DCLG and best practice, the Council's primary objectives in relation to the investment of public funds remains:

- security of the invested capital;
- liquidity of the invested capital; and
- an optimum yield which is commensurate with security and liquidity.

4.2 When investing funds the Council looks to balance risk and return, minimising the risk of incurring losses from defaults, and the risk receiving unsuitably low investment income.

4.3 The Corporate Director of Finance under delegated powers will, on a daily basis determine the most appropriate form of investments in keeping with investment objectives, income and risk management requirements and with reference to the Prudential Indicators and from the list detailed in Appendix A. Decisions concerning the core strategic investment portfolio will be reported monthly to Cabinet.

#### **Bail-In Risk**

4.4 Banking reform legislation was incorporated into UK law from January 2015 and exposes the Council to bail-in risk on all unsecured bank deposits. This will not only apply to failed banks but also banks considered to be underperforming. With most large entities either exempt or not exposed, local authorities will be one of the primary bail-in targets with a potential loss of 100% of the deposit. It was agreed at Cabinet in November 2014, to increase the range of instruments available and reduce risk. In addition to instant access facilities, the Council can make use of the secured

instruments of Reverse Repurchase Agreements (REPOs) and it is proposed to expand this to Covered Bonds where available with banks. Secured deposits have the security of underlying assets which can be called upon in the event of default.

- 4.5 Money Market Funds (MMFs) remain an important vehicle for instant access deposits. Money Market funds reduce the risk of bail-in as the funds are diversified with limits on the exposure to any specific bank. The Council also utilises more than one MMF to diversify exposure. Where MMF's participate, the Council utilises the facilities of a MMF portal to make subscriptions and redemptions. The portal procedure involves the use of a clearing agent; however the Council's funds are ring fenced throughout the process.
- 4.6 This strategy is also proposing the addition of Pooled Funds, to further reduce risk and to gain access to a diversified pool of investment vehicles, which may otherwise not be possible at an individual council level. Pooled Funds provide wide diversification of investment risks, coupled with the services of a professional fund manager. However, the value of Pooled Funds fluctuate with market prices and so the investment horizon will tend to be longer to ensure that withdrawals are made when the fund is in a positive position. Three Pooled Funds have been added to the Counterparty List in Appendix B based on the size and low risk of volatility in the funds.
- 4.7 Over the last few years the Council has operated a very risk averse strategy only investing in UK denominated banks. However with the introduction of bail-in the Council is reintroducing overseas banks to diversify the portfolio and spread risk. Cabinet agreed in November 2014 to add Swedish bank Svenska Handelsbanken to the Counterparty List. It is proposed four additional banks are included on the Counterparty List to reduce the exposure to risk of individual country deposits. Recommended banks are Oversea Chinese Banking Corporation (OCBC) - Singapore, DBS Bank Ltd - Singapore, National Australia Bank - Australia, Nordea Bank - Sweden. All recommended banks are currently rated AA- which is the same as HSBC and higher than other UK banks. Singapore is not subject to bail-in legislation so will help reduce exposure to bail-in risk. Diversifying in Australia and Sweden will help reduce impact on investments from issues arising out of the eurozone. The recommended banks are all actively taking deposits within the Council's investment limits which will diversify the Council's instant access and fixed term portfolio.
- 4.8 The Council has added Goldman Sachs International which is a UK bank currently A rated and Coventry Building Society which is currently A- rated to the Counterparty List. To further reduce exposure to bail-in risk and as a result of expanding the available counterparties, the Council has reduced the individual counterparty holding limit from 10% to 5% where deposits are unsecured to reduce to the total held in any one institution and reduce exposure to bail-in risk.

## **Credit Risk**

- 4.9 Credit ratings remain an important element of assessing credit risk but they are not the sole feature in the assessment of counterparties. The Council also considers alternative assessments of credit strength and information including corporate intelligence and market sentiment towards counterparties.
- 4.10 The Council's in-house investments are made with reference to the outlook for the UK Bank Rate, money market rates and other macroeconomic factors. In any period of



significant stress in the markets or heightened counterparty risk, the fallback position is for investments to be placed with central government's Debt Management Office (DMO) or to purchase UK Treasury Bills. The rates of interest from the DMO are below the equivalent money market rates, but this is an acceptable counterbalance for the guarantee that the Council's capital is secure.

### **High Credit Quality**

- 4.11 The removal of government support from banks is expected to change the methodology on credit ratings and in the short term for the majority of banks this will result in downgrades from their current rates. This strategy takes into account the expectation of downgrades by reducing the minimum long term credit ratings in 2015/16 from A- to BBB+. This is to ensure the Council has sufficient counterparty capacity to place funds.
- 4.12 The Council has set a minimum long-term credit rating criterion of BBB+ for UK counterparties, A+ for Overseas counterparties and AA+ for non-UK sovereigns.
- 4.13 In order to reduce concentration of investments within the portfolio, funds will be placed with a range of counterparties which meet agreed minimum credit risk requirements. Diversification will be achieved by applying individual limits with each counterparty, capped at 7.5% of the total portfolio. Varying instruments and investment periods will be utilised to meet liquidity requirements and mitigate risks. Appendix B details counterparty Institutions, investment limits and allowable instruments.

## **Risk Assessment and Credit Ratings**

- 4.14 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made;
  - any existing investments that can be recalled or sold at no cost will be; and
  - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 4.15 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only new investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

## **Liquidity Risk**

- 4.16 The Council will ensure it has liquid funds available to settle its payment obligations when they fall due and uses cash flow modelling techniques to determine the maximum term for which funds may be prudently committed. It will utilise instant access facilities including call accounts and Money Market Funds (MMF's) for core working capital balances and structure longer term maturities to correspond to large cash outflows with reference to the Council's Capital programme.

## **Return on Invested Sums**

- 4.17 As interest rates are forecast to remain low throughout 2015/16, the investment strategy is aiming to lengthen investment periods, where cashflow and credit conditions permit, in order to lock in higher rates of acceptable risk adjusted returns. Longer term investments will typically be through deposits with local authority entities and use of secured deposits where available.

## **Council's Bank Account**

- 4.18 Following a competitive tender exercise, Lloyds Bank Plc has been appointed with effect from 1 April 2015 as the Council's bank. Lloyds is currently rated above the minimum BBB+ rating. Should the credit ratings fall below BBB+ the Council may continue to deposit surplus cash providing that investments can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB-.

## **5. OTHER ITEMS**

### **Policy on Use of Financial Derivatives**

- 5.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). However, the general power of competence in Section 1 of the Localism Act 2011 removed much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 5.2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks to which the Council is exposed. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 5.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

### **Policy on Apportioning Interest to the Housing Revenue Account (HRA)**

- 5.4 With the introduction of HRA self financing in March 2012 the Council allocated specific loans to both the General Fund and the HRA. Interest costs applicable to each loan will be charged directly to the respective revenue account. Interest earned on HRA balances will be calculated and distributed in accordance with DCLG guidelines.

### **Investment of Money Borrowed in Advance of Need**

- 5.5 The Council may borrow in advance of need, where this is expected to provide the best long term value for money. However, as amounts borrowed will be invested until spent, the Council is aware that it would be exposed to the risk of loss of the borrowed sums and the risk investment and borrowing interest rates may change in the intervening period. These risks would be managed as part of the Councils overall management of its treasury risks. The total amount borrowed would not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

### **Balanced Budget Requirement**

- 5.6 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

### **Investment Consultants**

- 5.7 The Council has a contract in place with Arlingclose Ltd to provide treasury advisory services, which details the agreed schedule of services. Performance is measured against the schedule to ensure the services being provided are in line with the agreement.

## **Monitoring and Reporting**

- 5.8 Treasury activity is monitored and reported to Senior Management on a daily and weekly basis. Monthly updates including compliance with Prudential Indicators are provided to Cabinet as part of the budget monitoring process.
- 5.9 The Treasury Management Strategy Statement is reported to Cabinet in February prior to agreement at full Council before the start of the financial year. A draft is taken to Audit Committee in December for consideration prior to going to Cabinet. Any amendments to the TMSS during the year are reported to Cabinet for approval.

## **Training**

- 5.10 CIPFA Code of Practice requires all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. The Council adopts a continuous performance and development programme to ensure officers are regularly appraised and any training needs addressed. Treasury Officers also attend regular training sessions, seminars and workshops which ensure their knowledge is up to date and relevant. Details of training received are maintained as part of the performance and development process. Council Members receive information regarding treasury management as part of their general finance training and access to additional training is provided where required.

## Prudential Indicators and Estimates of Capital expenditure

The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is a statutory limit for borrowing determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

**Table 3**

Authorised Limit for External Debt	2014/15 Approved £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	543	502	502	502	495	481
Other Long term Liabilities	2	2	2	2	2	2
<b>Authorised Limit</b>	<b>545</b>	<b>504</b>	<b>504</b>	<b>504</b>	<b>497</b>	<b>483</b>

The **Operational Boundary** is linked directly to the Council's estimates of the CFR and estimates of other day to day cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent scenario but without the additional headroom included within the Authorised Limit. This facilitates short term additional borrowing in the event of unforeseen adverse events.

**Table 4**

Operational Boundary for External Debt	2014/15 Approved £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	513	472	472	472	465	451
Other Long term Liabilities	2	2	2	2	2	2
<b>Operational Boundary</b>	<b>515</b>	<b>474</b>	<b>474</b>	<b>474</b>	<b>467</b>	<b>453</b>

The Corporate Director of Finance has delegated authority, within the above limits, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such decisions will be based on the outcome of financial option appraisals and best value considerations based on current market and macroeconomic conditions. Cabinet is notified of any use of this delegated authority through monthly budget monitoring reports.

### Upper Limits for Interest Rate Exposure

The following Prudential Indicators shows the extent to which the Council is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not unduly exposed to interest rate rises, which could adversely impact its revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short term rates on investments.

**Table 5**

Upper Limits for Interest Rate Exposure	31/03/15 Estimate %	2014/15 Approved %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Upper Limit for Fixed Interest Rate	85	100	100	100	100	100	100

Exposure on Debt							
Upper Limit for Fixed Interest Rate Exposure on Investments	(7)	(75)	(75)	(75)	(75)	(75)	(75)
Upper Limit for Variable Interest Rate Exposure on Debt	15	50	50	50	50	50	50
Upper Limit for Variable Interest Rate Exposure on Investments*	(93)	(100)	(100)	(100)	(100)	(100)	(100)

\*Investments with duration less than one year are classified as variable.

### Upper limits for principal over 364 days

The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. However, under the Council's strategy only investments placed with other local authorities or secured deposits, where risk is minimised, would be placed for over 1 year and there is an upper limit of 2 years.

**Table 6**

Upper Limit for total principal sums invested over 364 days	2014/15 Approved £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
	73	32	30	30	30	30

### Estimates of Capital Expenditure and other Prudential Indicators

It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, Housing Rent levels. In an environment of 'low rates for longer' the Council's strategy is currently to defer external borrowing and use internal borrowing where possible, thus saving cost of carry revenue interest and simultaneously reducing counterparty investment risks. Estimates for capital expenditure shown in Table 7 are estimates of likely capital cash outflows.

**Table 7**

Capital Expenditure	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	120	78	97	84	73	52	43
HRA	23	15	26	49	37	22	14
<b>Total</b>	<b>143</b>	<b>93</b>	<b>123</b>	<b>133</b>	<b>110</b>	<b>74</b>	<b>57</b>

Capital expenditure is expected to be financed as follows:

**Table 8**

Capital Financing	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
-------------------	---------	---------	---------	---------	---------	---------	---------

	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Prudential Borrowing	38	19	51	39	26	10	3
Capital Receipts	17	9	20	27	20	8	5
Community Infrastructure Levy	5	0	3	4	5	5	5
Government Grants	52	45	22	25	33	32	30
Other External Contributions	10	8	5	1	0	0	0
Major Repairs Allowance	9	9	9	9	9	9	9
Revenue Contributions	12	3	13	28	17	10	5
<b>Total Capital Financing</b>	<b>143</b>	<b>93</b>	<b>123</b>	<b>133</b>	<b>110</b>	<b>74</b>	<b>57</b>

**Actual External Debt:** This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

**Table 9**

Actual External Debt as at 31/03/2015	£m
General Fund Borrowing	82.9
HRA Borrowing	244.1
Other Long term Liabilities	2.2
<b>Total</b>	<b>329.2</b>

**HRA Indebtedness:** Following settlement and the introduction of the self-financing regime, a borrowing cap of £303.3m has been imposed by HM Treasury on HRA indebtedness. This gives the HRA potential headroom borrowing of up to £59.2m to finance future capital.

### Incremental Impact of Capital Investment Decisions

As an indicator of affordability, Table 10 shows the notional impact of capital investment decisions on Council Tax and Housing Rent levels and represents the impact on these if the financing of the Capital programme were to be funded from taxes and rents.

**Table 10**

Incremental Impact of Capital Investment Decisions	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Increase in Band D Council Tax	£8.40	-£1.10	£8.10	£37.80	£0.00	£0.00
Increase in Average Weekly Housing Rents	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00

The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of future revenue budgets required to meet borrowing costs. There is a zero increase in housing rents as a consequence of the fixed financing costs set within the HRA 30 year business

plan which commenced in 2012. In terms of council tax, the incremental impact growth reflects the MTFP plan for priority growth projects in the Capital programme. In 2017/18 there is an increase in financing costs due to the expectation of new borrowing in 2016/17 which results in an increase in revenue costs that would result in an increase of £37.80 per Band D Council tax property to fund. From 2018/19 there is sufficient provision within revenue budgets to support the latest Capital programme to 2019/20 without further increasing Council tax.

**Table 11**

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2014/15 Revised</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>
General Fund	5%	5%	5%	7%	7%	7%
HRA	25%	25%	25%	24%	23%	23%

**APPENDIX B**

### **Specified Investments & Non Specified Investments**

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” as decided by the Council and are not deemed capital expenditure investments under statute. Non Specified Investments are those which do not meet the above criteria, for example more than 1 year in duration.

The Council defines “high credit quality” for:

- UK Organisations - The minimum credit rating is set at BBB+ or higher
- Overseas Organisations - The minimum credit rating is set at A+ or higher
- Overseas Countries: The minimum credit rating for domiciles of overseas banks is set at AA+
- Secured Deposits: The minimum credit rating for collateral on secured deposits is set at A-.

### **Specified Investments identified for use by the Council**

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Instant access facilities and fixed term deposits with specified banks & building societies
- Repurchase Agreements and Covered Bonds with specified banks & building societies
- Gilts: (bonds issued by the UK government)
- Treasury Bills (T-Bills)
- Local Authority Bonds
- Money Market Funds
- Pooled Funds

When determining the minimum acceptable credit quality the Council will not only consider the credit rating criteria below but also information on corporate developments of and market sentiment towards investment counterparties as set out in the Credit Risk indicator. For credit rated counterparties, the minimum criteria will be the lowest equivalent long term ratings assigned by Fitch, Moody’s and Standard & Poor’s (where assigned). Long term minimum: BBB+(Fitch); Baa1 (Moody’s); BBB+ (S&P). The Council will aim to have a weighted average credit score of A- for the whole portfolio of investments.



**Table 12: Limits for Specified investments**

<b>Instrument</b>	<b>Counterparty</b>	<b>Maximum Counterparty Limits %/£m</b>
Term Deposits	DMADF, DMO	No limit
Term Deposits	Other UK Local Authorities	£35m per Local Authority / No total limit
Instant Access Accounts / Term Deposits / Certificates of Deposit / Secured Deposits (including Covered Bonds & REPO's)	UK Banks and Building Societies <ul style="list-style-type: none"> <li>- Lloyds Banking Group (Including Bank of Scotland)</li> <li>- Barclays Bank Plc</li> <li>- Close Brothers</li> <li>- Coventry Building Society</li> <li>- Goldman Sachs International Bank</li> <li>- HSBC Bank Plc</li> <li>- Leeds Building Society</li> <li>- Nationwide Building Society</li> <li>- Santander UK</li> <li>- Standard Chartered Bank</li> </ul>	Secured Deposits 10% / £10m Unsecured Deposits 5% / 7.5m (except Leeds Building Society £1m)
Instant Access Accounts / Term Deposits / Certificate of Deposits / Secured Deposits (including Covered Bonds & REPO's)	Overseas Banks Australia <ul style="list-style-type: none"> <li>- National Australia Bank</li> </ul> Singapore <ul style="list-style-type: none"> <li>- DBS Bank Ltd</li> <li>- Oversea-Chinese Banking Corporation</li> </ul> Sweden <ul style="list-style-type: none"> <li>- Svenska Handelsbanken</li> <li>- Nordea Bank</li> </ul>	Secured Deposits 10% / £10m Unsecured Deposits 5% / 7.5m Overseas Bank Total - 50% in aggregate
Gilts	DMO	No limit
Treasury Bills	DMO	No limit
Local Authority Bonds	Other UK Local Authorities	No limit
Money Market Funds	Money Market Funds	7.5%/£5m per fund. Maximum MMF exposure 50%
Pooled Funds	Pooled Funds <ul style="list-style-type: none"> <li>- Ignis Sterling Short Duration Cash Fund</li> <li>- Insight Sterling Liquidity Plus Fund</li> <li>- Aberdeen Sterling Investment Cash Fund</li> </ul>	7.5%/£5m per fund. Maximum Pooled Fund exposure 15%

Note: The above list and limits would be amended on notification of any potential risk concerns. Cabinet will approve any additions to the above list of counterparties or investment instruments.

**Non Specified Investments (duration more than 1 year)-** having considered the rational and risk associated with Non-Specified Investments, the following have been determined for the Council's Use:

**Table 13**

	<b>Maximum maturity</b>	<b>Max % of portfolio</b>
§ Deposits and Bonds with other UK Local Authorities § Secured Deposits (including Covered Bonds & REPO's) with UK and Foreign banks and UK building societies § Money Market Funds § Pooled Funds § Gilts	2 Years	40 In Aggregate

In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty. A maximum exposure limit of 40% has been set for Non Specified investments.

**2015/16 MRP STATEMENT**

Where the Council finances its Capital programme through borrowing it must set aside resources annually through a Minimum Revenue Provision. This is within the revenue budget to repay the debt in later years. The Local Government Act 2003 requires the Council to have regard to Guidance on Minimum Revenue Provision issued by the Department of Communities and Local Government.

The four options available to establish a prudent amount of MRP are:

- Option 1: Regulatory Method
- Option 2: CFR Method (4%)
- Option 3: Asset Life Method (equal instalment or annuity method)
- Option 4: Depreciation Method

This does not preclude other prudent methods to provide for the repayment of debt principal.

MRP in 2015/16: Option 1 and 2 is used for GF supported borrowing prior to 31 March 2008. For capital expenditure incurred after 31 March 2008, MRP will be charged over the useful life of the assets in equal instalments or for major projects on an annuity basis, starting the year after the asset becomes operational. In all cases we will consider the most prudent method of providing for debt repayment. The HRA will make a form of MRP to pay down its self-financing settlement debt over the 30 year business cycle on which the settlement is based.

Capital expenditure incurred during 2015/16 is not subject to an MRP charge until 2016/17.

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## Internal Audit – Updated Internal Audit Charter

**Contact Officer:** Muir Laurie  
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### REASON FOR ITEM

The Internal Audit (IA) Charter sets out the purpose, authority, responsibility and position of the IA Service within the London Borough of Hillingdon. As such it is a key document in respect to the Council's internal control, risk management and corporate governance framework. The IA Charter was last updated in March 2014 to provide clearer compliance with the UK Public Sector Internal Audit Standards (PSIAS), which came into effect on 1<sup>st</sup> April 2013. The updated IA Charter was previously approved by the Council's Audit Committee on 11<sup>th</sup> March 2014.

However, the PSIAS require the IA Charter to be reviewed and approved annually by the Audit Committee. Further to this, the IA Charter has been updated to reflect the recommendation made in the June 2014 "Effectiveness of Internal Audit" Assurance Report. These updates include specific references relating to:

- the arrangements to avoid conflicts of interest where IA undertakes non-audit activities; and
- the assurances provided to any third parties by IA and the nature of those assurances.

In response to this recommendation, two paragraphs have been added (see 12.3 and 13.3 in attached updated IA Charter) and a sentence has been added to the end of paragraph 4.4 (as also highlighted in attached). There have been no amendments to the PSIAS that are required to be reflected in the IA Charter and therefore in all other material respects, the attached 2015 IA Charter is consistent with the previous version. In line with the PSIAS, the IA Charter will continue to be reviewed and approved annually, to ensure that it remains relevant to the needs of the Council.

### OPTIONS AVAILABLE TO THE COMMITTEE

**The Audit Committee is asked to review and approve the updated IA Charter (attached).**

### INFORMATION

The IA Charter supports the achievement of the Council's annual IA Plan as well as the IA strategy.

### LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

### BACKGROUND PAPERS

The IA Charter (March 2014 version).

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## Internal Audit Charter

### 1. Purpose

- 1.1 The London Borough of Hillingdon Internal Audit (IA) Charter describes the *purpose*, *authority*, *responsibility* and position of the IA Service within the London Borough of Hillingdon. The Head of Internal Audit (HIA) is responsible for applying this IA Charter and ensuring it is kept up to date. The IA Charter shall be reviewed annually and be approved by the Board (Audit Committee) to ensure that it remains relevant to the needs of the Council.

### 2. Statutory Requirement

- 2.1 The Local Government Accounts and Audit Regulations 2011 require every local authority to maintain an adequate and effective IA of its accounting records and its systems of internal control. IA's work will be performed with due professional care in accordance with these regulations and in line with the UK Public Sector Internal Audit Standards (PSIAS).
- 2.2 The IA service is responsible for providing assurance to all of its key stakeholders including the Audit Committee, senior management and in particular the Chief Financial Officer to help him discharge his statutory responsibilities under Section 151 (S151) of the Local Government Act 1972. An effective IA service will be seen as a catalyst for improvement at the core of the Council and will become recognised across the Council as a value added, trusted advisor and business assurance provider.

### 3. Responsibilities and Objectives

- 3.1 IA is defined in the PSIAS as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"*.
- 3.2 IA is not responsible for control systems and managing risks. Responsibility for effective internal control and management of risks rests with the management of the Council.

### 4. Status of Internal Audit within the Council

- 4.1 IA will be independent of all activities that it audits to enable internal auditors to perform their duties in a way that allows them to make professional and impartial judgements and recommendations.
- 4.2 The IA activity will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not engage in any activity that may impair their judgement or objectivity.

- 4.3 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.
- 4.4 The IA service is part of the Finance Group and is led by the HIA who reports directly to the Corporate Director for Finance (& S151 Officer). The HIA also has unrestricted access to the independent Chair of the Audit Committee, the Chief Executive, External Audit (Deloitte), the Leader of the Council and all other Members and staff. The HIA will also confirm to the Board (which for the purposes of the PSIAS is the Audit Committee), at least annually, the organisational independence of the IA activity.

## 5. Authority and Rights of Access to Obtain Information

- 5.1 IA's authority is defined in statute and internally is derived from policies, procedures, rules and regulations established by the Council. This includes the IA Charter, the Council's Financial Regulations and the Employee Code of Conduct and Conditions of Service.
- 5.2 IA, with strict accountability for confidentiality and safeguarding information, is authorised to have full and unrestricted access to all Council records (both manual and computerised), Council property, and personnel pertinent to carrying out any engagement. All employees are requested to assist IA in fulfilling its roles and responsibilities. IA will also have free and unrestricted access to the Audit Committee.

## 6. Scope of Internal Audit

- 6.1 The HIA is required to give an annual opinion to the Council and to the S151 Officer, through the Audit Committee, on the overall adequacy and the effectiveness of the Council's risk management, internal control and governance arrangements. In support of this, IA undertakes risk based assurance reviews.
- 6.2 IA also has the responsibility to provide consulting and advisory services to management relating to risk management, control and governance as appropriate for the Council. The IA service may also evaluate specific operations at the request of the Audit Committee or senior management, as appropriate. Before any consultancy work is agreed, the HIA will ensure that IA has the appropriate skills, resources and approval to undertake the review. The HIA will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future IA activity. This may include assigning this work to a different internal auditor.

## 7. Fraud and Corruption

- 7.1. IA does not have responsibility for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. IA procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. The Council's Corporate Fraud Investigations Team provides expertise in investigating fraud, corruption and malpractice. There is active joined-up working between IA and the Corporate Fraud Investigations Team.
- 7.2. Management has a responsibility to promptly inform the HIA of all suspected or detected fraud, corruption or improprieties. This allows consideration to be given to the adequacy of the relevant controls, and to evaluate the implication of fraud and corruption in informing the opinion on the Council's internal control environment.



## 8. Professional Standards

- 8.1. In undertaking its work, IA adopts the professional standards set out in the PSIAS. These have been set in collaboration with the UK Chartered Institute of Internal Auditors and the Chartered Institute of Public Finance & Accountancy.

## 9. The Internal Audit Plan

- 9.1. The IA plan is a crucial component of the annual assurance statement provided by the HIA to those charged with governance. In order to deliver this assurance it is vital to have a comprehensive IA plan which gives sufficient risk-based coverage. The HIA will seek to coordinate the IA plan using a risk based methodology, including input from senior management, the Audit Committee and other Members. The HIA seeks to ensure that the most effective IA coverage is achieved which focuses on the Council's key risks. Managers are required to ensure that key staff are available to IA during the agreed period of an IA review and for ensuring that information requested by IA is accurate, timely and reliable.
- 9.2. The IA plan is presented to the Council's Corporate Management Team (CMT) and Audit Committee for approval. Any significant deviation from the approved IA plan will be communicated to senior management and the Audit Committee through periodic activity progress reports.

## 10. Management of Internal Audit Engagements and Follow-up

- 10.1. For each IA engagement, a detailed Terms of Reference (ToR) will be prepared and discussed with the relevant managers. The ToR will establish the engagement's key risks and scope for the review that is aligned to service objectives. Each engagement will be sponsored by a member of the CMT and engagements intended to provide an IA assurance opinion will be undertaken using a risk-based approach. IA will promptly communicate its findings and conclusions to management, proposing recommendations to address any weaknesses. The HIA will inform the Council (via the Audit Committee) of any remaining material weaknesses.
- 10.2. A report is issued following the conclusion of each IA engagement and is distributed to the review sponsor and relevant key contact(s). The report includes an executive summary with a particular emphasis on risk management, internal control and governance strengths and weaknesses identified during the review. A management action plan is appended to reports (where applicable) which provides management with the opportunity to respond to the recommendation(s) raised and set out what action they propose to address the risk(s) identified.
- 10.3. The HIA will have systems in place to ensure that internal auditors obtain and record sufficient evidence to support their conclusions and that they can demonstrate the adequacy of evidence obtained to support professional judgements. IA will follow-up all but 'low' risk-rated recommendations to establish if management has taken appropriate action to address any weaknesses identified. Escalation procedures are in place for any management responses that are judged to be inadequate in relation to the identified risk. These procedures will ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level.

## 11. Staff Training and Development

- 11.1. IA will be appropriately staffed in terms of numbers, professional qualifications and experience, having regard to the IA objectives and to the standards set out in the PSIAS. The staffing of IA will be kept under review by the HIA and the Audit Committee.

- 11.2 All IA staff will be properly trained to fulfill their roles and responsibilities and they will each maintain their professional competence through an appropriate on-going professional development programme. When necessary, in-house IA resources will be supplemented by external resources.

## 12. Proficiency and Due Professional Care

- 12.1. IA will abide by the Code of Ethics set out in the PSIAS. IA staff are bound by the two essential components of the Code of Ethics: 1) *Principle*; and 2) *Rules of Conduct*, applicable to the four elements of a) Integrity; b) Objectivity; c) Confidentiality; and d) Competency. IA will apply the four *Attribute Standards* and the seven *Performance Standards* set out in the PSIAS. Any instances of non-conformance with the Code of Ethics or the PSIAS that impact the scope or operation of IA activity will be reported to CMT and the Audit Committee. Internal auditors will also abide by the Committee on Standards of Public Life's *Seven Principles of Public Life*.
- 12.2. IA staff must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility. The HIA must hold a professional qualification (CMIIA, CCAB, or equivalent) and be suitably experienced.

- 12.3 The HIA will maintain and regularly review a register of the internal auditors' declarations of business and personal interests. If there are occasions where internal auditors undertake non-IA activities including the development, design or implementation of systems, then that individual will not subsequently perform an IA review of those systems.

## 13. Reporting

- 13.1. In agreement with those charged with governance (CMT and the Audit Committee), the HIA will determine the way in which findings will be reported. Standards will be set for reporting and will include arrangements for the review and approval of reports by the HIA before issue. Reports will be balanced, clear, concise and constructive and will be issued within laid-down timescales.
- 13.2. The HIA will provide a written annual report to those charged with governance timed to support the Council's Annual Governance Statement. The annual report will provide the statutory opinion on the overall adequacy and effectiveness of the Council's system of internal control, risk management framework and corporate governance arrangements. The report will also include a summary of the work that supports the opinion, a statement on conformance with the PSIAS and the results of the IA quality assurance process (as detailed in section 14 below).

- 13.3 IA may carry out assurance work for third parties (i.e. organisations outside of the Council). Assurances provided to third parties are provided in line with the assurance provided to the Council, as described within this document.

## 14. Quality Assurance

- 14.1. The work of IA will be controlled at each level of operation to ensure that a continuously effective level of performance is being maintained. The HIA will develop a Quality Assurance and Improvement Programme (QAIP) designed to gain assurance that the work of IA is compliant with the PSIAS and achieves its objectives. The QAIP will cover all aspects of the IA activity, including but not limited to:
- Client Feedback Questionnaires (CFQs) that are sent out at the completion of each audit;
  - A self-assessment of the IA service each year and its compliance with the PSIAS; and
  - On-going internal performance monitoring and reporting by the HIA, as well as an external assessment at least once every five years by a suitably qualified, independent assessor.

## Internal Audit - Progress Report for Quarter 4 2014/15

**Contact Officer:** Muir Laurie  
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### REASON FOR ITEM

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in relation to the 2014/15 IA Plan and assurance in this respect during the quarter four period. It also provides an opportunity for the Head of IA to highlight to the Audit Committee any significant issues that they need be aware of that have arisen.

It also enables the Audit Committee to hold the Head of IA to account on delivery of the 2014/15 IA Plan and facilitates in holding management to account for managing risk and control weaknesses identified during the course of IA activity.

### OPTIONS AVAILABLE TO THE COMMITTEE

**The Audit Committee is asked to note the IA Progress Report for 2014/15 Quarter 4 (9<sup>th</sup> December 2014 to 9<sup>th</sup> March 2015).**

**The Audit Committee should ensure that the coverage, performance and results of IA activity in this quarter are considered and any additional assurance requirements are communicated to the Head of IA.**

### INFORMATION

IA provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the Council undertakes an adequate and effective IA of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

The UK Public Sector IA Standards which came into force on 1<sup>st</sup> April 2013 are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

### LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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# INTERNAL AUDIT

## Progress Report to Audit Committee 2014/15 Quarter 4

9<sup>th</sup> March 2015



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## 1. Introduction

### 1.1 The Role of Internal Audit

- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the Council undertakes an adequate and effective IA of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 1.1.2 The UK Public Sector IA Standards (PSIAS) came into force on 1 April 2013 and were introduced with the intention of promoting further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement (AGS).

### 1.2 The Purpose of the Internal Audit Progress Report to Audit Committee

- 1.2.1 This report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all 2014/15 IA assurance and consultancy work covered during the period 8<sup>th</sup> December 2014 to 9<sup>th</sup> March 2015. It also provides an opportunity for the Head of Internal Audit (HIA) to highlight to CMT and the Audit Committee any significant issues arising from IA work, as well as any further changes to the 2014/15 IA Plan since its approval in March 2014.
- 1.2.2 IA would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the Council during the period.

## 2. Executive Summary

- 2.1 IA is now at a stage where it is nearing completion of the 2014/15 IA Plan, subject to the agreed revisions to the Plan. Since the last IA Progress Report on 8<sup>th</sup> December 2014, **8 assurance reviews** have been completed to final report stage, **3 additional opinion statements** have been issued, **7 consultancy reviews** have been finalised and **1 grant claim** has been verified.
- 2.2 During Quarter 4, there have been 13 deferrals on planned IA reviews requested by management. Attached at **Appendix B** is the detailed listing of each of these deferrals. There have been 4 core financial system audit deferrals requested by the Corporate Director of Finance; these relate to the **MEDIUM** risk areas of E-Invoices, Main Accounting System, Debtors and Creditors. The deferral of these audits has been requested as a result of delays in the Oracle R12 upgrade. Whilst IA has the authority to insist on carrying out these audits in the original timeframe agreed by CMT and the Audit Committee, we have strong assurance from our previous reviews of these areas and we have therefore agreed with management to defer these reviews until the IA Plan for Quarter 2 of 2015/16. By this stage the Oracle upgrade should be fully embedded and in the interim we will be following up our 2013/14 IA recommendations on the Council's core financial systems.
- 2.3 There have also been 3 significant deferrals in the Residents Services Group; Corporate Construction, Housing - Planned Maintenance and Housing Repairs. These areas were assessed as **HIGH** risk and included in the 2014/15 IA Plan approved by CMT and the Audit Committee in March 2014. This was following the risk based IA planning process last year where management highlighted to IA that they were aware of serious failings in how the operations of the Housing repairs, maintenance and Construction services were functioning. Options were therefore prepared by management for major changes to the operating model, structure and processes for these services.

- 2.4 Unfortunately, because of their radical nature, these changes took longer to agree than expected. As a result, the change process, which includes consultation with a significant number of potentially affected staff, has only just recently commenced. Therefore IA has reluctantly accepted that the planned assurance work in these areas will have to be delayed until later in 2015, once the changes are fully embedded. As a result, IA currently can give **NO** assurance to CMT and the Audit Committee on these 3 areas. However, it has been agreed that IA will work with management on a consultancy basis to provide advice and support in relation to the design and implementation of the new processes and procedures in these 3 areas.
- 2.5 Also in this quarter, we have performed verification checks on the recommendations raised within the assurance review at Chantry School earlier this year, where a **NO** assurance opinion was issued. Of the 22 **HIGH** and **MEDIUM** risk recommendations raised within our report, there are only 3 **HIGH** risk recommendations (all relating to ICT controls) outstanding, 1 of which is not actually due for implementation until 1<sup>st</sup> June 2015. A follow-up audit of this area is currently in progress and will be reported to CMT and the Audit Committee in July 2015 as part of the 2014/15 Annual IA Report and Opinion Statement.

### 3. Analysis of Internal Audit Activity in 2014/15 Quarter 4

#### 3.1 Assurance Work in Quarter 4

- 3.1.1 All IA assurance reviews carried out this quarter are individually listed at **Appendix A**. This list details the assurance levels achieved (in accordance with the assurance level definitions outlined at **Appendix C**) and provides an analysis of recommendations made (in accordance with the recommendation risk categories outlined at **Appendix D**). Good progress has been made in Quarter 4 with the IA Plan allocation of assurance work; all audits have progressed beyond planning, with **27%** at fieldwork/ testing stage and **73%** at reporting stage. IA performance in relation to timely delivery of the IA Plan has remained reasonably steady throughout this quarter despite the shortfall in resources which was anticipated following the IA staffing restructure in Quarter 3. In fact, as a result of the large number of audits deferred from the IA Plan in Quarter 4, delivery of the remainder of the 2014/15 IA Plan is now firmly on track to be completed much earlier than planned.
- 3.1.2 As at 9<sup>th</sup> March 2015, **8** assurance reviews have been completed to final report stage and **3** additional opinion statements have also been issued. These 3 opinion statements relate to Corporate Construction, Housing Repairs and Housing Maintenance. As detailed at paragraph 2.3, unfortunately IA can currently give **NO** assurance to CMT and the Audit Committee on these 3 areas. However, as highlighted earlier, it has been agreed that IA will work with management on a consultancy basis over the next few months in these 3 areas.
- 3.1.3 **Appendix A** highlights that as at 9<sup>th</sup> March 2015, there are an **additional 20 IA assurance reviews in progress**, 8 of which are at draft report stage.

#### 3.2 Consultancy Work in Quarter 4

- 3.2.1 IA continues to undertake a variety of consultancy work from the contingency allocation within the IA Plan. Any revisions to the planned programme of IA work are discussed and agreed with the relevant senior managers (refer to **Appendix B** for the changes to the 2014/15 IA Plan agreed this quarter). The consultancy coverage includes IA staff attending project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach is helping to increase IA's knowledge of corporate developments and feeds into the risk based deployment of IA resource on assurance work. Also, participation in project/working groups is helping individual IA staff develop, whilst at the same time increasing the value IA provides to the Council. Due to the nature of consultancy work, we do not provide an assurance opinion or formal recommendations for management action. However, as part of our advisory reports and memos we do provide specific suggestions for senior management to consider.



- 3.2.2 Attached at **Appendix A** is a list of consultancy work carried out in Quarter 4. This highlights that **7 consultancy reviews** were completed this quarter including 3 memos. As part of the IA consultancy review of **Transitional Arrangements** carried out this quarter, we provided advice to the Head of Disability Services to help the Council prepare for a peer review. The advice included commenting on the Position Statement which is the document that outlined why the review theme (Transition to Adulthood: Ensuring an All Age Pathway) had been selected for a peer review. IA also conducted a benchmarking exercise to identify improvements for the Council's current Local Offer and draft Transition Protocol. The peer review has just taken place so it is too early to know the results of it, but the Head of Disability Services has thanked IA for the support they provided in preparing for the review.
- 3.2.3 There are also **4 other IA consultancy reviews in progress** as at 9<sup>th</sup> March including a review of the Children's Centres across the borough which was commissioned by the Interim Director Children & Young People's Services. The aim of this work is to help management strengthen procedures and practices relating to staffing, financial planning, budget monitoring, contract and procurement arrangements, as well as compliance with Council policies.
- 3.2.4 The methodology of our consultancy work is under further development and we recently met with the Interim Director of Transformation, with a view to trying to ensure closer alignment of IA consultancy work to the Council's Transformation Programme. There remains an increasing trend of management coming to IA to request advice and support. We see this as an indicator of success for the Council that IA and management can work together collaboratively to help the organisation change and improve.

### 3.3 Grant Claim Verification Work in Quarter 4

- 3.3.1 As detailed at **Appendix C** (ref GC7), IA carried out verification work on the **Troubled Families Grant** this quarter. IA sample tested 51 out of 225 (23%) troubled families that had been identified as being 'turned around' by the Troubled Families Team. Our testing concluded there was sufficient evidence that improvement had been made in 49 out of the 51 troubled families sampled. Specifically, we verified that of the 51 cases, 32 families achieved the 'continuous employment' result and 17 families achieved the 'education, crime and anti-social behaviour' result. However, in the two exception cases we found that one family had moved out of the borough prior to being 'turned around' and one family had a member who had moved into continuous employment prior to the commencement of the Troubled Families programme. Therefore, in accordance with grant conditions, we suggested that both instances should be removed from the data set.
- 3.3.2 Our grant claim testing in this area has helped inform our continuous risk based IA planning. As a result, we plan to carry out an assurance review of the Troubled Families Programme in Quarter 1 of 2015/16 (subject to CMT and Audit Committee approval). There has been no other grant claim verification work carried out by IA in Quarter 4, nor is there any further IA grant claim work planned for the remainder of the 2014/15 audit year.

### 3.4 Follow-up of Previous Internal Audit Recommendations in Quarter 4

- 3.4.1 IA monitor all **HIGH** and **MEDIUM** risk recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. IA does not follow-up **LOW** risk IA recommendations as they tend to be minor risks i.e. compliance with best practice, or issues that have a minimal impact on a Service's reputation i.e. adherence to local procedures. It would also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations.
- 3.4.2 The implementation of recommendations raised by IA continues to be monitored solely by one member of the IA team until TeamCentral (a module of the IA software TeamMate), is fully embedded across the Council. Having this single point of contact for this area of work allows the rest of the IA team to focus on delivery of the IA Plan.

3.4.3 This approach also ensures that organisationally IA has a more consistent and streamlined approach to the process of following-up IA recommendations. This method has achieved **extremely positive results** for the Council's overall control environment in the last 12 months, with the vast majority of **HIGH** and **MEDIUM** risk IA recommendations raised now promptly implemented by management. In fact, as highlighted in the table below there are currently **only 3%** of **HIGH** and **MEDIUM** risk IA recommendations outstanding. By comparison, in June 2013 this figure **was 47%** and in the last 3 years this figure **has been as high as 69%**.

3.4.4 The focus of the Quarter 4 IA work on follow-up has been on **all** of the outstanding **HIGH** and **MEDIUM** risk IA recommendations due for implementation. In total, there have been **548 HIGH** and **MEDIUM** risk IA recommendations raised in the last three financial years that were due to have been implemented by management by 9<sup>th</sup> March 2015. The table below summarises the status of each of the 548 recommendations as at this date:

IA Recommendation Status as at 9 <sup>th</sup> March 2015	HIGH			MEDIUM			TOTAL
	12/13	13/14	14/15	12/13	13/14	14/15	
Total No. of IA recommendations raised	79	25	26	238	169	92	<b>629</b>
Total No. of IA recommendations raised that are <u>not yet due</u>	0	1	6	0	12	62	<b>81</b>
Total No. of IA recommendations raised that are now <u>due</u>	79	24	20	238	157	30	<b>548</b>
Total No. of <u>due</u> recommendations implemented	79	24	18	238	153	22	<b>534</b>
Total No. of <u>due</u> recommendations outstanding	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>4</b>	<b>8</b>	<b>14</b>
Total % of <u>due</u> recommendations outstanding	<b>0%</b>	<b>0%</b>	<b>10%</b>	<b>0%</b>	<b>3%</b>	<b>27%</b>	<b>3%</b>

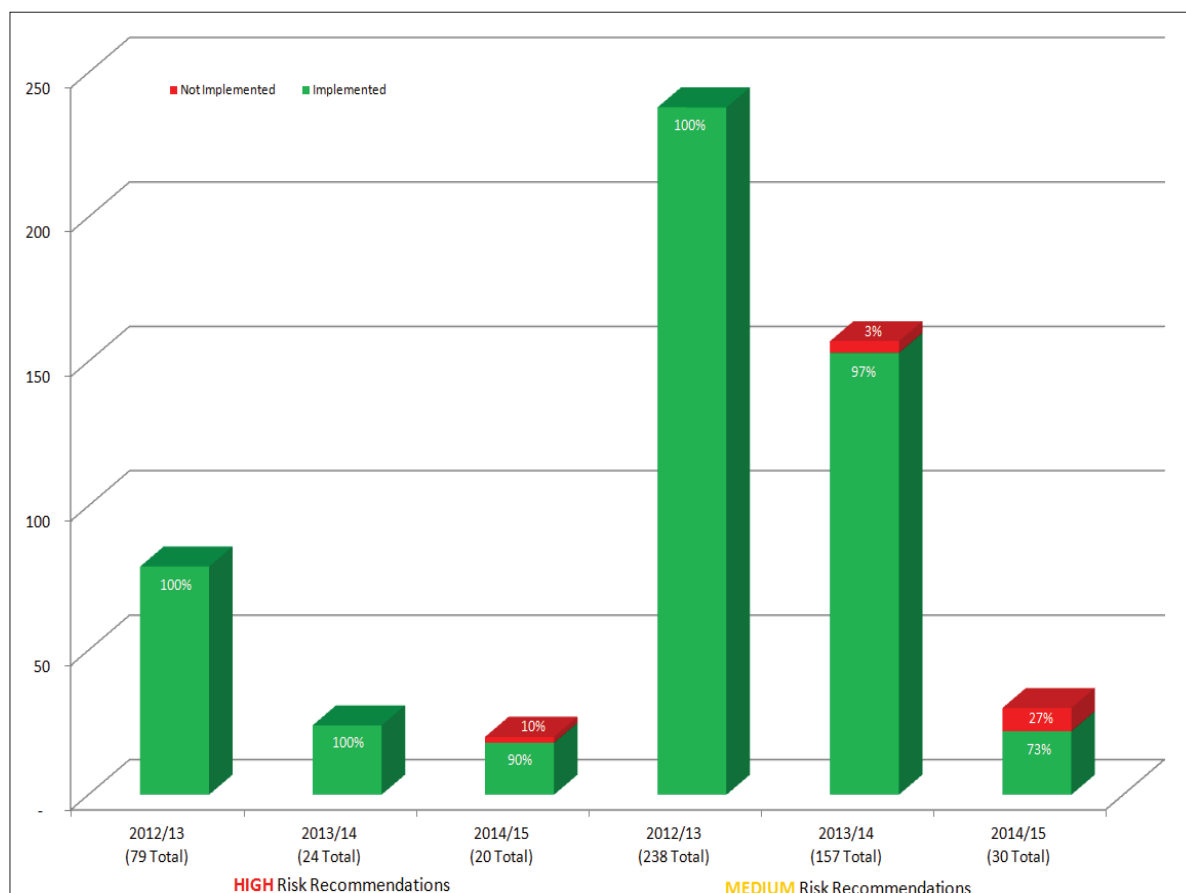
3.4.5 Positive management action has been proposed to address all **312** (25+26+169+92) of the 2013/14 and 2014/15 **HIGH** and **MEDIUM** risk IA recommendations raised. Of the **92 MEDIUM** risk IA recommendations raised in 2014/15 to date there have been only **2** recommendations where management have selected an alternative risk response other than 'Treat'.

3.4.6 As a reminder, good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways (**the 4 T's**):

- **Transfer** the risk i.e. insure against it;
- **Terminate** the risk i.e. stop carrying out the activity that creates the potential risk;
- **Treat** the risk i.e. take mitigating action to reduce the risk;
- **Tolerate** the risk i.e. do nothing and accept that there is a potential risk that could materialise.

3.4.7 IA will support and advise managers in formulating a response to the risks identified. As an organisational improvement function, IA will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Given that we are taking a risk based IA approach at the Council, it is broadly in line with expectations that approximately **22%** of the total recommendations raised and due for implementation were **HIGH** risk. However, only **10%** of the 2014/15 **HIGH** risk recommendations and **27%** of **MEDIUM** risk recommendations remain outstanding as at 9<sup>th</sup> March 2015. This represents a significant decrease from previous quarters and the HIA believes that this is partly due to improvements made by IA to facilitate the process, prompting management in advance that recommendations are due for implementation.

3.4.8 The bar chart below illustrates the results of our follow-up work on all the 2012/13, 2013/14 and 2014/15 outstanding **HIGH** and **MEDIUM** risk IA recommendations due for implementation as at 9<sup>th</sup> March 2015:



3.4.9 During this quarter we have also undertaken a detailed follow-up assurance review on the 15 **HIGH** and 7 **MEDIUM** recommendations raised within the 2014/15 **NO** assurance IA review of Chantry School. IA revisited the school twice in January 2015 to carry out further follow up verification checks and conduct testing to confirm if procedures, checks and controls in place were sufficient to mitigate exposure to the key risks identified. During testing we found that 23 out of 26 recommendations have been fully implemented and there remains 3 high risk recommendations outstanding, all concerning ICT controls (1 of which is not actually due for implementation until 1<sup>st</sup> June 2015).

3.4.10 Overall, the results of our follow-up work demonstrate a very positive outcome for the Council regarding the management action taken in response to IA recommendations raised. IA continues to work collaboratively with management to improve the timely implementation of action to mitigate **HIGH** and **MEDIUM** risks.

### 3.5 Other Internal Audit Work in Quarter 4

3.5.1 During this quarter we have undertaken the annual risk based IA planning exercise to identify the existing, new and emerging risks within each directorate. This is with the aim of ensuring that the IA focus for 2015/16 is aligned to the Council's highest risks and assurance is provided accordingly. In 2015/16 IA has introduced a quarterly planning approach; further details of this are included in the Forward Look section of this report (refer to para 5.2).

3.5.2 Alongside this other work, IA has been updating the IA Charter as well as producing a new IA Strategy. Further details of this work are included in the Forward Look of this report (at section 5) and both items are due to be presented to the Audit Committee at its planned meeting on 17<sup>th</sup> March 2015. The HIA will also provide an oral update on recent IA work to the Audit Committee at this meeting.

#### 4. Analysis of Internal Audit Performance in 2014/15 Quarter 4

- 4.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. Actual cumulative IA performance against its KPIs as at 9<sup>th</sup> March 2015 is highlighted below:

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 1	<b>HIGH</b> risk IA recommendations where positive management action is proposed	98%	100%	<b>GREEN</b>
KPI 2	<b>MEDIUM</b> risk IA recommendations where positive management action is proposed	95%	100%	<b>GREEN</b>
KPI 3	<b>LOW</b> risk IA recommendations where positive management action is proposed	<b>KPI Retired</b>		
KPI 4	<b>HIGH</b> risk IA recommendations where management action is taken within agreed timescale	90%	90%	<b>GREEN</b>
KPI 5	<b>MEDIUM</b> risk IA recommendations where management action is taken within agreed timescale	75%	73%	<b>AMBER</b>
KPI 6	Percentage of IA Plan delivered to <b>draft report</b> stage by 31 March	90%	91%	<b>GREEN</b>
KPI 7	Percentage of IA Plan delivered to <b>final report</b> stage by 31 March	80%	82%	<b>GREEN</b>
KPI 8	Percentage of draft reports issued as a final report within 15 working days	90%	71%	<b>RED</b>
KPI 9	Client Satisfaction Rating	80%	87%	<b>GREEN</b>
KPI 10	IA work fully compliant with the <b>PSIAS</b> and <b>IIA Code of Ethics</b>	100%	100%	<b>GREEN</b>

- 4.2 As highlighted above, performance against **KPI 8** is currently being reported as **RED**. This is due to 5 instances (out of 17 assurance reviews) where management responses to the draft reports have not been received within the set timescales of 15 working days. Whilst we facilitate this process, we are reliant on timely management responses to achieve this indicator. On 2 occasions the management responses were received just over the 15 working days target. However, in the other 3 cases there were significant delays (between 5 and 6 weeks) before management responses were provided. Potentially this indicates that some managers are over-stretched, although other than these 5 instances we are happy to report that the time taken to finalise reports from draft stage is on average only **11** working days. Nevertheless, there is a strong possibility that **IA KPI 8 may not be achieved for 2014/15**, particularly if there are any further delays in receiving management responses to the audits due to be finalised in the new few weeks.
- 4.3 Management feedback continues to be positive on our assurance coverage and particularly on our consultancy work. The actual performance against **KPI 9** has further improved to **87%** this quarter, showing a clear positive direction of travel regarding managements' perception of the value delivered by the IA service.

- 4.4 We have also received a range of client comments on IA performance this quarter which help us refine our processes and improve as a service. Some examples of these comments are highlighted below:

#### **IAS (Adult Social Care) Data Quality**

*"I was extremely impressed with the conduct and support of the Internal Audit Team in Hillingdon, especially in comparison to other Local Authorities I have worked for. The audit carried out was very much a joint venture and outcome focussed on improvements to the business delivery and a quality of service. I look forward to working with the Internal Audit Team again in the near future".*

#### **Schools Payroll Arrangements (thematic review across a number of schools)**

*"We all agree that the IA Team were very professional and did their very best not to infringe on the running of the school whilst carrying out this important role".*

*"The different approach that IA now uses is much more straightforward - especially as they send immediate feedback and a general overview for all schools to benefit from. The fact they concentrate on particular areas reinforces the strengths in schools and allows best practice to be shared".*

*"The audit was very useful and was conducted in a supportive and professional manner".*

*"I am pleased how the audit was carried out but it would be nice to receive a more personal detailed report to the school on how the person carrying out the role was fulfilling the requirements and any good practices that were in place, as the report was generalised across the schools visited. Personally, I received one low risk item to address so overall I am very pleased with the outcome of the audit".*

*"It would have been useful to have been given a list of what the auditors would need to look at, prior to the visit, as time was wasted locating files and information".*

#### **Capita Income ICT System**

*"The original review by Baker Tilly did not adequately cover the scope of an Application audit. Key areas were missed whilst other areas were focused on that were irrelevant to a software Application audit. The Baker Tilly auditor did not seem to understand the Application itself and its use within the Council, even after sitting with team members in both ICT and Finance. However, the HIA did agree on this and therefore a second audit took place that revisited areas that had been missed, for e.g. user security, validation of interfaces etc. The second audit report provided a more accurate review of the system and its processes".*

#### **Learning Disabilities Residential Placements**

*"My only slightly negative comment would be that whilst the audit itself was undertaken in a timely fashion the overall timetable appeared to slip so it wasn't completed in the originally defined period. However, this didn't make any difference to the business and the report has been useful".*

## 5. Forward Look

- 5.1 Looking ahead to 2015/16 Quarter 1, **a new IA Strategy** document will be in place that will have a five-year time horizon and a road map based on the Council's overall strategy, changing stakeholder expectations, regulatory requirements and the role of the other risk and assurance functions across the Council.
- 5.2 As a result of the fast changing control environment we have introduced **a quarterly approach to IA planning in 2015/16**. Specifically, as well as providing a high-level estimation of where we expect to utilise our resources over the coming year, we will produce quarterly detailed operational IA Plans in liaison with management. The quarterly IA Plans will be agreed by CMT and Audit Committee as part of the quarterly progress reports. They should help ensure that IA resources are directed in a more flexible and targeted manner to maximise the benefit to our stakeholders.

- 5.3 The software in use by IA (TeamMate) will continue to help **improve the monitoring, follow-up and tracking of IA recommendations** by management. After a successful pilot with the Finance directorate, TeamMate recommendation tracking has now been rolled out to the Administration, Children & Young People's Services and Adult Social Care Services Groups, with implementation in the Residents Services Group due to follow shortly. Appropriate TeamMate training has been provided to the relevant Council staff and this enhanced process will allow IA and senior management to more easily monitor the progress and status of all IA recommendations and the action plans established. The new process will also place greater responsibility on management, as owners of the risks, to provide progress updates on their recommendations.
- 5.4 The **Quality Assurance & Improvement Programme** (QAIP) developed in accordance with the IA Charter is in the process of being reviewed and updated. The QAIP is designed to provide assurance that the work of IA continues to be fully compliant with the UK PSIAS and also helps enable the ongoing performance monitoring of IA activity. The progress of the QAIP is due to be highlighted in the HIA Annual IA Report & Opinion Statement, due to be presented to Audit Committee at its meeting in July 2015.
- 5.5 There are no other matters that the HIA needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie FCCA, CMIIA  
**Head of Internal Audit**

9<sup>th</sup> March 2015

**APPENDIX A****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 – QUARTER 4**

<b>Key:</b>	
<b>IA</b> = Internal Audit	<b>NP</b> = Notable Practice
<b>H</b> = High Risk	<b>CFQ</b> = Client Feedback Questionnaire
<b>M</b> = Medium Risk	<b>ToR</b> = Terms of Reference
<b>L</b> = Low Risk	

**2014/15 IA Assurance Reviews – Quarter 4:**

IA Ref.	IA Review Area	Status as at 9 <sup>th</sup> March 2015	Assurance Level	Risk Rating			CFQ Received?	
				H	M	L		
A8	Corporate Construction	IA assurance review not undertaken	No	-	-	-	N/A	
A17	Housing Repairs	IA assurance review not undertaken	No	-	-	-	N/A	
A30	Housing - Planned Maintenance Work	IA assurance review not undertaken	No	-	-	-	N/A	
A24b	Mental Health Residential Placements	Final report issued 23 <sup>rd</sup> January 2015	Reasonable	-	3	1	2	Overdue
A24a	Learning Disabilities Residential Placements	Final report issued 29 <sup>th</sup> January 2015	Reasonable	-	2	2	1	✓
A35	Schools - Contracts & Procurement Schools visited: Bishop Winnington-Ingram CoE, Colham Manor Primary, Glebe Primary, Grange Park Junior, Newnham Infant, Oak Farm Infant, Oak Farm Junior, Ryefield Primary, William Byrd and Yeading Junior.	Final report issued 30 <sup>th</sup> January 2015	Reasonable	-	24	-	-	Not yet due
A20	Capita Income ICT System	Final report issued 5 <sup>th</sup> February 2015	Reasonable	-	6	5	-	✓
A5	IAS Data Quality (Adult Services)	Final report issued 10 <sup>th</sup> February 2015	Reasonable	1	3	-	-	✓
CF4	Housing Benefits	Final report issued 13 <sup>th</sup> February 2015	Reasonable	-	3	2	1	✓
A28	Imported Food Office (formerly Airport Services)	Final report issued 13 <sup>th</sup> February 2015	Substantial	-	2	2	1	✓
CF6	Treasury Management	Final report issued 13 <sup>th</sup> February 2015	Substantial	-	-	2	-	✓

**APPENDIX A (cont'd)****2014/15 IA Assurance Reviews – Quarter 4 (cont'd):**

IA Ref.	IA Review Area	Status as at 9 <sup>th</sup> March 2015	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
CF1	Payroll	Draft report issued 25 <sup>th</sup> February 2015						
CF10	Capital Accounting	Draft report issued 2 <sup>nd</sup> March 2015						
A21a	Data Protection	Revised draft report in progress						
A21b	Freedom of Information	Revised draft report in progress						
A11	Performance Management	Revised draft report in progress						
A38	Chantry School ( <b>Follow-up</b> )	Draft report in progress						
CF7	Council Tax and NDR Inspections	Draft report in progress						
A33	Corporate Governance ( <b>Follow-up</b> )	Draft report in progress						
CF5	Budgetary Control	Testing in progress						
CF8	Pensions (Investments)	Testing in progress						
A19	Leisure Services Contract Management	Testing in progress						
A34	Risk Management ( <b>Follow-up</b> )	Testing in progress						
A40	Schools - Governance Arrangements Schools visited: Deansfield Primary, Grange Park Junior, Heathrow Primary, Lady Bankes Infant, Lady Bankes Junior, Whitehall Junior & William Byrd Primary.	Testing in progress						
A6	Ofsted Improvement Action Plan	Testing in progress						
A37	High Level Mileage Users	Testing in progress						
CF3	E-Invoices ( <b>Follow-up</b> )	Testing of previous in progress						
CF12	Creditors ( <b>Follow-up</b> )	Testing in progress						
CF13	Debtors ( <b>Follow-up</b> )	Testing in progress						
CF15	Housing Rents ( <b>Follow-up</b> )	Testing in progress						



**APPENDIX A (cont'd)****2014/15 IA Assurance Reviews – Quarter 4 (cont'd):**

IA Ref.	IA Review Area	Status as at 9 <sup>th</sup> March 2015	Assurance Level	Risk Rating			CFQ Received?
				H	M	L	
CF14	Cash and Bank (Follow-up) (formerly Cash Collection Services)	Testing in progress					
<b>Total Number of IA Recommendations Raised in 2014/15 – Quarter 4</b>				<b>1</b>	<b>43</b>	<b>14</b>	<b>5</b>
<b>Total % of IA Recommendations Raised in 2014/15 – Quarter 4</b>				<b>2%</b>	<b>68%</b>	<b>22%</b>	<b>8%</b>

**2014/15 IA Consultancy Reviews – Quarter 4:**

IA Ref.	IA Review Area	Status as at 9 <sup>th</sup> March 2015
CF2	Asset Register	Final consultancy memo issued 9 <sup>th</sup> December 2014
C17	Transitional Arrangements (Preparation for Peer Review)	Final consultancy memo issued 6 <sup>th</sup> February 2015
C3	Standby Payments	Final consultancy memo issued 24 <sup>th</sup> February 2015
C19	Telecare Third Party Payments	Verbal consultancy advice provided
C20	Establishment Voluntary Funds	Verbal consultancy advice provided
C21	Capital eSourcing	Verbal consultancy advice provided
C22	Implementation of system for managing DBS Checks	Verbal consultancy advice provided
C14	EFA & SFA Mock Audit - Hillingdon Adult & Community Learning	Consultancy memo in progress
C18	Review of Children's Centres	ToR issued 15 <sup>th</sup> January 2015; fieldwork in progress
C16	Northgate Contract Management (previously an assurance review)	Work in progress
C23	Work Orders for Street Scene Maintenance	Work in progress

**2014/15 IA Grant Claim Verification Reviews – Quarter 4:**

IA Ref.	IA Review Area	Status as at 9 <sup>th</sup> March 2015
GC7	Troubled Families Grant – Quarter 4	IA memo issued 12 <sup>th</sup> January 2015

**APPENDIX B****REVISIONS TO THE 2014/15 INTERNAL AUDIT PLAN – QUARTER 4****IA reviews added to the 2014/15 Operational IA Plan for Quarter 4:**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
GC7	Troubled Families Grant Claim - Q4	Grant Claim Verification	<b>Tony Zaman</b> , Director of Adult Services and Interim Director Children & Young People's Services	The Council receives a payment by results grant from the Government for each identified 'turned around' troubled family. IA checked that the grant claim was only made for families where there was sufficient evidence of improvement in the last six months as per the payment by results criteria (refer to <b>Appendix A</b> ).
A37	High Level Mileage Users	Assurance	<b>Fran Beasley</b> , Chief Executive and Corporate Director of Administration	Following analysis performed by Strategic Finance in this area, HR have asked for an added value IA review of the process to confirm compliance with Council Policies in this area and identify areas for improvement (refer to <b>Appendix A</b> ).

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**IA reviews deferred from the 2014/15 Operational IA Plan for Quarter 4:**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
A8	Corporate Construction	Assurance	<b>Jean Palmer</b> , Deputy Chief Executive and Corporate Director of Residents Services	These IA assurance reviews have not been undertaken at the request of management due to a period of significant staff restructuring and consultation which has yet to be finalised. As a result, we have given a <b>NO</b> assurance opinion to CMT and the Audit Committee on these areas (refer to <b>Appendix A</b> ). IA will work with management on a consultancy basis to provide advice and support in relation to the design and implementation of the new processes and procedures in these areas.
A17	Housing Repairs	Assurance	<b>Jean Palmer</b> , Deputy Chief Executive and Corporate Director of Residents Services	
A30	Housing - Planned Maintenance Work	Assurance	<b>Jean Palmer</b> , Deputy Chief Executive and Corporate Director of Residents Services	
CF3	E-Invoices	Assurance	<b>Paul Whaymand</b> , Corporate Director of Finance	At the request of the Director, these four audits have now been deferred to the Quarter 2 2015/16 IA Plan due to delays caused by the Oracle upgrade from R11 to R12. In the interim, the High and Medium risk recommendations from our 2013/14 reviews in these areas will be followed up.
CF11	Main Accounting System			
CF12	Creditors			
CF13	Debtors			

**APPENDIX B (cont'd)****IA reviews deferred from the 2014/15 Operational IA Plan for Quarter 4 (cont'd):**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
A22	Schools - Safeguarding	Assurance	<b>Jean Palmer</b> , Deputy Chief Executive and Corporate Director of Residents Services	Following a risk assessment this review has now been deferred to Quarter 2 of the 2015/16 IA Plan.
A23	Corporate Procurement & Commissioning	Assurance	<b>Paul Whaymand</b> , Corporate Director of Finance	At the request of the Head of Procurement, this review has now been deferred to early in the Quarter 1 2015/16 IA Plan.
A25	Personalised Budgets & Financial Assessments - Children's & Adults	Assurance	<b>Tony Zaman</b> , Director of Adult Services and Interim Director Children & Young People's Services	At the request of the Director, this audit has now been deferred to the Quarter 1 2015/16 IA Plan due to staffing and operational pressures.
A29	Schools - ICT Arrangements	Assurance	<b>Jean Palmer</b> , Deputy Chief Executive and Corporate Director of Residents Services	Following a risk assessment this review has now been deferred to the Quarter 2 2015/16 IA Plan.
A31	HIP / BID / Transformation Programme	Assurance	<b>Fran Beasley</b> , Chief Executive and Corporate Director of Administration	Following a risk assessment this review has now been removed from the 2014/15 IA Plan. The related risks will continue to be picked up as part of ongoing IA consultancy work.
A32	Absence Management System	Assurance	<b>Fran Beasley</b> , Chief Executive and Corporate Director of Administration	At the request of the Head of HR, this review has now been deferred to early in the Quarter 1 2015/16 IA Plan.

**APPENDIX C****INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

ASSURANCE LEVEL	IA DEFINITION
<b>SUBSTANTIAL</b>	There is a <b>good level of assurance</b> over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is <b>positive assurance</b> that objectives will be achieved.
<b>REASONABLE</b>	There is a <b>reasonable level of assurance</b> over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains <b>some risk</b> that objectives will not be achieved.
<b>LIMITED</b>	There is a <b>limited level of assurance</b> over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a <b>significant risk</b> that objectives will not be achieved.
<b>NO</b>	There is <b>no assurance</b> to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a <b>high risk</b> that objectives will not be achieved.

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
  - establishing and monitoring the achievement of the authority's objectives;
  - the facilitation of policy and decision-making;
  - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
  - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
  - the financial management of the authority and the reporting of financial management; and
  - the performance management of the authority and the reporting of performance management.
2. **Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.
3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

**APPENDIX D****INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

RISK	IA DEFINITION
<p><b>HIGH</b></p> <p>●</p>	<p>The recommendation relates to a <b>significant threat</b> or opportunity that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular it has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives. <b>The risk requires senior management attention.</b></p>
<p><b>MEDIUM</b></p> <p>●</p>	<p>The recommendation relates to a <b>potentially significant threat</b> or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. <b>The risk requires management attention.</b></p>
<p><b>LOW</b></p> <p>●</p>	<p>The recommendation relates to a <b>minor threat or opportunity</b> that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. <b>The risk may be tolerable in the medium term.</b></p>
<p><b>NOTABLE PRACTICE</b></p> <p>●</p>	<p>The activity <b>reflects current best management practice</b> or is an innovative response to the management of risk within the Council. <b>The practice should be shared with others.</b></p>

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## Internal Audit - Draft Internal Audit Plan 2015/16

**Contact Officer:** Muir Laurie  
**Telephone:** 01895 556132

### REASON FOR ITEM

The Council's Internal Audit (IA) Plan details the planned IA activity for the forthcoming financial year and seeks to:

- Provide all IA key stakeholders with independent assurance that the risks within the Council's fundamental systems and processes are being effectively managed;
- Allow the Council to demonstrate it is complying with the relevant legislation and applicable professional standards;
- Demonstrate the Council's commitment to good governance and compliance with the UK Public Sector IA Standards (PSIAS); and
- Set out that IA resources are being properly utilised.

### OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to consider the draft IA Plan for 2015/16 and, subject to any further minor amendments, approve it.

### INFORMATION

The outcomes from the work proposed in the 2015/16 IA Plan underpin the Head of IA's statutory annual opinion statement. This opinion concludes on the overall adequacy and effectiveness of the Council's internal control, risk management and corporate governance arrangements. It also supports the Council's Annual Governance Statement which forms part of the statutory financial statements.

In 2015/16 the IA service at Hillingdon will continue to apply a fully risk-based approach to its coverage. This means that IA gives greater assurance to the Council because it is closer aligned to the key risks to the achievement of the Council's objectives. As a result, we will not just be commenting on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service. In order to deliver this assurance it is vital for the organisation to have a comprehensive IA Plan which gives sufficient risk-based coverage and support to management. To help meet this need, the risk-based IA Plan for 2015/16 has been linked to the organisational objectives and strategic priorities, whilst also taking account of the Council's wider assurance framework.

In preparing the draft 2015/16 IA Plan, we have carried out a risk assessment exercise which has involved consideration of risk registers, reviewing Committee and Hillingdon Improvement Plan (HIP) reports as well as reports from external inspectorates (e.g. Ofsted). Further, the IA Plan has been developed in accordance with the 2015/16 IA

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Charter and the IA Strategy for the 2015 to 2020 period. We have also consulted with External Audit and all senior managers in addition to considering legislative updates, as well as exercising our own professional judgement.

The ongoing transformational work across the Council results in a fast changing control environment and in response to this we have introduced a revised method to IA planning in 2015/16. The new approach now provides for a high-level estimation of planned work during the year with detailed operational IA Plans being produced and agreed by CMT and Audit Committee on a quarterly basis. Where requests for work are not urgent, they will form part of the following quarter's operational IA Plan. This allows for greater flexibility in IA coverage of new and emerging risks, which supports the continuously changing risk profile of the Council. This new approach should also help ensure that IA resources are directed in a more targeted manner to maximise the benefit to our stakeholders.

### **LEGAL IMPLICATIONS**

There are no legal implications arising directly from this report.

### **BACKGROUND PAPERS**

The IA service holds various background research papers in relation to the IA Plan.





# INTERNAL AUDIT

**Draft Internal Audit Plan 2015/16**

**9<sup>th</sup> March 2015**

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## 1. Introduction

### 1.1 The Role of Internal Audit

- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the Council undertakes an adequate and effective IA of its accounting records and of its system of internal control in accordance with the proper practices.
- 1.1.2 IA gives an objective opinion to the Council on whether the control environment, corporate governance arrangements and risk management framework are operating effectively. In 2015/16 the IA service at Hillingdon will continue to apply a fully risk-based approach to its coverage (**on a quarterly basis**). This means that IA gives greater assurance to the Council because it is based on the key risks to the organisation's objectives. As a result, we will not just be commenting on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.

### 1.2 The Purpose of the Internal Audit Plan

- 1.2.1 The IA Plan is a crucial component of the annual assurance opinion statement provided by the Head of Internal Audit (HIA) to those charged with governance. In order to deliver this assurance it is vital for the organisation to have a comprehensive IA Plan which gives sufficient risk-based coverage and support to management. Hillingdon, in common with all other councils, faces a number of challenges including increased demand for services in a number of key areas. The test for Hillingdon Council is therefore to continue to try to balance the needs of our most vulnerable communities with the continually decreasing financial resources.
- 1.2.2 To help meet this need, the risk-based IA Plan for 2015/16 has been linked to the organisational objectives and strategic priorities, whilst also taking account of the Council's wider assurance framework. In addition, the IA Plan for 2015/16 has been developed in accordance with the recently updated IA Charter and the new IA Strategy for the 2015 to 2019 period.

## 2. The Internal Audit Planning Process

### 2.1 Skills and Resources

- 2.1.1 In line with the Public Sector IA Standards (PSIAS), the HIA is professionally qualified and suitably experienced. The skills mix within the rest of the in-house IA team has significantly changed over the last 12 months and as a result **every member of the IA service is now professionally qualified or is actively studying for a relevant professional qualification**. As part of a service review by the HIA, one IA post was deleted during 2014/15 to reflect the changing skills mix requirements of the Council. However, the in-house IA team is supplemented by partnerships with external providers of IA services for specialist support i.e. ICT audits. Consequently, overall available IA resources fulfil the PSIAS requirements in terms of the combination of professionally qualified and experienced staff. As a result, there are currently sufficient IA resources available to meet the skills and resource requirements needed to deliver the 2015/16 risk-based IA Plan.
- 2.1.2 Demand for IA assurance and consulting services usually exceeds available IA resources at local authorities. This means choices have to be made that will determine the impact IA has upon the organisation and the way key stakeholders perceive the value of IA. The starting point in the IA planning process at Hillingdon is therefore to **determine the total available IA staff resources**.

2.1.3 After deducting an appropriate amount of allocated time for IA planning, reporting, management review, staff training and other IA overhead time, the calculated **total available IA chargeable time for 2015/16** at Hillingdon is **1,300 IA Days**. This represents a 300 days reduction on the 2014/15 IA Plan as a result of the recent IA staff restructure (refer to para 2.1.1) as well as there being no Finance Trainees planned for IA placements during 2015/16.

## 2.2 Planning Sources

2.2.1 Although the IA Plan for the year is determined by the number of days available, the primary purpose of the IA Plan is ensuring that the key risks facing the Council are given sufficient IA attention. Therefore the next step in developing the risk-based annual IA Plan has been to make reference to a variety of planning sources (as per the flowchart of the IA Process attached at **Appendix A**) including:

- **Team Plans** – We carried out a review of team plans where these could be traced, to help us confirm the strategic objectives of each service area;
- **Corporate Risk Register** – We reviewed the Council's corporate risk register to establish those charged with governance's view of the most significant risks facing the Council;
- **Group & Service Risk Registers** – We conducted a review of Group and Service risk registers (where they were in place), to help identify the key risks facing each service;
- **Senior Management** – We have met or spoken with all senior managers across the Council including members of Corporate Management Team (CMT), to develop our knowledge of the risks and challenges facing their services;
- **Key Documents** – We have carried out a desktop review of key Council documents including minutes and reports of Cabinet and various committee meetings, as well as recent Hillingdon Improvement Programme (HIP) reports and the draft budget papers for 2015/16;
- **Audit Committee** – We have met with the Independent Chair of the Audit Committee and have invited comments from other members of the Audit Committee; the draft IA plan will be presented to the Audit Committee at its meeting on 17<sup>th</sup> March 2015 and will be subsequently updated to reflect any further comments and observations the Audit Committee members may have, before being formally finalised and circulated to all key stakeholders by 31<sup>st</sup> March 2015;
- **Members** – We have met with the Leader of the Council to seek his views on the key risks facing the Council; we have invited comments from all Cabinet Members and also intend to discuss the IA planning process at the induction sessions for new Members later this year;
- **External Audit** – We have liaised with Deloitte to discuss any matters of concern and to identify those areas where they are likely to consider IA work to inform their own risk assessment;
- **External Inspections** – We have given consideration to any relevant external inspection or peer review reports i.e. Ofsted; and
- **IA Cumulative Knowledge** – We also make reference to the cumulative knowledge of the IA service of known control weaknesses and risks facing the Council, including the wider strategic issues emerging elsewhere in local government.

## 2.3 Risk Assessment

2.3.1 Using the knowledge gained through considering the planning sources, we carry out a comprehensive **audit needs analysis** and define what is known as the **audit universe** (a long list of areas for potential IA review). We then conduct an IA risk assessment for each area in the audit universe based on **three elements** as set out over the page:

Element	Definition
<b>Inherent Risk</b>	Our assessment of the overall level of risk associated with the audit area. This is effectively a gross relative risk of the potential impact of this area.
<b>Control Risk</b>	Our assessment and cumulative knowledge of the risk that exists within a particular area based upon the controls that we understand the Council has put in place. This affects the likelihood of the risk being realised.
<b>Materiality</b>	Our assessment of the potential financial or organisational impact. This might be judged by the potential for a monetary loss or the extent to which it impacts on core Council objectives.

2.3.2 The Council's risk management framework is not sufficiently mature to place full reliance on the corporate, group and service risk registers to identify all the risks the Council faces. However, the corporate and group risk registers are developed adequately enough to inform the IA risk assessment process, including calculating the total audit risk. The total audit risk score is determined using each of the elements above (para 2.3.1) which enables each area in the audit universe to be categorised into one of three **overall risk assessment** areas as follows:

Overall Risk Assessment	Definition
<b>HIGH</b>	This relates to a <b>significant threat</b> or opportunity that impacts the Council's corporate objectives. This has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives.
<b>MEDIUM</b>	This relates to a <b>potentially significant threat</b> or opportunity that impacts on either corporate or operational objectives. This has an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives.
<b>LOW</b>	This relates to a <b>minor threat</b> or opportunity that impacts on operational objectives. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives.

### 3. The 2015/16 Internal Audit Plan

- 3.1 The results of the **overall risk assessment** process are then used to determine IA priorities and produce the allocation of IA resources. The HIP helps the Council deal with the budget pressures and increasing demand for its services. However, this transformational work results in a fast changing control environment and we have therefore introduced a revised method to IA planning in 2015/16. The new approach now provides for a **high-level estimation** of where we expect to utilise our resources over the coming year, with detailed operational IA Plans being produced and agreed by CMT and Audit Committee on a **quarterly basis**. This should help ensure that IA resources are directed in a more flexible and targeted manner to maximise the benefit to our stakeholders.
- 3.2 Attached at **Appendix B** is a pie chart which provides the IA Plan high-level estimation by audit type for 2015/16. We believe this allocation provides the best value to our key stakeholders, using a risk-based approach to internal control, risk management and corporate governance. The relevant senior managers will be consulted with regards to the individual reviews that make up each of the high-level categories. Actual time spent on each category will be detailed in the quarterly IA progress reports.

3.3 The definitions of types of IA work and allocation (as highlighted in the high-level IA Plan at **Appendix B**) are as follows:

Type of IA Work	Definition	% of IA Plan	IA Plan Allocation
<b>Assurance</b>	Work which provides comfort to CMT and the Audit Committee that risks to the achievement of objectives (including transformation projects) are being effectively mitigated and arrangements are operating as expected.	<b>50%</b>	<b>650 Days</b>
<b>Consultancy &amp; Advice</b>	Work where the primary purpose is to advise and support management to improve systems and processes, mitigate risk and enable the achievement of objectives.	<b>22%</b>	<b>286 Days</b>
<b>Core Financial Systems</b>	Assurance coverage of the core financial processes that have a material impact on the financial position of the Council.	<b>10%</b>	<b>130 Days</b>
<b>RBIA - CRR</b>	<u>Risk-based IA (RBIA)</u> reviews that provide assurance on the Council's strategic risks identified in the <u>Corporate Risk Register (CRR)</u> .	<b>7%</b>	<b>91 Days</b>
<b>Grant Claims</b>	Grant work on behalf of the Council including the Housing Subsidy and Troubled Families claims.	<b>6%</b>	<b>78 Days</b>
<b>Follow Up</b>	Activity which ascertains the implementation of agreed management actions.	<b>3%</b>	<b>39 Days</b>
<b>Facilitation</b>	Activity which supports CMT in their management of risk and the production of the Annual Governance Statement.	<b>2%</b>	<b>26 Days</b>
		<b>100%</b>	<b>1,300 Days</b>

3.4 However, as stated earlier, IA will **carry out a quarterly planning cycle** behind the high-level plan to ensure that we have the flexibility to respond to the dynamic environment in which the Council operates. As a result, formal updates of the IA Plan will be reported to CMT and the Audit Committee as part of the quarterly progress reports. This ensures that the risk-based IA approach is a continuous process in line with the PSIAS. This will also make sure that the IA Plan will be subject to quarterly review to ensure it remains aligned with the Council's objectives and the risks identified by management.

3.5 CMT and the Audit Committee should also note that **there are a significant number of audit areas identified in the audit universe which fall below the risk threshold**. These areas are therefore unlikely to form part of the detailed operational IA Plans produced each quarter, unless specifically requested by management.

3.6 Attached at **Appendix C** is the detailed operational IA plan for **Quarter 1** as agreed with the relevant senior managers. The detailed IA Plan has a number **key features** including:

- **ICT Audit** – The IA Plan makes provision for specialised computer audit work to be undertaken by our external contractor with some support provided by the in-house team. The scope of this assurance work will be to assess and report upon the adequacy of the key ICT controls present within major Council systems.
- **Projects** – Many local authorities have projects which struggle to deliver the benefits that are expected of them, often having major knock on effects with other projects and sometimes even conflicting with other projects. We can provide quality assurance on projects through the entire life cycle of change, from project identification through to final delivery.

- **Contracts** – With the increasing number of contracts in operation across the Council, there will be an increased focus by IA on contract related ‘assurance’ audits. This will include reviews of the procurement process, as well as contract management arrangements for the significant / high value contracts.
- **Consultancy** – In line with the PSIAS, IA coverage will include a range of consultancy work. The table at para 3.3 and chart at **Appendix B** highlights that 286 days has been allocated for IA consultancy which includes advice, training, facilitation or conducting specific consultancy reviews. Through participation in corporate project groups we will also provide insightful, independent and informed advice in order to reduce the risk of project failure.
- **Anti-Fraud and Anti-Corruption** – Whilst the Corporate Fraud Investigation Team (CFIT) is the lead assurance provider for the Council on fraud and corruption, IA has a responsibility to give regard to the possibility of fraud and corruption as part of its coverage. As a consequence IA will review the Council’s anti-fraud and anti-corruption key controls as part of its ‘assurance’ coverage whilst also continuing to work closely with the CFIT.
- **Schools** – Previously IA coverage of Hillingdon schools was carried out using a cyclical approach over a three year basis. From 2014/15 onwards the HIA introduced a risk-based approach to IA assurance reviews of Hillingdon schools. In particular cross-cutting audits of themed areas are carried out at a risk-based selection of schools. The results of this work are made suitably anonymous and then distributed to all Hillingdon schools to help share best practice.
- **Value for Money** – As part of our ‘assurance’ coverage, IA will conduct Value for Money (VfM) reviews on specific areas of expenditure and seek to reach a judgement on whether good VfM has been achieved by the Council. Good VfM is defined as the optimal use of resources to achieve the intended outcomes (i.e. economy, efficiency and effectiveness). Our role is not to question the Council’s policy objectives, but to provide independent and rigorous analysis to CMT and to the Audit Committee on the way in which public money has been spent to achieve policy objectives. As well as reaching an overall conclusion on VfM, where applicable we will make recommendations on how to achieve better VfM and to improve the services under examination.
- **Core Financial Systems** – The table at para 3.3 and chart at **Appendix B** highlights that 130 days have been allocated for coverage of the core financial systems. This represents a significant reduction of the previous year’s coverage (300 days in 2014/15 - see bar chart at **Appendix B**), which reflects the substantial assurance we can take from the results of our previous testing in this area.
- **Contingency** – An allocation for unprogrammed work will be included in each quarterly operational IA Plan. This will be used to respond to urgent requests for unplanned IA work. Where requests for work are not urgent, they will form part of the following quarter’s operational IA Plan.

#### 4. Internal Audit Reporting

- 4.1 IA reports the findings of its work in detail to key officers at the conclusion of each piece of its work, although Corporate Directors would be immediately informed of any significant internal control weaknesses identified by IA. With the exception of consultancy reviews (including grant claim audits), all reports issued by IA include an assurance rating on the basis of the **IA Assurance Levels and Definitions** included at **Appendix D**.
- 4.2 A quarterly IA progress report is submitted to CMT and the Audit Committee, which summarises IA performance and work carried out in the period. These reports include an update on the progress made against the delivery of the IA Plan and provide details of IA work completed to date, the assurance opinions given and the number and type of recommendations made.

- 4.3 In future, the quarterly progress reports will also include the detailed operational IA Plan for the following quarter. As highlighted earlier, this will allow the IA Plan to be more flexible and responsive to the dynamic level of change throughout the organisation.
- 4.4 In addition, an annual IA report is presented to CMT and the Audit Committee which includes the HIA's statutory opinion statement on the Council's internal control, risk management and corporate governance arrangements. The individual assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations will have a bearing too. The annual IA report contributes to the assurances underpinning the Council's Annual Governance Statement.

## 5. The Internal Audit Follow Up Process

- 5.1 IA evaluates the Council's progress in implementing management agreed recommendations against set targets, although detailed follow up work will not be carried out by IA for any **LOW** risk recommendations. The full definitions of all the **IA Risk Ratings** are included at **Appendix E**. If progress is unsatisfactory or management fail to provide a reasonable response to our follow up requests, IA will implement the escalation procedure agreed with CMT, as clearly set out in the IA / Management Protocol (which is in the process of being further updated).
- 5.2 Linked to this, it is important that all key stakeholders are clear on the role of IA; IA does not tell management what to do; it identifies internal control, risk management and corporate governance weaknesses along with notable practices for management's attention. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways (**the 4 T's**):
- i) **Transfer** the risk i.e. insure against it;
  - ii) **Terminate** the risk i.e. stop carrying out the activity that creates the potential risk;
  - iii) **Treat** the risk i.e. take mitigating action to reduce the risk; and
  - iv) **Tolerate** the risk i.e. do nothing and accept that there is a potential risk that could materialise.
- 5.3 IA will support and advise managers in formulating a response to the risks identified. As an organisational improvement function, IA will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Progress on the implementation of IA recommendations will continue to be formally reported to CMT and the Audit Committee on a quarterly basis.

## 6. Measuring Internal Audit Performance

### 6.1 The Public Sector Internal Audit Standards

- 6.1.1 The PSIAS came into effect on 1 April 2013 with the intention of promoting further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. The new standards stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

### 6.2 Internal Audit Measures of Success

- 6.2.1 The PSIAS are also clear that IA should be adding value to the organisation in which it operates. At a time when all areas of the Council are being urged to deliver better and more efficient services, it is absolutely right that IA demonstrates improvements in its services.



### 6.3 Reporting Internal Audit Performance

6.3.1 There are a wide range of IA stakeholders to satisfy, but the key stakeholders for the purposes of the IA progress reports are CMT and the Audit Committee. Further to this, attached at **Appendix F** are the agreed **IA KPIs** for use in 2015/16. We will continue to use the monitoring data maintained on our dedicated IA software system (TeamMate). A summary of actual IA performance against the targeted performance will continue to be reported to CMT and the Audit Committee as part of the quarterly IA progress reports. These results will allow all stakeholders to measure the performance and robustness of the IA service at Hillingdon.

### 6.4 Analysing Internal Audit Performance

6.4.1 All nine of the agreed IA KPIs (per **Appendix F**) need management co-operation to enable them to be achieved. In fact IA in isolation is unable to achieve any of these KPIs; they can influence the results but they cannot completely control them i.e. IA KPI 3 (**HIGH** risk IA recommendations where management action is taken within agreed timescale). IA can influence this KPI by raising pragmatic recommendations and agreeing reasonable timescales with management, but ultimately the reliance is on management to strengthen the control environment in the agreed timeframe.

6.4.2 It is therefore important that interpretation of the IA KPIs is not taken in isolation, as other factors should be taken into account i.e. the increased risk focused IA approach being applied to the IA Plan in 2015/16 will potentially result in a greater number of **HIGH** risk recommendations and a greater number of **LIMITED** assurance reports. The IA KPI targets are ambitious, but they are achievable and realistic for a high performing IA service, which is what we strive to be at Hillingdon. In terms of KPI 8 (Client Satisfaction Rating), this is based on an average score of 3.4 out of 4.0 from the IA Client Feedback Questionnaires completed by management. KPI 9 (IA reviews compliant with the PSIAS and IIA Code of Ethics) is an internal quality check completed by the HIA and Deputy HIA to verify that all IA work meets the required standards.

### 6.5 Individual Internal Audit Staff Performance

6.5.1 As well as the KPIs for quarterly reporting to CMT and the Audit Committee, a further set of performance measures were introduced by the HIA in 2014 that are used to monitor and assess the performance of individual staff in the IA team. These operational performance measures form the basis of the annual performance targets for IA staff and are aligned to the detailed IA procedures and standards, as set out in the IA Manual and outlined in the IA Charter, both of which have been recently updated. The IA standards aim to ensure that all IA staff follow a consistent process for each piece of IA work and that the planned IA programme is completed within agreed timescales and to the required quality standards.

## 7. Acknowledgement

7.1 The draft IA Plan was formally considered by CMT at its meeting on 4<sup>th</sup> March and is due to be presented to the Audit Committee at its meeting on 17<sup>th</sup> March. It will then be finalised by 31<sup>st</sup> March 2015 and circulated to a number of key stakeholders including all senior managers across the Council.

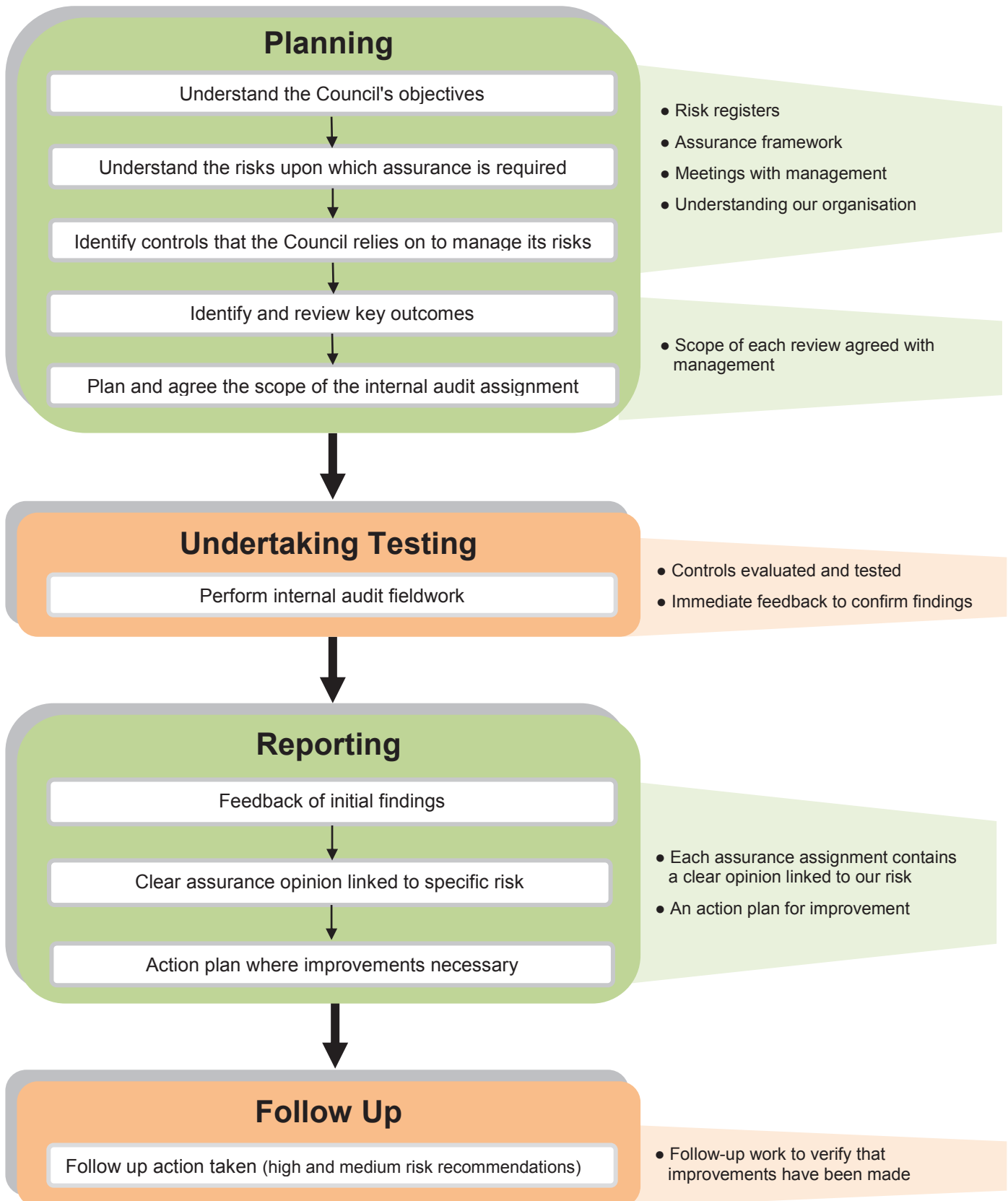
7.2 IA would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the Council's management as part of the risk-based planning process.

Muir Laurie ACCA CMIIA  
**Head of Internal Audit**

9<sup>th</sup> March 2015

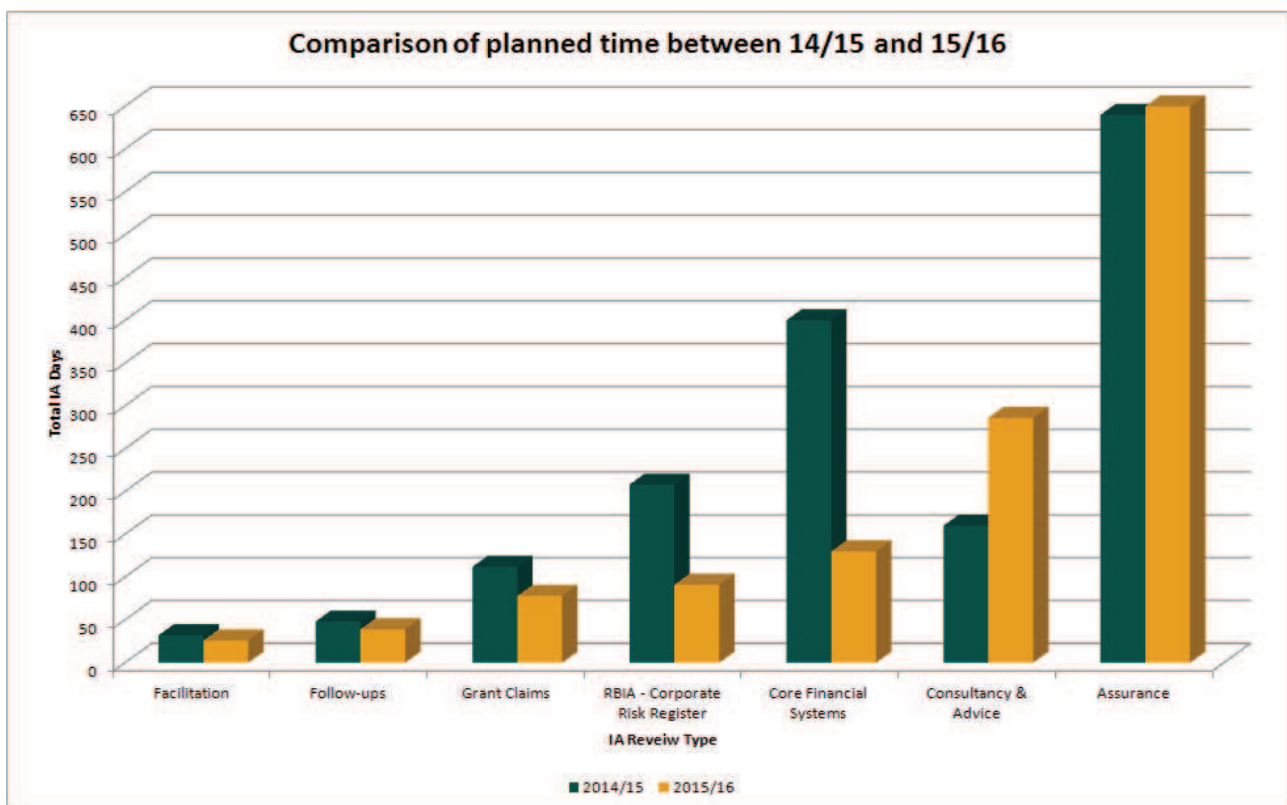
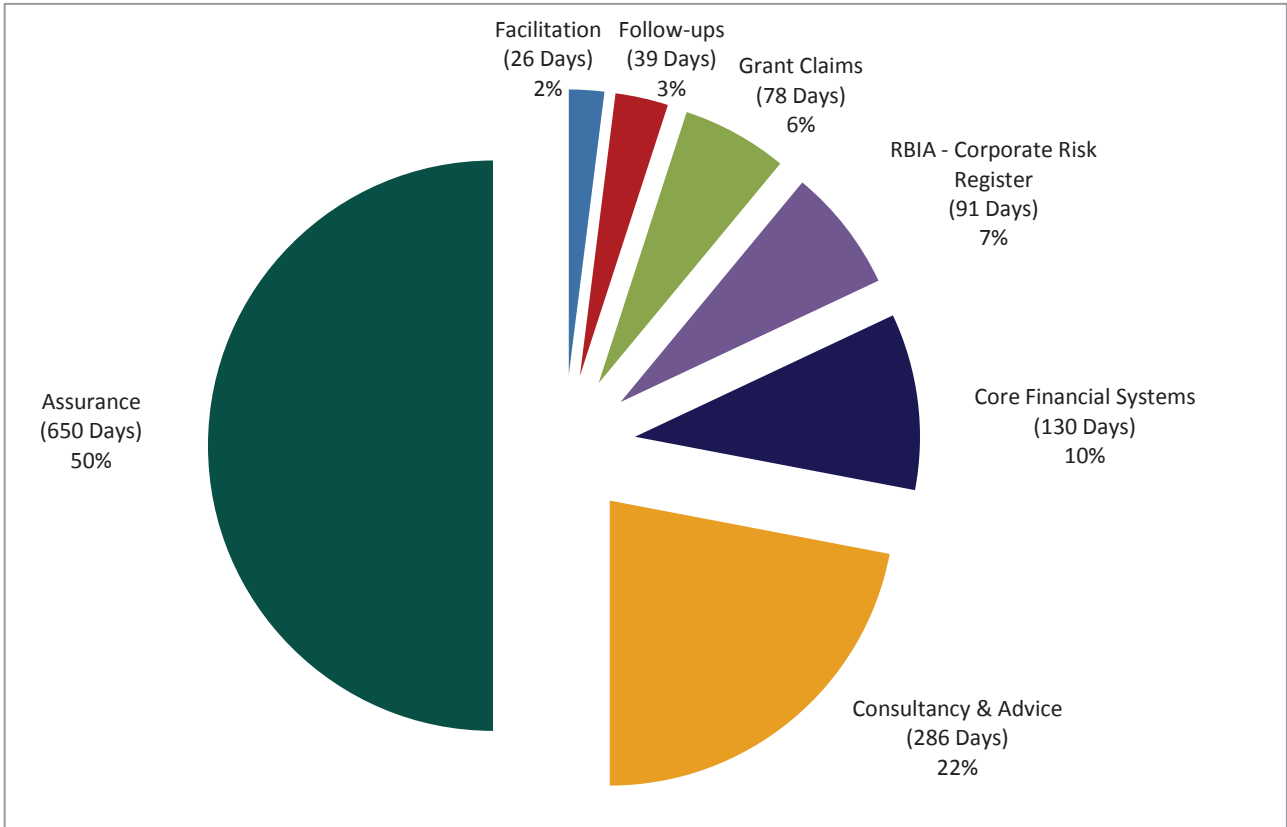
**THE INTERNAL AUDIT PROCESS**

As per para 2.2.1, once total IA available IA resources have been determined, the overall IA process is summarised below:



**THE 2015/16 ANNUAL INTERNAL AUDIT PLAN ~ ESTIMATED ALLOCATION BY AUDIT TYPE**

As per the definitions at para 3.3, the annual IA Plan estimated allocation by audit type is as follows:



**APPENDIX C****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 1**IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2015 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-A1	Troubled Families Programme	Assurance	<b>HIGH</b>	<b>Tony Zaman</b> , Director of Adult Services and Interim Director Children & Young People's Services	The Troubled Families Programme is being expanded to work with more families from 2015 through to 2020, with £200m funding for all authorities in 2015/16. This review will focus on the risks for Hillingdon concerned with the identification of families, data collection, evidence, reporting, budgeting and the quarterly sign-off of the grant claim returns.
15-A2	Schools - Pupil Premium Funding	Assurance	<b>HIGH</b>	<b>Jean Palmer</b> , Deputy Chief Executive & Corporate Director of Residents Services	Our planning sources have identified significant concerns at some Hillingdon Schools in relation to the effective use of Pupil Premium Funding to support the attainment of disadvantaged pupils. This thematic assurance review will therefore provide management with independent assurance on the internal controls and governance arrangements in place in this area.
15-A3	Personalised Budgets & Financial Assessments (Adults & Children's)	Assurance	<b>HIGH</b>	<b>Tony Zaman</b> , Director of Adult Services and Interim Director Children & Young People's Services	Following the introduction of the Care Act 2014 and the Children & Families Act 2014, significant reforms for both Adults and Children's social work included changes to local authority duties to provide personal budgets for people with eligible needs. This assurance audit will establish how well the Council is doing at managing the significant risks it is exposed to in relation to this system. IA will also review the anti-fraud and anti-corruption key controls in this system as part of its coverage.

## APPENDIX C (cont'd)

### DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 1 (cont'd)

IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2015 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-A4	Schools - Use of Supply Teachers	Assurance	<b>HIGH</b>	<b>Jean Palmer</b> , Deputy Chief Executive & Corporate Director of Residents Services	Our planning sources have identified significant concerns in relation to the retention of permanent staff and use of supply teachers at some Hillingdon Schools. This thematic assurance review will therefore provide management with independent assurance on the internal controls and governance arrangements in place in relation to the use of supply teachers at Hillingdon Schools.
15-A5	Absence Management	Assurance	<b>MEDIUM</b>	<b>Fran Beasley</b> , Chief Executive & Corporate Director of Administration	It is now just over a year since the Council introduced the new Absence Management Policy and started working with FirstCare (who provide the absence management service) and Health Management Ltd (who supply the occupational health services). The Council is in the process of reviewing its absence management policies, therefore now is an appropriate time for IA to provide independent assurance to management on this area.
15-A6	Review of the effectiveness of Internal Audit	Assurance	<b>MEDIUM</b>	<b>Paul Whaymand</b> , Corporate Director of Finance	Following the 2013/14 IA assurance review in this area, IA is due to undertake a follow-up review with a refined scope that focuses on the implementation of the high and medium risk recommendations.
15-A7	Review of the effectiveness of the Audit Committee	Assurance	<b>MEDIUM</b>	<b>Fran Beasley</b> , Chief Executive & Corporate Director of Administration	Following the 2013/14 IA assurance review in this area, IA is due to undertake a follow-up review with a refined scope that focuses on the implementation of the high and medium risk recommendations.

**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 1 (cont'd)**

IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2015 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-A8	Mortuary	Assurance	<b>MEDIUM</b>	<b>Jean Palmer</b> , Deputy Chief Executive & Corporate Director of Residents Services	A new Coroner was appointed eighteen months ago and as a result a number of significant changes to the Mortuary procedures and processes were required. There has also been relatively high staff turnover and some other operational issues. As a consequence, management are now keen for IA to provide independent assurance on this area.
15-A9	Value Added Tax	Assurance	<b>MEDIUM</b>	<b>Paul Whaymand</b> , Corporate Director of Finance	Value Added Tax (VAT) is the third largest source of Government revenues, charged at 20% on supplies of goods and services. This review will be conducted by a VAT specialist auditor and will provide independent assurance on the Council's compliance with VAT and seek to identify any potential opportunities to reduce the Council's VAT liabilities.
15-A10	Officers' Scheme of Delegations	Assurance	<b>MEDIUM</b>	<b>Fran Beasley</b> , Chief Executive & Corporate Director of Administration	Following the ongoing transformational changes and restructuring of services with changing areas of responsibilities, compliance with the Officers' Scheme of Delegation represents a risk to the Council.
15-A11	Imprest Accounts	Assurance	<b>MEDIUM</b>	<b>Paul Whaymand</b> , Corporate Director of Finance	System risks in relation to Imprest account set-ups and closing, as well as expenditure approval and authorisations have been identified. Consequently, a review by IA to provide independent assurance of this area has been requested by management.

**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 1 (cont'd)**

IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2015 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-A12	Corporate Procurement & Commissioning	Assurance	<b>MEDIUM</b>	<b>Paul Whaymand</b> , Corporate Director of Finance	The new National Procurement Strategy for local government stresses the importance of developing professional and technical expertise with a view to understanding and implementing the flexibilities afforded by the EU Procurement Directives which have come into effect from April 2014. EU member states have two years to implement the requirements of the new directives into national law by April 2016. This assurance review has been requested by management to assess how well the Council is doing to comply with these new requirements and consider any implications of the 2015 Public Contract regulations.
15-A13	Music Service	Assurance	<b>MEDIUM</b>	<b>Jean Palmer</b> , Deputy Chief Executive & Corporate Director of Residents Services	As part of the IA planning process, management have requested independent assurance that the service risks are being appropriately managed.
15-A14	Purchasing Cards	Assurance	<b>MEDIUM</b>	<b>Paul Whaymand</b> , Corporate Director of Finance	The Council is exposed to inherent risks in relation to the processes to control and monitor expenditure of Purchasing Cards as well as the retention of supporting documentation to validate purchases. As a result, management are now keen for IA to provide independent assurance on this area.

**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 1 (cont'd)**IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2015 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-CR1	Deprivation of Liberty Safeguards	RBIA - CRR	<b>As per Risk Register</b>	<b>Tony Zaman,</b> Director of Adult Services and Interim Director Children & Young People's Services	A risk in relation to the Deprivation of Liberty Safeguards (DoLS) is identified in the Adult Social Care Services Group Risk Register (ref: AS147). There is also an expected increase in the amount of DoLS authorisations for Hillingdon during 2015/16. Consequently, management would welcome a risk based IA assurance review of this area.
15-GC1	Troubled Families Grant Claim	Grant Claim	N/A	<b>Tony Zaman,</b> Director of Adult Services and Interim Director Children & Young People's Services	IA will continue to provide quarterly support to the Troubled Families Team to verify evidence presented that identified troubled families have been 'turned around' by the Council.
15-C1	Looked After Children (Asylum & Indigenous)	Consultancy	N/A	<b>Tony Zaman,</b> Director of Adult Services and Interim Director Children & Young People's Services	Risks in relation to the sign-off and authorisation processes for Asylum and Indigenous Looked After Children have been identified as a potential area of concern. As a result, IA consultancy advice on this process would be welcomed by management.
15-C2	Review of Children & Young People's Services financial control operations	Consultancy	N/A	<b>Tony Zaman,</b> Director of Adult Services and Interim Director Children & Young People's Services	Risks in relation to the use of pre-paid cards, payment of allowances and other key financial controls have been identified as a potential area of concern. As a result, management would welcome IA consultancy advice on the processes operating in these areas.



**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 1 (cont'd)**

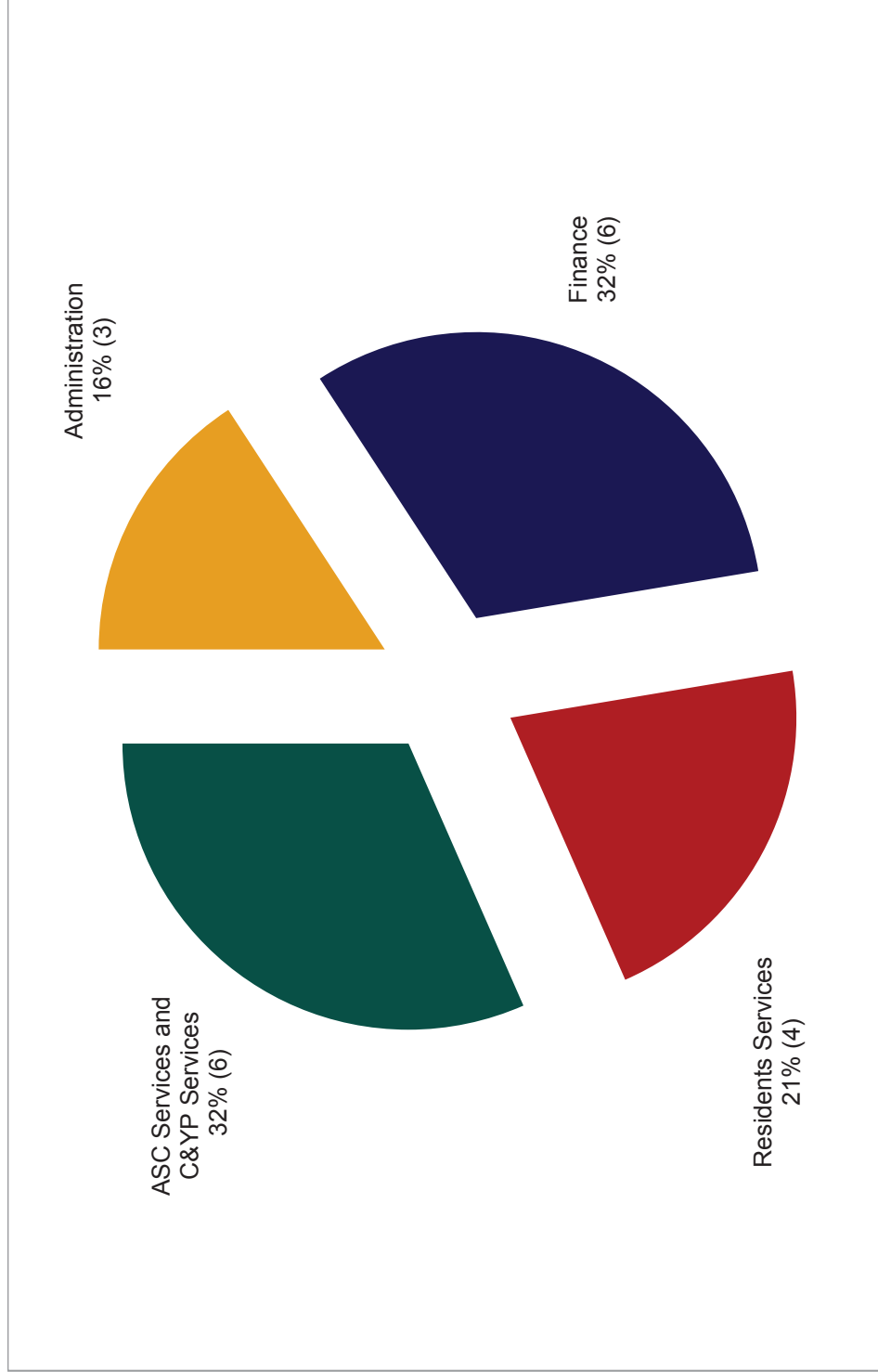
**IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2015 period:**

<b>IA Ref.</b>	<b>Planned Audit Area</b>	<b>Audit Type</b>	<b>Risk Assessment</b>	<b>Review Sponsor</b>	<b>Rationale</b>
15-C3	EFA & SFA Mock Audit - Hillingdon Adult & Community Learning	Consultancy	N/A	<b>Paul Whaymand,</b> Corporate Director of Finance	IA will continue to undertake a mock audit of Individual Learner Records (ILRs) for a sample of learners funded by the Education Funding Agency (EFA) and 24+ Advanced Learning Loans to ensure compliance with Skills Funding Agency (SFA) Funding Rules. Consultancy work of this nature will assist the Finance Group as well as the Children & Young People Service and the Adult & Community Learning Service prepare for a formal audit of ILRs by the SFA & EFA during 2015/16 (if selected).

**APPENDIX C (cont'd)**

**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 1 (cont'd)**

**IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2015 period – Analysis by Corporate Director:**



- The relevant Corporate Directors and Deputy Director/ Head of Service will be consulted regarding the exact timing of each individual IA review; and
- Where an IA review is deferred or cancelled within the quarter, the relevant Audit Sponsor will be required to provide an alternative audit in their Group.

**APPENDIX D****INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

ASSURANCE LEVEL	DEFINITION
<b>SUBSTANTIAL</b>	There is a <b>good level of assurance</b> over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is <b>positive assurance</b> that objectives will be achieved.
<b>REASONABLE</b>	There is a <b>reasonable level of assurance</b> over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains <b>some risk</b> that objectives will not be achieved.
<b>LIMITED</b>	There is a <b>limited level of assurance</b> over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a <b>significant risk</b> that objectives will not be achieved.
<b>NO</b>	There is <b>no assurance</b> to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a <b>high risk</b> that objectives will not be achieved.





**1. Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- Establishing and monitoring the achievement of the authority's objectives;
- The facilitation of policy and decision-making;
- Ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- The financial management of the authority and the reporting of financial management; and
- The performance management of the authority and the reporting of performance management.

**2. Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.

**3. Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

**APPENDIX E****INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

<b>RISK</b>	<b>DEFINITION</b>
<b>HIGH</b> 	The recommendation relates to <b>a significant threat</b> or opportunity that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular it has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives. <b>The risk requires senior management attention.</b>
<b>MEDIUM</b> 	The recommendation relates to <b>a potentially significant threat</b> or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. <b>The risk requires management attention.</b>
<b>LOW</b> 	The recommendation relates to <b>a minor threat or opportunity</b> that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. <b>The risk may be tolerable in the medium term.</b>
<b>NOTABLE PRACTICE</b> 	The activity <b>reflects current best management practice</b> or is an innovative response to the management of risk within the Council. <b>The practice should be shared with others.</b>

**APPENDIX F****INTERNAL AUDIT KEY PERFORMANCE INDICATORS 2015/16**

The Key Performance Indicators (KPIs) for IA quarterly reporting to CMT and the Audit Committee in 2015/16 are set out below:

KPI Ref.	Performance Measure	Target Performance 2015/16
KPI 1	<b>HIGH</b> risk IA recommendations where positive management action is proposed	<b>98%</b>
KPI 2	<b>MEDIUM</b> risk IA recommendations where positive management action is proposed	<b>95%</b>
KPI 3	<b>HIGH</b> risk IA recommendations where management action is taken within agreed timescale	<b>90%</b>
KPI 4	<b>MEDIUM</b> risk IA recommendations where management action is taken within agreed timescale	<b>75%</b>
KPI 5	Percentage of IA Plan delivered to <b>draft report</b> stage by 31 March	<b>90%</b>
KPI 6	Percentage of IA Plan delivered to <b>final report</b> stage by 31 March	<b>80%</b>
KPI 7	Percentage of draft reports issued as a final report within 15 working days <sup>1</sup>	<b>80%</b>
KPI 8	Client Satisfaction Rating (from completed CFQs) <sup>2</sup>	<b>85%</b>
KPI 9	IA work fully compliant with the <b>PSIAS</b> and <b>IIA Code of Ethics</b>	<b>100%</b>

All KPIs Target Performance for 2015/16 is the same as 2014/15, except for **KPI 7** <sup>1</sup> where Target Performance for 2014/15 was 90% (**10% decrease**) and **KPI 8** <sup>2</sup> where Target Performance for 2014/15 was 80% (**5% decrease**).

**Key for above:**

- CFQs = Client Feedback Questionnaires.
- PSIAS = Public Sector Internal Audit Standards.
- IIA = Chartered Institute of Internal Auditors (UK).

**Key for future reporting on actual KPI performance:**

- **RED** = currently this performance target is not being met (significantly [**>5%**] short of target performance).
- **AMBER** = currently not meeting this performance target (just short [**<5%**] of target performance).
- **GREEN** = currently meeting or exceeding this performance target.

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# Agenda Item 13

## Audit Committee Forward Programme 2015/16

Contact Officer: Khalid Ahmed  
Telephone: 01895 250833

### REASON FOR ITEM

This report is to enable the Audit Committee to review planned meeting dates and the forward programme.

### OPTIONS AVAILABLE TO THE COMMITTEE

1. To confirm dates for Audit Committee meetings; and
2. To make suggestions for future agenda items, working practices and/or reviews.

### INFORMATION

All meetings to start at 5.00pm

Meetings	Room
17 March 2015	CR 3A
2 July 2015 (to be confirmed)	tbc
24 September 2015 (to be confirmed)	tbc
10 December 2015 (to be confirmed)	tbc
15 March 2016 (to be confirmed)	tbc

## AUDIT COMMITTEE

### Forward Programme 2015/16

Meeting Date	Item	Lead Officer
2 July 2015 (to be confirmed)	*Private meeting with the Corporate Director of Finance to take place before the meeting	Corporate Director of Finance
	Draft Annual Governance Statement 2014/15	Head of Policy
	Annual Review on the Effectiveness of Internal Audit 2014/15	Head of Internal Audit
	Annual Review of the Effectiveness of the Audit Committee 2014/15	Head of Internal Audit
	Annual Internal Audit Report & Head of Internal Audit Opinion Statement 2014/15	Head of Internal Audit
	Audit Committee Annual Report to Council 2014/15	Head of Internal Audit
	Internal Audit 2015/16 Quarter 1 Progress Report & Quarter 2 Operational Internal Audit Plan	Head of Internal Audit
	Corporate Fraud Team Progress Report	Corporate Fraud Investigations Manager
	Risk Management Report & Q4 Corporate Risk Register - Part II	Head of Business Performance, Policy and Standards (Education, Housing & Public Health)
	Skills Matrix and Training & Development Programme for Audit Committee Members	Head of Internal Audit
	Audit Committee Forward Programme	Democratic Services Manager



<b>Meeting Date</b>	<b>Item</b>	<b>Lead Officer</b>
<b>24 September 2015 (to be confirmed)</b>	<b>*Private meeting with the Corporate Fraud Investigations Manager to take place before the meeting</b>	<b>Corporate Fraud Investigations Manager</b>
	<b>Approval of the 2014/15 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2015</b>	<b>Corporate Director of Finance /Deloitte</b>
	<b>Internal Audit Progress Report 2015/16 Quarter 2 &amp; Operational Internal Audit Plan Quarter 3</b>	<b>Head of Internal Audit</b>
	<b>Corporate Fraud Team Progress Report</b>	<b>Corporate Fraud Investigations Manager</b>
	<b>Risk Management Report &amp; Q1 Corporate Risk Register - Part II</b>	<b>Head of Business Performance, Policy and Standards (Education, Housing &amp; Public Health)</b>
	<b>Audit Committee Forward Programme</b>	<b>Democratic Services Manager</b>

<b>Meeting Date</b>	<b>Item</b>	<b>Lead Officer</b>
<b>10 December 2015 (to be confirmed)</b>	<b>*Private meeting with the Head of Internal Audit to take place before the meeting</b>	<b>Head of Internal Audit</b>
	<b>External Audit Annual Grant Audit Letter 2014/15</b>	<b>Deloitte</b>
	<b>Draft Treasury Management Strategy 2016/17 to 2020/21</b>	<b>Corporate Director of Finance</b>
	<b>Internal Audit Progress Report 2015/16 Quarter 3 &amp; Operational Internal Audit Plan Quarter 4</b>	<b>Head of Internal Audit</b>
	<b>Corporate Fraud Team Progress Report</b>	<b>Corporate Fraud Investigations Manager</b>
	<b>Risk Management Report &amp; Q2 Corporate Risk Register - Part II</b>	<b>Head of Business Performance, Policy and Standards (Education, Housing &amp; Public Health)</b>
	<b>Audit Committee Forward Programme</b>	<b>Democratic Services Manager</b>

<b>15 March 2016 (to be confirmed)</b>	<b>*Private meeting with External Audit to take place before the meeting</b>	<b>Ernst &amp; Young</b>
	<b>Annual External Audit Plan 2015/16 (Ernst &amp; Young)</b>	<b>Corporate Director of Finance /Ernst &amp; Young</b>
	<b>Annual Governance Statement 2015/16 – Interim Report</b>	<b>Head of Policy</b>
	<b>Balances and Reserves Statement</b>	<b>Corporate Director of Finance</b>
	<b>Revisions to the Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2020/21</b>	<b>Corporate Director of Finance</b>
	<b>Internal Audit Charter 2016/17</b>	<b>Head of Internal Audit</b>
	<b>Internal Audit Progress Report 2015/16 Quarter 4</b>	<b>Head of Internal Audit</b>
	<b>Annual Internal Audit Plan 2016/17 &amp; Operational Internal Audit Plan Quarter 1</b>	<b>Head of Internal Audit</b>
	<b>Corporate Fraud Team Progress Report</b>	<b>Corporate Fraud Investigations Manager</b>
	<b>Risk Management Report &amp; Q3 Corporate Risk Register - Part II</b>	<b>Head of Business Performance, Policy and Standards (Education, Housing &amp; Public Health)</b>
	<b>Audit Committee Forward Programme</b>	<b>Democratic Services Manager</b>

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