HILLINGDON
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A

Audit Committee

Members on the Committee

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

Date:	**WEDNESDAY, 30 JULY 2014**
Time:	**7.00 PM * PLEASE NOTE THE START TIME**
Venue:	**COMMITTEE ROOM 5 - 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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http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=256&MId=2184&Ver=4

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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

CHAIRMAN'S ANNOUNCEMENTS

1   Apologies for Absence

2   Declaration of Interests in Matters coming before this meeting

3   Minutes of the meetings held on 11 March and 5 June 2014 **(Pages 1 - 8)**

4   Exclusion of the Press and Public

       To confirm that all items marked Part I will be considered in public and that any items marked Part II will be considered in private.

5   Corporate Fraud Investigation Report **(Pages 9 -16)**

6   Internal Audit - Effectiveness of Internal Audit 2013/14 **(Pages 17 - 36)**

7   Review of the Effectiveness of the Audit Committee 2013/14 **(Pages 37 - 58)**

8   Annual Internal Audit Report & Opinion Statement 2013/14 **(Pages 59 - 86)**

9   The Draft Annual Governance Statement 2013-14 **(Pages 87 - 96)**

10   Internal Audit - Progress Report for Quarter 1 2014/15 **(Pages 97 - 114)**

11   Audit Committee Annual Report to Council **(Pages 115 - 124)**

12   Work Programme 2014/15 **(Pages 125 - 128)**

Minutes

Audit Committee
Tuesday 11 March 2014
Meeting held at Committee Room 3a - Civic Centre, High Street, Uxbridge UB8 1UW

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	Independent Member: John Morley (Chairman). **Members Present:** Councillors George Cooper, Raymond Graham, Paul Harmsworth and Richard Lewis. **Officers Present:** Kevin Byrne (Head of Policy, Performance and Partnerships), Anthony Dean (Principal Internal Auditor), Sarah Hydrie (Principal Internal Auditor), Sian Kunert (Chief Accountant), Muir Laurie (Head of Internal Audit), Nancy Le Roux (Deputy Director of Strategic Finance), Paul Whaymand (Director of Finance) and Khalid Ahmed (Democratic Services Manager). **Others Present:** Heather Bygrave (Deloitte). The Chairman reported that the scheduled private meeting which was to take place with the External Auditors prior to this meeting had not taken place because there were no outstanding issues to discuss.
33.	**DECLARATIONS OF INTEREST** Councillor George Cooper declared a Non-Pecuniary Interest in Agenda Item 5 – Deloitte - 2013/14 Annual Audit Plan, as he was a contributor to the Local Government Pension Fund. He remained in the room and took part in discussions on the item. Councillor Raymond Graham declared a Non-Pecuniary Interest in Agenda Item 5– Deloitte – 2013/14 Annual Audit Plan, as he was a Member of the Pensions Committee. He remained in the room and took part in discussions on the item. Councillor Paul Harmsworth declared a Non-Pecuniary Interest in Agenda Item 5 - Deloitte - 2013/14 Annual Audit Plan, as he was a Member of the Pensions Committee and a contributor to the Local Government Fund. He remained in the room and took part in discussions on the item.
34.	**MINUTES OF THE MEETING HELD ON 7 JANUARY 2014** Agreed as an accurate record.

35.	**EXCLUSION OF THE PRESS AND PUBLIC**	
	It was agreed that all the items on the Agenda be considered in public.	
36.	**DELOITTE – 2013/14 ANNUAL AUDIT PLAN**	**Action By:**
	Heather Bygrave from Deloitte attended the meeting and introduced the report to Members.

Members were provided with the details of the recent key developments at the Council and the significant matters which were considered in developing the Audit Plan.

The significant audit risks were identified and the main areas on which specific audit work would focus would be
  • Recognition of grant income
  • Calculation of the bad debt provision against sundry debts
  • Recording of capital spend
  • Management override of key controls, as presumed by auditing standards

Discussion took place on the control recommendations which Deloitte had made to the management of the Council. These were:

  • The checking of the accuracy of data sent to the actuary
  • Refresher training for all staff and for new joiners involved with journal posting to encourage journals to be posted correctly in the first instance and reduce the risks of miscoding
  • Increasing the level of documentation around asset valuations, and formalising the valuation process and engagement of specialist support where appropriate
  • Designing a capital monitoring system which is risk-focussed and highlights where projects are not progressing
  • Review of the CIPFA publication "Audit Committees: Practical guidance for local authorities", with specific consideration of the guidance around right of access to individuals and effectiveness of the Audit Committee
  • Improving the monitoring of the National Fraud Initiative
  • Implementation of an email archive and back-up solution to minimise risk of data loss

The Director of Finance reported to the Committee that all the recommendations would be implemented and he provided updates on progress made in implementation of all the recommendations. Members were informed that email archiving and back up had now been implemented. | **Action By:** |

	The Chairman referred to the recommendations in relation to the rights of access to individuals and the effectiveness of the Audit Committee and the Monitoring of the National Fraud Initiative and officers reported that these areas would be commented on in the Annual Governance Statement. **Audit Plan for the Pension Fund** Members noted the details in the report and that the plan would be considered by the Pensions Committee on 26 March 2014. **RESOLVED -** 1. **That the information contained in the report be noted.**	**Kevin Byrne**
37.	**REVISIONS TO THE TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2013/14 TO 2015/16** Members were reminded that as part of the scrutiny process, the Committee had requested this report to provide details of the changes which had been made from the draft to the final version of the statement. **RESOLVED-** 1. **That the contents of the report be noted.**	
38.	**BALANCES AND RESERVES STATEMENT 2014/15** Members were informed that an extract from the Balances and Reserves Statement 2014/15 was contained in the budget which had been reported to Cabinet and Council in February 2014. The Director of Finance reported that the Statement provided further detail on the Council's approach to the management and measurement of balances and reserves, outlining technical accounting guidance used and analysis of specific risks that lead to a determination of a prudent reserves and balances range. Members were provided with an explanation of the Council's unallocated balances and were informed that the strategy for the next 4/5 years would be for balances of over £30m. Reference was made to the substantial population growth within the Borough which had been evidenced by the 2011 Census and the impact this would have on demand for key	**Action By:**

	services.
	RESOLVED –
	1. **That the report be noted.**
39.	**INTERNAL AUDIT - DRAFT INTERNAL AUDIT PLAN**
	The Head of Internal Audit introduced the report and informed Members that the Council's draft Internal Audit (IA) Plan provided details of the planned IA activity. The Plan sought to:
	• Provide all IA key stakeholders with independent assurance that the risks within the Council's fundamental systems and processes were being effectively managed;
	• Allowed the Council to demonstrate it was complying with the relevant legislation and applicable professional standards;
	• Demonstrated the Council's commitment to good governance and compliance with the UK Public Sector IA Standards (PSIAS); and
	• Set out that IA resources were being properly utilised.
	Members were informed that the draft 2014/15 IA Plan detailed the high-level areas where IA resources would be utilised. For this year IA had adopted a greater risk based approach following a risk assessment exercise which has taken place throughout the year.
	Reference was made to the 400 days (25% of IA available resource) contingency which would allow for greater flexibility in IA coverage of new and emerging risks, which supported the continuously changing risk profile of the Council.
	The Head of Internal Audit reported that the calculated total available IA chargeable time for 2014/15 would be 1,600 days.
	Reference was made the audit needs analysis which took place and particular reference was made to the comment in the report that the Council's risk management framework not being sufficiently mature to place full reliance on service risk registers to identify all the risks that the Council faced.
	In relation to the reporting structure for Internal Audit, the Committee was reassured that the Head of Internal Audit was independent of the Council's Corporate Management Team.
	Reference was made to the role which IA had in relation to Internal Audit follow up work, and the advice which was given to management and it was noted that the Chairman of the

The action column header "**Action By:**" appears near the bottom of the right-hand column.

	Audit Committee had an important role to play in this. The Committee was provided with information on the Key Performance Indicators for Internal Audit and Members were informed that that the Internal Audit software automatically calculated the statistics. **RESOLVED –** 1. **That the draft IA Plan for 2014/15 be approved.**	
40.	**INTERNAL AUDIT - REVISED INTERNAL AUDIT CHARTER** The Principal Internal Auditor introduced the report and informed Members that the Internal Audit (IA) Charter was previously known as the IA Terms of Reference. The IA Charter was a key document in respect to the Council's internal control, risk management and corporate governance framework. The Committee was informed that the IA Charter had been updated to include several new sections including Fraud and Corruption as well as Quality Assurance and meant that it was now being more closely aligned with the PSIAS. **RESOLVED –** 1. **That approval be given to the revised IA Charter.**	
41.	**PROPOSED 2014/15 TRAINING & DEVELOPMENT PLAN FOR AUDIT COMMITTEE MEMBERS** The Training & Development Plan was noted and Members asked that a training session be scheduled before the first meeting in the next Municipal Year of the Audit Committee, outlining to any new Members the role of the Audit Committee in the organisation, together with providing Members with information on the organisational structure of the Council.	**Muir Laurie**
42.	**DELIVERING THE ANNUAL GOVERNANCE STATEMENT (AGS) 2013-14** Members were provided with an update on the progress of the AGS and were informed that the key sources which contributed to the AGS included:- • 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 **RESOLVED –** 1. **That the sources of management information and assurance used to produce the AGS be noted.**	
43.	**CURRENT ISSUES: WORK PROGRAMME 2013/14** Members noted that as this was the last meeting of the Municipal Year there was no work programme on the agenda. The Committee asked that a draft work programme be produced prior to the next meeting after being reviewed by the new Independent Chairman, when appointed.	**Khalid Ahmed**
44.	**RISK MANAGEMENT REPORT 2013/14** The report on this item was included in Part II as it contained information relating to the financial or business affairs of any particular person (including the Authority holding that information) and the public interest in withholding the information outweighed the public interest in disclosing it (exempt information under paragraph 3 of Part 1 of Schedule 12 A to the Local Government (Access to Information) Act 1985 as amended. **RESOLVED –** 1. **That the Committee reviewed the Corporate Risk Register (as at the end of December 2013) as part of the role of the Committee to independently assure the risk management arrangements in the Council.**	
	The meeting which commenced at 5.00pm, closed at 6.30pm **Next meeting: 24 June 2014 at 5.00pm**	

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.

Minutes

AUDIT COMMITTEE

5 June 2014

**Meeting held at Council Chamber - Civic Centre,
High Street, Uxbridge UB8 1UW**

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	Committee Members Present: Councillors George Cooper (Vice-Chairman), Richard Lewis, Susan O'Brien and Tony Eginton (Labour Lead)
1.	**ELECTION OF VICE-CHAIRMAN** *(Agenda Item 1)* **RESOLVED: That Councillor George Cooper be elected Vice-Chairman of the Audit Committee for the 2014/2015 municipal year.**
	The meeting, which commenced at 9.02 pm, closed at 9.03 pm.

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 is to Councillors, Officers, the Press and Members of the Public.

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Corporate Fraud Investigation Progress Report

Contact Officers: Garry Coote
Telephone: 01895 250369

REASON FOR ITEM

To inform members of the work undertaken by the Corporate Fraud Investigation Team from April 2013 to June 2014.

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. Corporate Investigation Team activities since April 2013 included:
- Single Fraud Investigation Service (SFIS) pilot.
- Social Housing fraud investigations
- Council Tax/Business Rates inspections
- Right to Buy investigations
- First time buyer investigations
- Proceeds of Crime investigations
- Bed and Breakfast visits and investigations
- Internal and external fraud investigations and prosecutions
- Development of anti fraud strategies

2. Performance Outcomes April 2013– March 2014

2.1 Single Fraud Investigation Service (SFIS) pilot

Hillingdon has been recognised by the Department for Work and Pensions (DWP) as running the best performing pilot. This has been assessed by visits from DWP senior managers to Hillingdon who acknowledged innovative team working producing positive outcomes through high quality investigations. However, despite the positive pilot in Hillingdon, the Government made a decision in December 2013 that nationally this service should be transferred and managed by the DWP. The transfer in Hillingdon took place on 1st July 2014. This transfer means Hillingdon is no longer responsible for Benefit investigations. This provides the Corporate Fraud Investigation Team in Hillingdon with the opportunity to diversify its operations to other areas of fraud detection and investigation across the Council.

Benefit investigation in Hillingdon since April 2013 achieved very positive outcomes. The process of presenting cases to court was streamlined. This reduced the time taken for cases to be prepared for court. The focus of this work has been on Prosecutions and Administrative Penalties.

Results April 2013 – March 2014	
Prosecutions	24
Administrative Penalties	3
Benefit payments stopped	£524,000

2.2 Social Housing Fraud Investigations

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. In April 2013 we received funding from Government to support this area of work and we have used part of this funding to continue our work with Experian, a credit reference agency. They data match our housing tenancy records with their credit reference data to identify properties that may be sub let or empty.

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 Audit Commission, in their report 'Protecting the Public Purse 2013' estimated that nationally it costs councils on average £18,000 a year for each family placed in temporary accommodation., therefore using this guidance it is estimated that £1.04 million has been saved in Hillingdon by detecting housing tenancy fraud in 58 properties. These properties have been re-let to residents with genuine housing need.

Results April 2013 – March 2014	
Properties Recovered	58
Estimated Savings	£1,044,000

2.3 <u>Council Tax/Business Rates/Compliance inspections</u>

The inspection role within the Corporate Fraud Team is crucial in terms of maximising the Councils revenue income.

In 2013/14 over 9,000 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 single person discount and other discounts. Where the visit establishes the wrong amount of Council Tax is being charged the account is changed and the person re-billed. 5,816 Council Tax inspection visits were made in 2013/14.

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 2013 there will be approximately 1,500 new build properties being developed in Hillingdon each year. This represents a significant amount of additional revenue. 3,628 visits were made in 2013/14 to check Business Rates and New Build Inspections.

Benefit compliance inspection visits relate to checks carried out to verify information on a claim. Visits requests come from a number of sources which include benefit and housing officers and calls from the public about possible benefit abuse. In 2013/14 we have conducted 508 of these visits.

Results April 2013– March 2014	
Number of Council Tax Inspections	5816
Number of Business rates and New Build Inspections	3628
Benefit compliance inspections	508

2.4 <u>Right To Buy (RTB) investigations</u>

This is a relatively new area of work for pro active investigations. Unannounced visits are carried out to tenants in receipt of benefits who have applied to buy their council property.

In April 2012 the Government increased the maximum discount a Council Tenant can receive under the RTB scheme from £75,000 to £100,000.

Our pro active investigations have highlighted that this is an area that needs to be closely monitored.

Results April 2013 – March 2014	
Number of applications rejected	7
Value of discounts stopped	£623,100

2.5 First time buyer investigations

Unannounced visits are carried out to verify owner details and to ensure that the conditions of the scheme are not being abused. There are currently 3 cases being investigated where there is evidence that the first time buyer is either sub letting their property or is the owner of another property. This is clearly an abuse of the scheme, case investigations are on-going and will be pursued to recover any money paid, prosecutions will be considered if appropriate.

Results April 2013– March 2014	
Number of First Time Buyer visits	40
Number of cases under investigation	3

2.6 Proceeds of Crime Investigations

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.

A number of cases are due in Court in 2014/15 which are likely to receive media attention because of the amount of money involved.

Results April 2013– March 2014	
Number of Corporate Fraud investigations	1
Number of Benefit investigations	1
Number of Planning investigations	1
Number of Trading Standards investigations	3
Total number of investigations	6

2.7 Bed and Breakfast visits and investigations

In December 2013 a one-off exercise of residency visits was carried out with housing staff to verify occupancy. These unannounced visits were carried out early in the morning and proved to be effective in terms of identifying accommodation that appeared to be unoccupied by the homeless person or family.

The exercise identified that not all the properties were occupied. This represents a significant saving both in revenue expenditure and any associated Housing Benefit costs.

Results December 2013	
Number of applicants visited	80
Number of cases ceased	11

2.8 Internal and external fraud investigations and prosecutions

A former member of staff was prosecuted in April 2013 for procurement fraud; the member of staff was sentenced to two years in prison. A Proceeds of Crime Investigation was successful and the final Court Order was for £75,536 of which Hillingdon can claim 37.5%, which is £28,326.

An attempt to obtain a Disabled Persons Facilities Grant was identified where the applicant failed to notify that she was the owner of several properties and received a substantial amount of rental income. The applicant will be prosecuted for this offence in 2014/15.

3. Performance Outcomes April 2014– June 2014

Social Housing Fraud		
	Number	Savings
Social Housing properties recovered	18	£324,000
Proceeds of Crime Act		
	Number	Income
Court Orders (payable by 31.3.15)	6	£491,000
Council Tax/Business Rates		
	Number	Income
Number of Council Tax Inspections	1752	Increase in CT revenue
Number of Business rates and New Build Inspections	950	Increase in Business Rate/New Build revenue
Right to Buy		
	Number	Savings
Number of Right to Buy visits	11	
Number of applications rejected	3	£256,600 (discount)
First Time Buyers		
	Number	Income
Number of First Time Buyer visits	40	
Number of cases under investigation	1	£12,025
Benefit Prosecutions		
	Number	Saving
Prosecutions	5	£40,688
External Fraud		
	Number	Fine
Disabled Facilities Grant prosecution	1	£ 6,000 (fine)

4. Operational plans for the future

4.1 The Corporate Fraud Team continually reviews operational arrangements to identify new areas of fraud detection and investigation within the Council. The Corporate Fraud Investigation Team has a proven track record in delivered results on new initiatives and can diversify its resources and skills into new areas of fraud detection within the Council. This increases resident's confidence in the Council's management of its operations by ensuring services are provided to those in genuine need and that action is taken against fraudulent activity.

4.2 New areas of work in development include:

- From 1st July an empty property project has commenced to investigate all privately owned empty properties. These have been identified by council tax and the project will confirm if the properties are actually empty. Data matching has taken place on all empty property records and these are now being investigated. Each property that is found to be occupied can be removed from the Empty Property List and then qualifies for the Governments New Homes Bonus Scheme. This generates income to the Council for every time an empty property is found to be occupied. There are two sources of income generation, the Government Bonus reward and re-charge of Council Tax.

- Staff investigating Business Rates were at full compliment in July 2014, when 2 new staff joined the team, agreed under Invest to Save MTFF funding. They will concentrate on maximising business revenue across Hillingdon by carrying out additional inspections and working in partnership with a Credit Reference Agency to identify businesses which operate in Hillingdon but are not registered for Business Rates. Specific training on maximising income and taking action against Business Rate fraud is being undertaken by all Corporate Fraud Investigation staff in August 2014.

- From 1st July 2014 all Right to Buy applications are being verified by the Corporate Fraud Investigation Team. Prior to this date only applications associated with housing benefit were examined.

- 2 Housing Officers were seconded to the Corporate Fraud Investigation Team in June 2014, to work alongside Corporate Fraud Officers to investigate current bed & breakfast and temporary accommodation placements. From August 2014 Corporate Fraud Officers will be working with Housing Needs reception staff to carry out enhanced checks and verification of people's homeless status. The aim of this work will be to ensure resources are only allocated to residents with a genuine housing need.

- The Corporate Fraud Investigation Team continues to respond to residents reporting Blue Badge fraud and targeted operations are scheduled for later in the year.

4.3 As a result of the transfer of responsibility for Benefits investigations to DWP on 1st July 2014, four Corporate Fraud Investigation Team Officers moved to DWP. This has presented an opportunity to review the team's configuration, thereby ensuring the team is fully resourced to enable effective operation in future projects.

4.4 As these posts are recruited to and the team returns to a full complement of staff other fraud initiatives will be developed to address fraud detection and criminal activity to protect the public purse and increase resident's satisfaction.

4.5 Residents, Council staff and other agencies will be kept informed of these developments to ensure that the profile of the Corporate Fraud Team remains high and supports the Council's objective of zero tolerance of fraud. Increased fraud awareness will be enhanced by promoting the activities of the Corporate Fraud Investigation Team and ensuring effective pathways for reporting suspected fraud across all areas of the Council's operation, both internally and externally.

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Internal Audit - Effectiveness of Internal Audit 2013/14

Contact Officer: Muir Laurie
Telephone: 01895 556132

REASON FOR ITEM

The effectiveness of Internal Audit (IA) is a key cornerstone of good governance. The Accounts and Audit (England) Regulations 2011 require relevant bodies 'to conduct an annual review of the effectiveness of its IA' and that IA should conform to 'proper practices'.

IA conducts an annual review which self-assesses the effectiveness of the IA function and provides assurance over IA's compliance with the UK Public Sector IA Standards (PSIAS), enabling key stakeholders to measure the efficiency and effectiveness of the IA service. The PSIAS outline the requirement for an 'Internal Assessment' which includes monitoring the performance of IA activity and performing periodic self-assessments by an Internal Auditor with sufficient knowledge of IA practices.

The legislation states that external assessments must be conducted at least once every five years by a qualified, independent assessor or by an assessment team from outside the organisation. An external assessment of the Council's IA function took place in 2012; therefore the next assessment is due in 2017.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to review and note the findings, recommendations and management action proposed in the Effectiveness of IA, final report.

INFORMATION

The review was performed by a qualified Chartered Internal Auditor who joined Hillingdon in February this year. To ensure independence and objectivity, the draft report was reviewed by the Corporate Director of Finance. The report sets out how the IA service complies with the PSIAS.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

Final IA Assurance Report - Effectiveness of Internal Audit, published on 24 June 2014.

Audit Committee   30 July 2014
PART I – MEMBERS, PUBLIC & PRESS

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Effectiveness of Internal Audit
Final Internal Audit Assurance Report 2013/14
24 June 2014

Final Report Distribution:

Name	Job Title
Fran Beasley	Chief Executive & Corporate Director of Administration
Jean Palmer	Deputy Chief Executive & Corporate Director of Residents Services
Paul Whaymand	Corporate Director of Finance
Muir Laurie	Head of Internal Audit
All Members of the Audit Committee	

Ownership of all final Internal Audit assurance reports rests with the relevant Audit Sponsor. However, we will disclose final Internal Audit assurance reports to the Audit Committee upon their specific request.

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www.hillingdon.gov.uk

1. Introduction

1.1 This risk based Internal Audit (IA) Assurance review forms part of the revised 2013/14 IA Plan presented to Audit Committee on 7 January 2014. **The purpose of this review is to provide assurance to Corporate Management Team (CMT) and the Audit Committee over the following key risks to IA:**

- If IA fails to deliver an effective service this will prevent independent, objective assurance to be provided to the Council, Audit Committee, Chief Executive, Directors and other IA stakeholders, that the key risks associated with the achievement of the Council's vision and strategic priorities are being managed effectively; and

- The Council's IA function does not demonstrate its conformity with the UK Public Sector IA Standards (PSIAS) leading to non-compliance with regulations which may have reputational and financial consequences.

2. Background

2.1 The effectiveness of IA is a key cornerstone of good governance. The Accounts and Audit (England) Regulations 2011 require relevant bodies 'to conduct an annual review of the effectiveness of its IA' and that IA should conform to 'proper practices'. If the effectiveness of IA is not measured then the IA service will not know where to improve and key stakeholders will have difficulty measuring the efficiency and effectiveness of the IA service.

2.2 IA conducts an annual review which self-assesses the effectiveness of the IA function and provides assurance over IA's compliance with the UK PSIAS. The PSIAS outline the requirement for an 'Internal Assessment' which includes monitoring the performance of IA activity and performing periodic self-assessments by persons with sufficient knowledge of IA practices. The legislation states that external assessments must be conducted at least once every five years by a qualified, independent assessor or by an assessment team from outside the organisation.

3. Executive Summary

3.1 Overall the IA opinion is that I am able to give **REASONABLE** assurance over the key risks to the achievement of objectives for the Effectiveness of Internal Audit. Definitions of the IA assurance levels and IA risk ratings are included at Appendix A.

3.2 I found there to be a relatively strong control environment and governance arrangements in place within the IA service with evidence to support full compliance with the PSIAS. Since the appointment of the Head of Internal Audit (HIA) in July 2013 there have been a large number of significant strategic and operational improvements within the IA service. The key priority for 2013/14 has been the completion of the 2013/14 IA plan to enable the HIA to provide a full and complete Annual Assurance Statement to those charged with governance. This is on track to be achieved which is a significant improvement on prior years and evidences a positive direction of travel for the IA service. Furthermore, there is evidence that the IA staff have in the whole bought into the strategic and operational improvements that have been introduced. This has resulted in the team working together more effectively and collaborating with management in a more approachable manner. This year's IA Strategy Away Day further helped the IA team focus on planning their priorities for the future including developing their risk-based IA approach.

3.3 Due to the dynamic changes that have taken place in IA this year, it is clear that the service has made great strides and is moving forward in a positive right direction. The recommendations raised in this report are designed to help the IA service further build on its plans and priorities going forward.

3.4   The implementation of IA software (TeamMate) from 1 April 2014 will bring considerable benefits to the IA service and the Council moving forward. This will include further developing the risk based IA approach whilst ensuring consistency of quality across the team as well as enhancing staff time recording and available IA management information. However, to provide greater assurance that the IA process is being followed consistently and correctly, I have recommended that a suitably experienced staff member, autonomous from the audit under review, conducts sample based reviews of finalised audits.

3.5   Furthermore, whilst IA staff capacity plans have been more formally developed for 2014/15, IA should embed a process for updating and monitoring of capacity plans against actual time recorded on TeamMate on a regular basis. This will help ensure that IA resources are appropriate, sufficient and effectively deployed to deliver the IA plan.

3.6   IA has been in a partnership with an external contractor, Baker Tilly ensuring the service is sufficiently agile to meet the increasing needs of stakeholders. In relation to the 2013/14 Plan this resulted in the provision of specialist resource to provide assurance over IT risks through the delivery of dedicated IT audits due to a current knowledge gap within the team. Nevertheless, this arrangement should be reviewed as my judgement is that the value provided by the relationship with Baker Tilly could be improved. There is an opportunity for greater sharing of expertise and sharing of industry knowledge. I believe that IA should build a more effective working relationship out of this arrangement with Baker Tilly so that it enhances value for the IA team and the Council as a whole.

3.7   The detailed findings and conclusions presented in this report are exception based. Rather than reporting on IA's performance against each PSIAS, I will present my findings to support the recommendations which I have made. The detailed findings and conclusions of my testing which underpin my opinion have been discussed with the HIA and are set out in section four of this report. The recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at Appendix B.

4. Detailed Findings and Conclusions

4.1   PSIAS 1000 - Purpose, Authority and Responsibility

4.1.1 The purpose, authority and responsibility of the IA activity must be formally defined in an IA Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. On 11 March 2014 the HIA presented the updated IA Charter to the Audit Committee. This replaced the previous IA terms of reference, issued in June 2013, to ensure compliance with the PSIAS effective from 1 April 2014. A number of minor changes were presented, including:

- the IA terms of reference will now be called the IA Charter; and

- the introduction of sections which focus on Fraud and Corruption and Quality Assurance.

4.1.2 As a result of these additions, I confirmed that the IA Charter is now more closely aligned with the PSIAS.

4.1.3 Section 5 of the UK PSIAS state that the IA Charter should include arrangements for avoiding conflicts of interest if IA undertakes non-audit activities. Paragraph 4.3 of the Charter, says that, "*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*". In my opinion this does not fully align to the UK PSIAS and therefore I have raised a recommendation in this area for this to be referred to more explicitly in the IA Charter when it is next due to be updated (refer to **Recommendation 4** in the Management Action Plan at Appendix B).

4.1.4   In addition, attribute standard 1000.A1 of the UK PSIAS states that if assurances are provided to parties outside of the organisation the nature of these assurances must also be defined in the IA Charter. The current IA Charter does not make reference to this requirement and therefore this should be incorporated as part of the next annual review of the IA Charter. This will protect IA when they provide assurances to an organisation outside of the Council in the future (refer to **Recommendation 4** in the Management Action Plan at Appendix B).

4.2   PSIAS 1120 - Individual Objectivity

4.2.1   Internal auditors must have an impartial, unbiased attitude and avoid any conflicts of interest. All auditors who are members of the Chartered Institute of Internal Auditors (CIIA) have in essence agreed to comply with the CIIA standards and act in an ethical manner at all times (as per the Code of Ethics and Standards). All CIIA members must comply with the PSIAS as a condition of their membership. As part of my review I noted that there are currently six members of the IA team who are not registered with the CIIA. However two of these staff are registered members of the Institute of Chartered Accountants of Nigeria and one auditor is a registered member of the Institute of Chartered Accountants of Northern Ireland. In addition, there is a Trainee Internal Auditor who is just in the process of registering with the CIIA before commencing her professional studies towards becoming a qualified Chartered Internal Auditor. It was noted that the remaining two non qualified IA staff have a significant number of year's directly relevant experience.

4.2.2   Upon joining the team, all IA staff (including trainees, seniors and managers) are required to sign up to the Council's Code of Conduct and an IA 'Declaration of Agreement' to the CIIA's ethical standards. The Code of Conduct sets out that staff member are agreeing to comply with the ICT Acceptable Usage policy, Data Protection Act, disciplinary procedures, etc. Upon review, I found that in line with best practice, the latest IA 'Declaration of Agreement' dated January 2014 refers to the Committee on Standards of Public Life's - *the Seven Principles of Public Life* and also the UK PSIAS.

4.2.3   Each of the five members of staff joining the IA Team since January 2014 has completed this version of the 'Declaration of Agreement'. However, the remaining nine members of the team have not signed the updated version. I have therefore recommended that updated declarations are signed by all current IA staff to formally demonstrate their agreement that they have read and understood the PSIAS. This is particularly relevant to the staff within IA that are not members of a relevant professional body (refer to **Recommendation 5** in the Management Action Plan at Appendix B).

4.2.4   In addition, I confirmed that all members of the IA team have recently completed a formal declaration of 'Related Party Transactions' where any conflicts have been recorded. These were sent to the HIA and the Chief Accountant to ensure compliance with best practice in this area. As a result, I am satisfied that all internal auditors have an impartial and unbiased attitude towards their work.

4.3   PSIAS 1220 - Due Professional Care

4.3.1   Under the PSIAS, internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. I found that during 2013/14 the IA team were mainly utilising hard copy files and/ or saving documents onto the IA shared drive. For this reason, electronic audit working papers and IT-based data analysis techniques were not being properly utilised. This practice has started to change from 1 April 2014, when the team introduced TeamMate, an audit software database where all working papers, supporting evidence and reports can be prepared, reviewed and produced in a single central system. However, my judgement is there is still some work to do in terms of embedding good practice in relation to the recording and storage of audit evidence used to support conclusions in IA reports.

4.3.2 In particular, from my review of a sample of IA files relating to 2013/14 completed audits, I made the following observations:

- IA staff were sometimes found to be saving IA papers on their own drive/ desktop and not on the IA shared drive;

- IA staff were not always evidencing the rationale behind their sample selection;

- there were inconsistencies in the format and quality of working papers i.e. not referenced, sometimes hand written and not always filed clearly;

- evidence was not always referenced on working papers making it difficult for the line manager to review;

- a number of audits had working papers spread across three locations (hard copy papers, documents on the shared drive and documents in staffs personal drives) making it very difficult and time consuming to link all the documents together;

- testing schedules were sometimes unclear or not on file; and

- hand written notes on IA files which were often illegible or extremely difficult to read.

4.3.3 From 2014/15 onwards the IA team are using TeamMate which should ensure the inconsistencies identified above are resolved and a clear, evidenced IA working process is consistently being adhered to. Furthermore, IA staff have been informed that all evidence should be typed and saved onto TeamMate, with nothing saved on personal drives and only saved on the shared drive where they have agreed this with their manager. To help ensure that these new processes are working effectively, I have recommended that quality checks by IA management are routinely performed (refer to **Recommendation 1** in the Management Action Plan at <u>Appendix B</u>).

4.4   PSIAS 2010 - Planning

4.4.1 The PSIAS states that for IA to remain relevant, it must adapt to changing expectations and maintain alignment with organisational objectives. The IA strategy is fundamental to remaining relevant; playing an important role in achieving a balance between cost and value, while making meaningful contributions to the Council's overall governance, risk management, and internal controls.

4.4.2 I found that whilst an IA strategy is in place, it is two years out of date and in need of significant updating. Through discussions with the HIA, it was decided that given the dynamic level of change occurring within the IA service during the July 2013 to April 2014 period, it was not an efficient use of resources to produce an updated IA strategy at that time. However, I noted that the IA Strategy is on the HIA's forward plan, scheduled to be reported to the Audit Committee in autumn 2014. This will help focus both the present state and future direction of the IA service to make sure it aligns with the Council's golden thread i.e. its values and objectives. Specifically, IA work should support the Hillingdon Improvement Programme (HIP) i.e. to build a more customer focused organisation, to modernise business processes and to free up resources to provide improved services for our residents. Linked to this, I have raised a minor recommendation to support the IA service in this area (refer to **Recommendation 6** in the Management Action Plan at <u>Appendix B</u>).

4.4.3 The annual IA Plan provides details of how the IA strategy translates into a detailed operational work plan. I confirmed that the risk based IA Plan for 2014/15 was linked to the organisational objectives and priorities, whilst taking account of the Council's wider assurance framework. The IA Plan was also found to be developed in accordance with the recently updated IA Charter and is aligned to the current IA Strategy. I confirmed that the IA Plan was developed making reference to a variety of corporate documents, including Team

Plans, the Corporate Risk Register and minutes/ reports of Cabinet/ various Committee meetings, as well as the recent HIP reports and draft budget papers.

4.4.4 In addition, evidence held by the HIA supported the IA planning discussions with key stakeholders including the Leader of the Council, CMT and Deputy Directors/ Heads of Service. This process helped IA identify and develop knowledge of the key risks and challenges facing all of the Council's services. The results of the overall planning and subsequent risk assessment process performed by IA determined IA priorities and helped inform the initial allocation of IA resources within the IA Plan.

4.4.5 In line with the PSIAS, the HIA has also built capacity into the 2014/15 operational IA Plan of 120 days (10%) contingency for accepting proposed consulting engagements requested by management. This is based on the potential for consultancy work to improve management of risks, add value and improve the organisation's operations.

4.5   PSIAS 2030 - Resource Management

4.5.1 In line with the PSIAS, the HIA is professionally qualified and suitably experienced. Although the skills mix within the rest of the in-house IA team is under development, it is supported by a partnership with Baker Tilly (further information on this partnership is included at para 4.7.1). From my review I have concluded that I am satisfied that overall available IA resources fulfil the PSIAS requirements in terms of the combination of professionally qualified and experienced staff.

4.5.2 The 2013/14 Draft IA Annual Report provides a comprehensive understanding of resources in place within the IA team to provide assurance and consultancy services. The 2014/15 Annual IA Plan contains references to the resources and skills within the team and how they have been assessed and applied to the risk-based plan. In both documents Baker Tilly have been cited as providing additional IA support in relation to ICT risks (where needed). This has been communicated to CMT and the Audit Committee.

4.5.3 For 2014/15 the IA team has agreed capacity plans based on staff working days, training needs, leave, with a set utilisation target agreed for each member of staff. This was discussed with individual team members during their Performance and Development Appraisal (PADA) meetings. Staff are expected to achieve the targets set and this should be monitored by IA staff and management on a regular basis. The IA software (TeamMate) will help IA staff and management monitor utilisation against agreed targets. Going forward the IA Plan will be reconciled against the capacity plans. This will help mitigate the risk of capacity driving audit coverage, rather than the assurance and consultancy requirements of the Council determining the IA resource requirements, as should be the case. Going forward, the HIA may want to consider benchmarking the Council's IA resource to similar size and types of organisation to help demonstrate that available IA resource is broadly in line with its peers. Further to this, I have raised a couple of recommendations in relation to IA staff capacity plans to help improve this area (refer to **Recommendation 2** and **Recommendation 7** in the Management Action Plan at <u>Appendix B</u>).

4.6   PSIAS 2040 - Policies and Procedures

4.6.1 A high level IA process was presented to and agreed by the Audit Committee and CMT in March 2014 as part of the 2014/15 IA Plan. The high level process diagram is broken down into four sections; Planning, Testing, Reporting and Follow Up. The detail underpinning each section of this high level process was discussed and agreed with the IA Team at the IA Strategy Away Day in April 2014. The points raised are being used to prepare a comprehensive guide for IA staff. At the time of testing this had been drafted and is with the Senior IA Manager for review. When the IA process has been agreed, IA staff will receive training through workshops, scheduled for July 2014.

4.6.2 The IA team is aware that the IA Manual, dated April 2012 is out of date. IA began updating the manual in January 2014 but due to the pending implementation of TeamMate and restructure of the IA team, this was parked to focus on other higher priorities. Whilst I appreciate that the IA manual has not been a priority for IA at this time due to the focus on delivering the 2013/14 IA Plan, I have raised a minor recommendation in this area (refer to **Recommendation 8** in the Management Action Plan at <u>Appendix B</u>).

4.6.3 The introduction of TeamMate should assist in the standardisation and consistency of audit practices and documentation across the team. Staff can refer to the TeamMate User Manual and TeamMate Champions (IA staff with specialist knowledge of TeamMate) if they are unsure of any aspects. A thorough TeamMate training programme has been provided and all audits from 2014/15 onwards are being recorded on TeamMate. There is one exception relating to a 2014/15 audit which started prior to TeamMate implementation and due to the size and quantity of hardcopy evidence collated would prove an ineffective use of resources to duplicate as an electronic file. For this reason the HIA made the decision to record this audit review on the shared drive and in hardcopy files as a one off exception.

4.6.4 Linked to this, to ensure consistency in audit reporting a Quality Control Review (QCR) Checklist was produced in October 2013. However, following the recent introduction of TeamMate, I have identified that the QCR checklist should be reviewed to ensure that it continues to reflect current practices (refer to **Recommendation 9** in the Management Action Plan at <u>Appendix B</u>).

4.7 PSIAS 2070 - External Service Provider & Organisational Responsibility for IA

4.7.1 IA have been in a partnership with an external contractor, Baker Tilly, to provide additional audit resource since 2013, ensuring that IA is sufficiently agile to meet the increasing needs of stakeholders. In relation to the 2013/14 Plan, this resulted in the provision of specialist resource to provide assurance over IT risks through the delivery of dedicated IT audits as the IA team does not hold the required qualifications or expertise in this area. Baker Tilly was originally commissioned to deliver four audits within 2013/14 in relation to ContrOCC, Software Licensing, the Desktop Refresh Programme and the Onyx upgrade. However, only the ContrOCC audit was reported in the year whilst Software Licensing was deferred to 2014/15 following initial engagement with key stakeholders. The two remaining audits will not be carried out at the request of management.

4.7.2 The IA management team have contract meetings with Baker Tilly on a quarterly basis. Baker Tilly is uniquely positioned to advise IA management on ICT areas of high risk facing local authorities. IA looks to Baker Tilly to provide a steer over ICT audit risks in the sector using their experience of IT auditing at other local authorities, industry/ high profile news, relevant events, etc. Through observing the contract meetings, reviewing minutes and audit delivery, my judgement is that the partnership between IA and Baker Tilly is not working as effectively as it could be. I have therefore raised a recommendation aimed at improving arrangements in this area to help better demonstrate that value for money is being achieved by the Council in its contract with Baker Tilly (refer to **Recommendation 3** in the Management Action Plan at <u>Appendix B</u>).

4.8 PSIAS 2340 - Engagement Supervision

4.8.1 The PSIAS set out that IA engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff are developed. The chief audit executive (HIA) has overall responsibility for supervising the engagement, whether performed by or for the IA activity, but may designate appropriately experienced members of the IA team to perform the review. From my independent review I found that the extent of supervision provided in the IA team is largely dependent on the proficiency and experience of the member of IA staff as well as the complexity of the IA engagement.

4.8.2 A robust reviewing procedure is currently being formally documented within the IA process. All IA reviews should be signed off to ensure objectives are achieved and to provide quality assurance over the review. However, I noted from my testing that this process is not yet fully embedded within IA, as not all engagements were formally evidenced as being signed off. There are plans in place to ensure that any previous gaps will in future be avoided as the team gradually begins to place greater reliance on TeamMate. As a result, I have made a recommendation to support this aspect of the IA process going forward (refer to **Recommendation 2** in the Management Action Plan at <u>Appendix B</u>).

4.9 PSIAS 2420 - Quality of Communication

4.9.1 All IA reports are subject to a rigorous three stage review process by the auditor, their line manager and the HIA before they are distributed to the Audit Sponsor/ Key Contact to ensure they are accurate, objective, clear, concise, constructive, complete and timely. A draft report is always produced and distributed to key stakeholders so that any queries can be addressed before the final report is issued.

4.9.2 Since July 2013, auditors have been instructed by the HIA to engage with the Audit Sponsor/ Key Contact to discuss key findings and proposed recommendations <u>prior to</u> distribution of the draft report. During the course of my review I found a number of audits where management have raised concerns over the delayed communication of findings and recommendations. Further to this, IA staff have been reminded again that all relevant senior managers must be invited to exit meetings and be promptly notified about significant IA findings and recommendations. I have seen evidence of this communication from the HIA in emails, 1-2-1 discussions with IA staff and in IA staff appraisals discussions. Through continued management support, oversight and the development of the IA Process, the HIA is confident that the controls in place are sufficient to manage this process. However, to help focus improvements in this area I have raised a minor recommendation (refer to **Recommendation 10** in the Management Action Plan at <u>Appendix B</u>).

4.10 Follow-up

4.10.1 The previous review of the effectiveness of IA took place in May 2013, reported to Audit Committee and CMT in June 2013, raising four recommendations for improvement. During this review I confirmed that whilst one recommendation had been implemented, three remained outstanding which, as a result of IA prioritising delivery of the 13/14 Plan, evidenced partial implementation. These related to formalising the quality assurance process and two recommendations in relation to the IA Manual. These issues have been re-raised within this report (refer to **Recommendations 1, 4** and **8** in the Management Action Plan at <u>Appendix B</u>).

5. Acknowledgement

5.1 Internal Audit would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance.

6. Internal Audit Contact Details

Thank you,

[signature]

Sarah Hydrie CMIIA
Principal Internal Auditor

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
Substantial	There is **a good level of assurance** 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 **positive assurance that objectives will be achieved**.
Reasonable	There is **a reasonable level of assurance** 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 **some risk that objectives will not be achieved**.
Limited	There is **a limited level of assurance** 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 significant risk that objectives will not be achieved**.
No	There is **no assurance** 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 high risk 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.

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk Rating	Definition
HIGH ●	The recommendation relates to **a significant threat 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. **The risk requires senior management attention**.
MEDIUM ●	The recommendation relates to **a potentially significant threat 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. **The risk requires management attention**.
LOW ●	The recommendation relates to **a minor threat or opportunity** 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. **The risk may be tolerable in the medium term**.
NOTABLE PRACTICE ●	The activity reflects current **best management practice** or is an innovative response to the management of risk within the Council. **The practice should be shared with others**.

APPENDIX B

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
1	Quality checks should be performed on a sample of finalised audits on TeamMate to ensure that the Internal Audit (IA) process is being applied consistently, that all reviews points have been addressed and that the system is up to date. These quality checks should be performed by a staff member who is suitably experienced at reviewing audit files and is independent of the audits under review (para ref 4.3.3).	*If quality checks are not performed there is a risk of errors going unnoticed resulting in non-compliance with the IA Manual, internal processes or Public Sector Internal Audit Standards.*	MEDIUM ●	Quality check checks were completed by the HIA in the July to September 2013 period on a sample of 10 IA files. A more formal process will be introduced for quality checks of a sample of TeamMate files on a quarterly basis once 2014/15 audits begin to be completed.	Head of Internal Audit (Muir Laurie) **31 August 2014**

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Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
2	IA should agree a process for updating and monitoring of capacity plans on a monthly and quarterly basis. This will help ensure that IA resources are appropriate, sufficient and effectively deployed to achieve the plan (para refs 4.5.3 and 4.8.2).	*If an agreed process is not in place for monitoring capacity plans regularly there is a risk of over-auditing, poor performance resulting in non delivery of the audit plan.*	MEDIUM ●	Whilst the HIA has previously sent out specific written instructions to the IA team to remind them monitor their own capacity plans, it is agreed that these procedures should be formalised. Going forward the formal process will set out that individual capacity plans should be monitored by each member of the in-house IA team on an ongoing basis. Capacity plans will also form part of the monthly 1-2-1 discussions within IA. The IA Management Team will also formally consider performance against capacity plans on a quarterly basis.	Head of Internal Audit (Muir Laurie) **31 August 2014**

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
3	IA should review the partnership arrangement that it has in place with the external contractor, Baker Tilly. In particular IA should ensure that: - Robust monitoring of IT audits occurs to ensure they are delivered in line with the IA plan; - Baker Tilly are appropriately challenged over the advice and support provided to the IA service/ the Council; and - IA staff undergoing CISA training shadow Baker Tilly during their audits to encourage knowledge sharing and increase IA's experience of IT audits (para ref 4.7.2).	*If IA does not establish an effective partnership with contractors there is a risk that the Council are not evidencing value for money. Furthermore, the IA service may fail to provide requisite assurance over IT related risks.*	**MEDIUM** ●	The overall effectiveness of the contract that IA has with Baker Tilly (BT) is currently under review by the HIA as part of a wider assessment of the IA skills mix. As the Council's reliance on IT increases, the IT audit skills of IA staff becomes increasingly important. Linked to this, some shadowing of BT staff by IA has already taken place and the HIA expects this arrangement to continue and improve going forward. The Principal Internal Auditor is actively studying for the CISA exams this September and there is a possibility that other IA staff will be given this opportunity going forward.	Head of Internal Audit (Muir Laurie) **31 October 2014**

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Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
4	At the next review of the Internal Audit Charter, management should include: - a reference regarding 'arrangements to avoid conflicts of interest if Internal Audit undertakes non-audit activities.' (para ref 4.1.3). - a statement about the assurances provided to third parties i.e. those outside of the Council such as Academy Schools, with the nature of these assurances clearly defined (para ref 4.1.4).	*The IA Charter does not comply with the requirements of the UK Public Sector Internal Audit Standards potentially resulting in reputational damage to the service in the event of a breach.*	**LOW** ●	At the next review of the IA Charter, a reference will be made regarding: - 'arrangements to avoid conflicts of interest where IA undertakes non-audit activities'. - a statement about the assurances provided to any third parties (i.e. those outside of the Council) and the nature of these assurances will be defined. The updated IA Charter will be presented to and approved by CMT and the Audit Committee.	Principal Internal Auditor (Anthony Dean) **31 March 2015**
5	The IA service 'Declaration of Agreement to Statement of Ethical Standards' should be completed by all current IA staff who have not already completed it. IA Management should consider making the declaration an annual process (para ref 4.2.3).	*If staff do not sign declarations confirming that they have read and understood the Public Sector Internal Audit Standards there is a risk of non-compliance with industry standards causing reputational damage to the IA team and the Council.*	**LOW** ●	Whilst noting that all new IA staff have completed the 'Declaration', it is agreed that it would be good practice for all current IA staff to have completed the updated 'Declaration'. This will be done.	Head of Internal Audit (Muir Laurie) **31 August 2014**

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
6	An up-to-date Internal Audit Strategy should be produced, which focuses on both the present state and future direction of Internal Audit whilst assisting the Council to deliver its values (para ref 4.4.2).	*If the IA function does not have an up to date strategy in place there is a risk that its forward plan does not align and support the Council's values and strategic objectives.*	**LOW** ●	Work is already under way on producing an up-to-date IA Strategy as part of a wider review of the IA skills mix and future business needs. This will be discussed with all key stakeholders as part of the process and presented to CMT and Audit Committee once finalised.	Head of Internal Audit (Muir Laurie) **30 November 2014**
7	Once the capacity plans have been established for at least a year, the Head of Internal Audit may wish to compare the team's capacity against Internal Audit Teams from other authorities (para ref 4.5.3).	*If the capacity for the IA team is not benchmarked with other authorities there is a risk that an opportunity to identify best practice, efficiencies or highlight existing good practice within the team could be missed.*	**LOW** ●	The HIA will compare the IA team's 2014/15 outturn capacity to other similar organisations, where comparable data is available.	Head of Internal Audit (Muir Laurie) **30 June 2015**

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Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
8	Internal Audit should finalise their updated IA Process and IA Manual. These should be communicated to IA staff and where necessary training should be provided. The IA Process and the IA Manual should form part of the staff induction process for all new starters in the IA team. Both documents should be reviewed at least annually to ensure that they are up to date and fit for purpose (para ref 4.6.2).	*There is increased potential for ineffective and inconsistent work practices to be adopted. This would affect the consistency of the service with potential financial, operational and reputational implications.*	LOW ●	Work on updating both the IA Process and the IA Manual is ongoing. Both of these documents will be finalised over the next 3 months and will in future be formally reviewed on at least an annual basis by the IA management team.	IA Process: Senior Internal Audit Manager (Martyn White) 31 July 2014 IA Manual: Principal Internal Auditor (Anthony Dean) 31 July 2014
9	The Quality Control Review Checklist (QCR) should be reviewed to ensure that it reflects current practices within Internal Audit and can be used in conjunction with TeamMate. The updated version should be communicated and adhered to by all members of the Internal Audit team (para ref 4.6.4).	*If the QCR checklist does not reflect current processes and practises then there is an increased risk of errors and inconsistencies occurring. This has operational and reputational implications for the IA team.*	LOW ●	The QCR checklist will be updated and aligned to the revised IA process. Once updated, the checklist will be circulated to all in-house IA staff and IA management will carry out ongoing monitoring to ensure it is being fully adhered to.	Principal Internal Auditor (Anthony Dean) 31 July 2014

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Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
10	Through Client Feedback Questionnaires and liaison with Sponsors and Key Contacts, IA management should continue to monitor the progress of exit meetings to ensure they are being conducted efficiently and effectively (para ref 4.9.2).	If IA does not continue to monitor feedback from Sponsors and Key Contacts there is risk that client satisfaction KPIs are not being achieved and the audit work can become undermined.	LOW ●	IA management are clear that they should be monitoring the effectiveness of audit exit meetings on an ongoing basis and take prompt corrective action to address any cases where the high standards set by the HIA are not being achieved. However, the HIA will remind IA management of this at the next formal IA management team meeting.	Head of Internal Audit (Muir Laurie) **30 June 2014**

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Internal Audit - Effectiveness of the Audit Committee 2013/14

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Contact Officer: Muir Laurie
Telephone: 01895 556132

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REASON FOR ITEM

An effective and independent Audit Committee is a key element in the Council's corporate governance and risk management framework. An effective Audit Committee leads to improved internal control, risk management and financial reporting. It provides a forum for discussing key issues raised by Internal Audit and External Audit, working independently to provide assurance to the Council.

Best practice guidance states that in order for the Audit Committee to be fully effective and therefore able to provide meaningful advice and assurance to the Council, its Members need to be independent, diligent, knowledgeable, and receive relevant, timely and reliable information. The guidance also sets out that Audit Committee Members must be in a position to feel able to challenge Directors and the Cabinet, as well as draw attention to any significant governance weaknesses.

In addition, the guidance states that the Audit Committee should have clear reporting lines and unrestricted rights of access to other Council committees and senior managers (as required/ appropriate). The Audit Committee should also have sufficient administrative support and access to all relevant and timely information.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to review and discuss the findings, conclusions and recommendations presented and the management action proposed in the Effectiveness of the Audit Committee final report.

INFORMATION

The report aims to provide independent, objective assurance to the Council over the effectiveness of the Audit Committee. Specifically Internal Audit reviewed the following key areas:

- Audit Committee Terms of Reference;

- Audit Committee meeting agendas and minutes;

- Audit Committee Members' relevant experience, training and skills;

- Review of key Audit Committee documents including (but not limited to) Statement of Accounts and the Annual Internal Audit Report; and

- Survey feedback of a number of Audit Committee attendees.

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Audit Committee   30 July 2014
PART I – MEMBERS, PUBLIC & PRESS

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LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

Final Internal Audit Assurance Report - Effectiveness of the Audit Committee, published on 24 July 2014.

Effectiveness of the Audit Committee
Final Internal Audit Assurance Report 2013/14
24 July 2014

Final Report Distribution:

Name	Job Title
Cllr George Cooper	Acting Chairman of the Audit Committee
Fran Beasley	Chief Executive & Corporate Director of Administration
Paul Whaymand	Corporate Director of Finance
Lloyd White	Head of Democratic Services

Ownership of all final Internal Audit assurance reports rests with the relevant Audit Sponsor. However, this final report will be presented to the Audit Committee at its planned meeting of 30 July 2014.

www.hillingdon.gov.uk

1. Introduction

1.1   This risk based Internal Audit (IA) Assurance review forms part of the revised 2013/14 IA Plan presented to Audit Committee on 7 January 2014. **The purpose of this review is to provide assurance to Corporate Management Team and the Audit Committee over the following key risks:**

- If the Audit Committee does not effectively support the Council by reviewing the completeness of assurances to satisfy its needs and review the reliability and integrity of those assurances, the Council may be in breach of its statutory obligations which could cause reputational damage or financial loss for the Council;

- If the Audit Committee is not suitably independent and objective and/ or each Member does not have a good understanding of the Council's objectives, priorities and risks, then Members may be unaware of their roles and responsibilities in relation to the Audit Committee, which could result in an increased likelihood of the Council not achieving its strategic priorities;

- If the Audit Committee does not contain or have at its disposal an appropriate mix of skills, or its Members have not been adequately trained, there is a risk that Members may not be able to perform their Audit Committee duties effectively and fulfil the requirements of their role;

- If the scope of work to be performed by the Audit Committee is not suitably defined, there is a risk that it may not encompass all the assurance needs of the Council and the Cabinet; and

- If the Audit Committee does not fulfil its responsibilities for strategic oversight of the Council's corporate governance arrangements or it fails to engage with its key stakeholders (including IA, External Audit, CMT, and Cabinet), it may result in reputational damage or financial loss for the Council.

2. Background

2.1   An effective and independent Audit Committee is a key element in the Council's corporate governance and risk management framework. An effective Audit Committee leads to improved internal control, risk management and financial reporting. It provides a forum for discussing key issues raised by IA and External Audit, working independently to provide assurance to the Council.

2.2   The Audit Committee satisfies the wider requirement for sound financial management set out in the Accounts and Audit (England) Regulations 2011, 'for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which include the arrangements for the management of risk.' In addition, Section 151 of the Local Government Act 1972 requires the authority to, 'make arrangements for the proper administration of its financial affairs'. To be truly effective, the Section 151 Officer in discharging sound financial management requires an effective Audit Committee as well as an adequate and effective IA function. Both elements are enshrined in the UK Public Sector IA Standards (PSIAS) and the supporting Local Government Application Note for the UK PSIAS.

2.3   Best practice guidance states that in order for the Audit Committee to be fully effective and therefore able to provide meaningful advice and assurance to the Council, its Members need to be independent, diligent, knowledgeable, and receive relevant, timely and reliable information. The guidance also sets out that Audit Committee Members must be in a position to feel able to challenge Directors and the Cabinet, as well as draw attention to any significant governance weaknesses.

2.4   In addition, the guidance states that the Audit Committee should have clear reporting lines and unrestricted rights of access to other Council committees and senior managers (as required/ appropriate). The Audit Committee should also have sufficient administrative support and access to all relevant and timely information.

3. Executive Summary

3.1   Overall the IA opinion is that we are able to give **REASONABLE** assurance over the key risks to the achievement of objectives for the Effectiveness of the Audit Committee*.* Definitions of the IA assurance levels and IA risk ratings are included at Appendix A. The role of the Audit Committee and scope of its work is documented within a Terms of Reference (ToR), last updated in June 2013 (refer to Appendix D). The Audit Committee provides robust challenge and generally operates effectively. There is a good working relationship between IA and the Audit Committee, with mutual trust and support. We have also concluded that communication between the Audit Committee and External Audit and the Council's Finance team is also good.

3.2   Having an independent Chairman of the Audit Committee has helped the Committee remain independent and objective in line with best practice. We concluded that there are areas of good collective understanding across the Audit Committee. Nevertheless, we believe Audit Committee members may benefit from further training and development opportunities to minimise gaps in the Committee's knowledge and skill set. Furthermore, we believe that a greater focus on strategic matters in all the reports presented to Audit Committee will further help improve the effectiveness of the Committee. Particularly in its primary role of providing high level assurance in relation to the Council's arrangements for governance, managing risk and maintaining an effective control environment.

3.3   As part of this audit we conducted a survey of Audit Committee members and other key stakeholders. The survey composed of open questions to enable recipients to provide a full and discursive response. We received responses to 10 of the 32 questionnaires issued (31% return rate). We reviewed the comments in the survey to identify the key commonalities and overarching themes. These have been summarised within section 4.6 and Appendix C of this report.

3.4   The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting with the Acting Chairman of Audit Committee and are set out in section four of this report. The IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at Appendix B.

4. Detailed Findings and Conclusions

4.1   Role of the Audit Committee

4.1.1   The purpose of an Audit Committee is to provide to those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. The Audit Committee's role is documented within its ToR which is included within the Council's Constitution. Specifically its role is 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/ non-financial performance to the extent that it affects the Council's exposure to risk and/ or weakens the control environment; and

- Oversee the financial reporting process of the Council's Statement of Accounts.

4.1.2   As defined in its ToR, the Audit Committee is required to maintain an overview of the Council's Constitution in respect of relevant policies and major changes to contract procedure rules and financial regulations. If necessary, it is also expected to bring proposed changes to the Cabinet for its consideration. We reviewed the Audit Committee meeting minutes for the last three years and have concluded that formal lines of communication do not appear to be in use between the Audit Committee and the Council and/ or the Cabinet. For example, the Council's Whistleblowing Policy was last updated in 2013 but was not presented to Audit Committee. The Audit Committee should, in line with its current ToR, formally note any significant changes to relevant Council policies or regulations. We have therefore raised a recommendation in this area (refer to **Recommendation 1** in the Management Action Plan at <u>Appendix B</u>).

4.2   Independence and Membership

4.2.1   Best practice sets out that the Audit Committee should remain apolitical and should display unbiased attitudes, treating auditors, the Cabinet and management equally. In accordance with its ToR, Audit Committee membership consists of four elected Councillors and an independent Chairman with relevant financial expertise and that the Vice-Chairman comes from the majority political group.

4.2.2   We confirmed that in the 2013/14 municipal year none of the members of the Audit Committee were Cabinet Members. This is considered good practice as it means that the Audit Committee remains independent and objective, free of any undue influence and political agenda. However, upon review we found there to be two Councillors (one Member and one Reserve) who were also Members of the Executive Scrutiny Committee. CIPFA best practice recommends that Audit Committee Members should remain completely independent of the Council's Cabinet and any Scrutiny functions.

4.2.3   Further to this, we confirmed that several years ago the Council partly adopted best practice in this area. Specifically the Council's Constitution was adopted to prohibit Audit Committee members from sitting concurrently on the Executive Scrutiny Committee. However as mentioned above, our audit has highlighted that this has happened in the 2013/14 year and in fact has occurred several times in the last few years. The Council Constitution was therefore breached on each occasion that this happened. However, no laws were broken and this aspect of the Constitution is aimed at ensuring adherence with best practice. Whilst we have raised a recommendation in this area (refer to **Recommendation 2** in the Management Action Plan at <u>Appendix B</u>), it is important to highlight that the Head of Democratic Services was unaware of this breach and was grateful to IA for bringing the matter to his attention. He has already taken corrective action to ensure that in future all Audit Committee membership will be in full adherence to the Council's Constitution.

4.2.4   In addition, whilst best practice in this area has been partly adopted i.e. the Council's Constitution prohibits Audit Committee members from sitting concurrently on the Executive Scrutiny Committee; we noted that Members of other scrutiny functions of the Council are able to sit concurrently on Audit Committee. Whilst this is not a major issue, we believe the Council should consider fully adopting best practice which would further improve the independence of the Audit Committee (refer to **Recommendation 5** in the Management Action Plan at <u>Appendix B</u>).

4.2.5   During the 2013/14 municipal year, four members of the Audit Committee were in accordance with the political balance rules; Conservative Group 3 Members and Labour Group 1 Member. The Chairman of the Audit Committee was independent of all political parties and was not an elected Member. This is in line with best practice and helps ensure that no political agenda is given a priority at Audit Committee meetings and that decisions made by the Committee are free from political influence. Benchmarking highlighted that more than 75% of other London Councils do not comply with best practice in this area.

4.2.6   The 2013/14 Audit Committee Chairman stepped down from his role in June 2014, after seven years in post having overseen a successful tenure. We reviewed the advert for the new independent Audit Committee Chairman and found that it explicitly states "...*To ensure independence, people who are currently elected Members or officers, or have been an elected Member or an officer of Hillingdon Council within the last five years will not be eligible to apply. In addition neither relatives nor close friends of any Member or officers of Hillingdon Council will be considered and nor will anyone associated with any political party or local government association*." Until a new Chairman has been formally appointed (which is expected to be confirmed in the next two months), the Vice-Chairman (Conservative Member and Deputy Mayor of Hillingdon) will be the acting Chairman of the Audit Committee.

4.2.7   The Audit Committee's ToR clearly outlines its role and responsibilities in relation to IA, External Audit, the governance framework, accounts and annual review/ reporting. The last review of the ToR took place at the Audit Committee meeting on 25 June 2013. The ToR is presented on the front sheet of every meeting agenda for the Committee, with declarations of interests a standing agenda item to ensure the continued objectivity of the Committee.

4.2.8   In relation to this Council, it is clear that the body responsible for leading on governance, policy and decision-making is the Cabinet. The Audit Committee's ToR has been issued at an operational level, but its priorities in terms of the overarching values and strategic priorities for the Council have not been clearly defined. Linked to this, it is our judgement that the Audit Committee ToR does not provide sufficient clarity over its responsibility for strategic oversight of the Council's governance arrangements. As a result there is a minor risk that the Audit Committee ToR is not aligned to the Council's objectives at a strategic level (refer to **Recommendation 6** in the Management Action Plan at <u>Appendix B</u>).

4.3   Training & Development

4.3.1   In March 2014 a draft training and development plan for Audit Committee members was produced by IA. The purpose of the plan is to provide a comprehensive list of short refresher training courses to assist Audit Committee members improve their understanding of core areas within their remit. This includes IA, External Audit, Anti Fraud and Anti Corruption, Corporate Governance (including the Annual Governance Statement), Risk Management and Financial Statements/ Financial Reporting requirements including Treasury Management. Our testing found minimal evidence of past training specifically for Audit Committee members and as a result we have raised a recommendation aimed at strengthening controls in this area (refer to **Recommendation 3** in the Management Action Plan at <u>Appendix B</u>).

4.3.2   In addition, we found that the Audit Committee members do not individually have a skills matrix in place which sets out their relevant skills, qualifications and experience. Without a skills matrix it can be difficult to identify any training or development needs for Audit Committee members. In line with good practice, skills matrices can aid succession planning as well as improve the efficiency and effectiveness of Audit Committee meetings. As a result we have raised a minor recommendation in this area (refer to **Recommendation 7** in the Management Action Plan at <u>Appendix B</u>).

4.4   Scope of Work

4.4.1   The scope of the Audit Committee has been defined within its ToR. However, as noted above, this could be further enhanced to fully align with best practice guidance. The Audit Committee is stated as being responsible for reviewing and monitoring the Council's audit, governance, risk management framework and the associated control environment. The Committee, as an independent assurance mechanism, reviews and monitors 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.

4.4.2 The Audit Committee provides assurance to the Council over IA, External Audit, the governance framework and oversees the financial reporting process of the Statement of Accounts. The Audit Committee also carries out an independent review of its effectiveness on an annual basis. However, upon reviewing the Audit Committee's ToR (refer to Appendix D) we found several statements which did not fully align with CIPFA best practice guidance. For example, best practice would advise that the Chairman or the Vice Chairman of the Audit Committee should be part of the process for the recruitment and removal of the Council's External Auditor and Head of Internal Audit.

4.4.3 In addition, the Audit Committee's role specifically in relation to value for money, counter-fraud and partnerships could be clarified in its ToR. Linked to any review of its ToR, the Audit Committee may want to consider how it could further improve its effectiveness, whilst at the same time upholding its independence. This could include greater collaboration with its key stakeholders including the Leader of the Council, the Cabinet, CMT, IA, External Audit and officers in Finance/ other governance functions of the Council. Therefore to help improve the Audit Committee's overall effectiveness, we have raised a best practice recommendation for the Council to consider (refer to **Recommendation 8** in the Management Action Plan at Appendix B).

4.4.4 In addition, we identified that paragraph 17 of the Audit Committee's ToR refers to the authority's "*Statement of Internal Control*". This statement is no longer applicable and was replaced with the Annual Governance Statement in 2007/08, therefore the ToR should be updated to reflect this (refer to **Recommendation 9** in the Management Action Plan at Appendix B).

4.5 Reporting

4.5.1 On 25 June 2013, the Audit Committee prepared an Annual Report to Council for the 2012/13 financial year, providing all Council Members with details of how it has undertaken its responsibilities for reviewing and scrutinising the key areas within its remit. The report contained the performance statistics and targets for the Audit Committee and specifically provides assurance over internal control, risk management, IA, anti fraud, annual accounts and External Audit. We have concluded that the Audit Committee made a significant contribution to ensuring that the key elements of the Council's governance framework were given proper consideration and were appropriately challenged in 2012/13.

4.5.2 In 2013/14 the Audit Committee has continued to develop its role and contribute to strengthening the internal control, risk management and governance framework across the authority. Standing agenda items on the Audit Committee agendas include declarations of interests, IA progress reports and the future work programme of the Committee. There are also regular External Audit reports, Finance reports as well as six monthly risk management and anti fraud reports.

4.5.3 Following amendments to the Audit Committee's ToR in June 2013, concern was expressed at the June meeting that followed regarding the removal of power that the Audit Committee had to require senior managers of the Council to attend meetings. At the time, it was noted by the External Auditors that it was very unusual for the Audit Committee of a local authority not to have this power. As a consequence of this constitutional change, the ToR of the Audit Committee does not comply fully with best practice. Furthermore, it potentially inhibits management's accountability to the Audit Committee on governance matters which could affect the effectiveness of the Audit Committee.

4.5.4 However, we noted that during the 2013/14 year there have been no occasions where the lack of this power has hindered the effectiveness of the Audit Committee. Nevertheless, we believe this issue should be reconsidered by the Council to enable full alignment of the ToR with CIPFA's Audit Committee guidance (refer to **Recommendation 8** in the Management Action Plan at Appendix B). Any potential change of the Audit Committee ToR may want to

clearly set out that officers can be requested to attend Audit Committee **only where it is appropriate to do so**.

4.5.5 We reviewed the reports being presented to the Audit Committee during the last three years and found that a large number of these were very long and detailed. This conflicts with the Audit Committee's role of strategic overview of the Council's governance framework. A number of the reports being presented to Audit Committee contained, in our opinion, too much operational information and insufficient clarity for Audit Committee members on the outcomes of what is being reported to them. We noted that the survey responses, as detailed at Appendix C, also raised the lack of strategic reporting to Audit Committee as an issue.

4.5.6 Further, in terms of transparency, all 'Part 1' reports to Audit Committee are accessible to the public and our view is that a number of past reports presented to the Audit Committee were confusing and would be difficult to comprehend by the public. We believe the Council is therefore missing an opportunity to help facilitate transparency with the public on the Council's audit, risk and governance arrangements. It would also provide the Audit Committee with the reports it needs to help it be fully effective in its strategic role. We have therefore recommended that in future all reports being presented to the Audit Committee are formally reviewed at draft stage by a Director, before they are finalised and presented to Audit Committee (refer to **Recommendation 4** in the Management Action Plan at Appendix B). This should help ensure that going forward all reports presented to the Audit Committee are of a more strategic and appropriate nature.

4.5.7 In addition, we found that officer reports to the Audit Committee on Risk Management and Fraud were both being provided on a six monthly basis. In line with good practice, it is more common for these types of reports to be communicated to the Audit Committee on a quarterly basis. This allows the Audit Committee to maintain an ongoing oversight of these areas rather than potentially hearing about a new corporate risk or the outcome of a major investigation after six months. As a result we have raised this issue in the 2013/14 Risk Management and Corporate Anti Fraud and Anti Corruption IA reports respectively. In addition, a low priority recommendation was raised within the 2013/14 Risk Management audit report to consult the Audit Committee regarding the level of information it requires in the Risk Management reports it receives.

4.5.8 Further, under the current arrangements the Corporate Fraud Investigations Team reports its progress to the Audit Committee (as mentioned above, every six months). This report predominantly covers benefit fraud with some reference to other types of counter fraud investigations. As a result there is a risk that the Audit Committee has insufficient oversight of the Council's other anti fraud and anti corruption arrangements that are not within the remit of the Corporate Fraud Investigations Team i.e. Whistleblowing, Money Laundering, etc. As a consequence, a medium risk recommendation has been raised in the 2013/14 Corporate Anti Fraud and Anti Corruption IA report to strengthen the reporting arrangements in this area.

4.6 Audit Committee Survey

4.6.1 As part of our review we asked members of the Audit Committee and a selection of key stakeholders of the Committee to complete a brief survey to provide their views on the effectiveness of the Audit Committee's operations. This helped to highlight any areas where the Committee's effectiveness may be enhanced further.

4.6.2 Although the response rate from both Members and other stakeholders was only 31%, we note that the respondents were asked to complete the survey in a tight timescale. Ten surveys were issued to existing and reserve Audit Committee members with 3/5 surveys completed by Audit Committee members (60% return rate) and 1/5 were completed by a reserve (20% return rate). In addition, 22 surveys were issued to a selection of key

stakeholders including Directors, Heads of Service and External Audit, of which 6 were completed (27% return rate).

4.6.3 The survey results were discrete and therefore the results are able to be presented in a graph as detailed at <u>Appendix C</u>. Respondents were also asked to expand on their answers detailing how they thought the Committee may further enhance its effectiveness. The responses received were positive and constructive; the main themes were around the strong leadership of the Chairman; Members highlighted the limited focus and challenge on Risk Management, on Fraud and on the performance and delivery of the Treasury Management Strategy. The respondents indicated they would like a greater strategic emphasis in the reports presented to Audit Committee. They believed Audit Committee Members would benefit from tailored training and would be even more effective as a Committee if it had the authority to call-in officers to encourage accountability in line with best practice.

4.6.4 The points raised above have been detailed in earlier findings in the main body of the report and recommendations have been raised where appropriate.

5. Acknowledgement

5.1 We would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance. In particular the Chairman of the Audit Committee whose advice and help to us was gratefully appreciated.

6. Internal Audit Contact Details

This audit was led by: Sarah Hydrie CMIIA
Principal Internal Auditor

This audit was reviewed by: Muir Laurie ACCA, CMIIA
Head of Internal Audit

Thank you,

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
Substantial	There is **a good level of assurance** 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 **positive assurance that objectives will be achieved**.
Reasonable	There is **a reasonable level of assurance** 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 **some risk that objectives will not be achieved**.
Limited	There is **a limited level of assurance** 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 significant risk that objectives will not be achieved**.
No	There is **no assurance** 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 high risk 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.

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk Rating	Definition
HIGH 🔴	The recommendation relates to **a significant threat 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. **The risk requires senior management attention**.
MEDIUM 🟡	The recommendation relates to **a potentially significant threat 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. **The risk requires management attention**.
LOW 🟢	The recommendation relates to **a minor threat or opportunity** 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. **The risk may be tolerable in the medium term**.
NOTABLE PRACTICE 🔵	The activity reflects current **best management practice** or is an innovative response to the management of risk within the Council. **The practice should be shared with others**.

Management Action Plan

| No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
1	The Audit Committee should, in line with its current Terms of Reference, have sight of any significant changes to the Council's Constitution in respect of relevant policies, contract procedure rules and financial regulations. Where necessary the Audit Committee should bring suggested proposals to the Cabinet for their consideration/ development (para ref 4.1.2).	*If the Audit Committee does not have sight of significant changes to these key governance documents there is a risk that the Committee is not delivering against its terms of reference. This may adversely affect the effectiveness of the Audit Committee and their overview of the Council's Governance Framework.*	**MEDIUM** ●	Any significant changes to the Council's Constitution in respect of relevant policies, contract procedure rules and financial regulations will in future be presented to the Audit Committee for their information as soon as possible following approval by Full Council. **Where relevant and appropriate,** the Audit Committee will put forward suggested proposals to the Cabinet for its consideration.	Lloyd White, Head of Democratic Services **Immediate**
2	The Council should ensure that membership of the Audit Committee is in adherence to the Constitution (para ref 4.2.3).	*There is a risk that membership of the Audit Committee breaches the Council's Constitution.*	**MEDIUM** ●	The Head of Democratic Service is grateful to IA for bringing this matter to his attention. He has already taken corrective action to ensure that in future all Audit Committee membership will be in full adherence to the Council's Constitution.	Lloyd White, Head of Democratic Services **Immediate**

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Management Action Plan

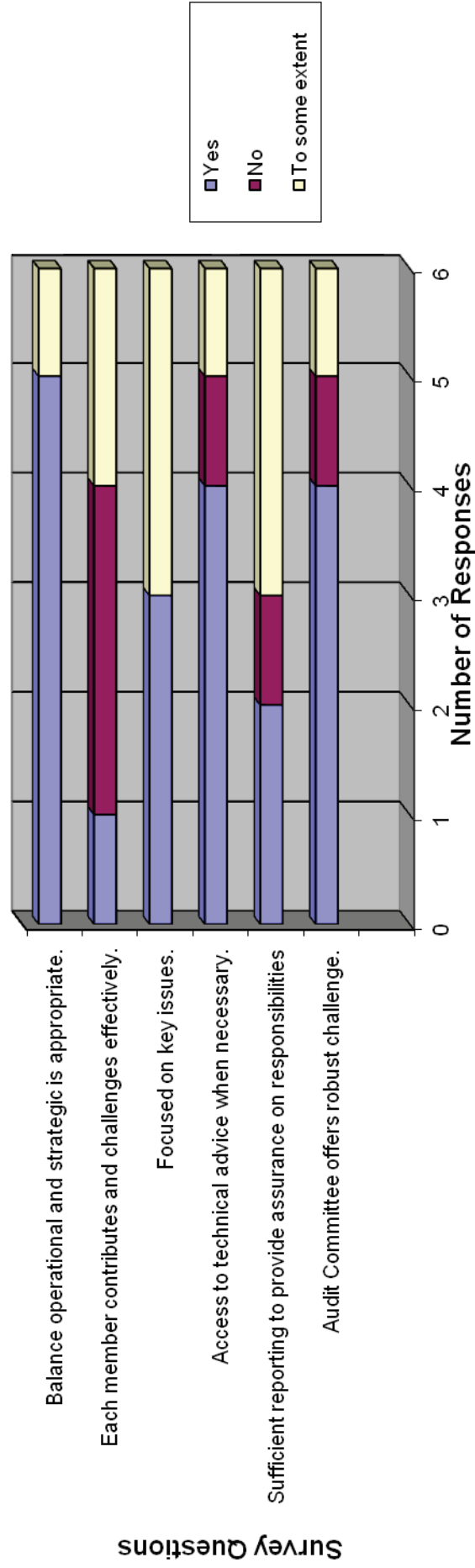| No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
3	There should be a clear and regularly updated training and development programme in place for Audit Committee members to help support them in carrying out their duties effectively (para ref 4.3.1).	*Where there is no clear training and development programme in place this may impact Member's ability to effectively carry out their responsibilities in relation to the Audit Committee.*	**MEDIUM** ●	A draft training and development programme for Audit Committee Members was produced by Internal Audit in March 2014. This will be used by Democratic Services to form the basis of an Audit Committee Member training and development programme (as part of the wider Member Development Programme). This will be discussed with the Audit Committee (including the new Chairman) before being finalised.	Lloyd White, Head of Democratic Services **30 November 2014**
4	In line with the Audit Committee Terms of Reference, the quality of reports and the items being reviewed and discussed by the Audit Committee should have a greater focus on strategic issues and less focus on detailed operational matters. This could be achieved by the reports being formally reviewed at draft stage by a Director (para ref 4.5.6).	*Where reports are only focused on operational matters there is a risk that the Audit Committee does not spend sufficient and proportionate focus on strategic matters impacting the achievement of objectives.*	**MEDIUM** ●	All reports to Audit Committee will be reviewed by at least one of the CMT Directors in advance of being published. Democratic Services will also liaise with relevant officers in advance to help ensure this happens.	Lloyd White, Head of Democratic Services **Immediate**

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Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
5	The Council should consider ensuring all Audit Committee Members and Reserves are independent of the Cabinet and all Scrutiny functions of the Council in accordance with CIPFA best practice (para ref 4.2.4).	*If the Audit Committee are Members of the Cabinet and/or Scrutiny function there is a risk that the independence of the Audit Committee could be compromised.*	**LOW** ●	The Constitution already has in place a requirement that a Cabinet Member or Member of the Executive Scrutiny Committee may not also sit concurrently on Audit Committee. However, in terms of adopting best practice for all Scrutiny functions, the Council has considered the guidance but believes that the current arrangements do not impair the overall effectiveness of the Audit Committee and suit Hillingdon at this time.	Cllr George Cooper, Acting Chairman of Audit Committee **No further action proposed**

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Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
6	The Audit Committee's Terms of Reference (ToR) should provide greater clarity over responsibility of those charged with governance. This will enhance the golden thread which outlines the Council's values and strategic objectives and will help ensure alignment to the ToR for the Audit Committee (para ref 4.2.8).	*If the Audit Committee terms of reference do not clearly identify both Officers and Members charged with governance, there is a risk that the Audit Committee's work will not help the Council achieve its strategic objectives.*	**LOW** ●	The Council is clear that the Cabinet is the Member body responsible for the Council's governance arrangements. CMT are the collective officer body which lead's on the Council's governance arrangements and the Audit Committee has responsibility for strategic oversight of the Council's governance arrangements. However, the Audit Committee's ToR will be reviewed to seek to provide greater clarity over responsibility of those charged with governance.	Lloyd White, Head of Democratic Services **30 September 2014**
7	In line with best practice, consideration should be given to introducing a skills matrix which maps the relevant qualifications and experience of all Audit Committee members (para ref 4.3.2).	*If there is no skills matrix in place it would be difficult to identify any gaps for further training and for succession planning purposes.*	**LOW** ●	The Council has considered the best practice guidance in this area, but believes that the current arrangements do not impair the overall effectiveness of the Audit Committee and actually suit the local arrangements at Hillingdon.	Lloyd White, Head of Democratic Services **No further action proposed**

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
8	The Council should consider fully aligning the Audit Committee Terms of Reference with CIPFA best practice guidance. As part of this process the Council may want to consider: - Granting the Audit Committee with the direct power to require senior managers to attend Audit Committee **where it is appropriate to do so**; and - Including the Chairman or Vice Chairman of the Audit Committee as part of the process for appointing and removing the Council's External Auditors and Head of Internal Audit. (para refs. 4.4.3 and 4.5.4).	*Where the terms of reference are not in accordance with best practice there is a risk that the Audit Committee is not discharging its responsibilities effectively.*	LOW ●	The Council has considered the best practice guidance in this area, but believes that the current arrangements do not impair the overall effectiveness of the Audit Committee and actually suit the local arrangements at Hillingdon.	Lloyd White, Head of Democratic Services **No further action proposed**
9	References made to the "Statement of Internal Control", in the Audit Committee's Terms of Reference, should be replaced with the "Annual Governance Statement" which is in line with current legislation (para ref 4.4.4).	*If the Audit Committee terms of reference is not up to date and does not accurately reflect current practice there is a risk that the Committee are not effectively discharging their responsibilities.*	LOW ●	The Audit Committee Terms of Reference will be updated to reflect this minor change, in line with current legislation.	Lloyd White, Head of Democratic Services **30 September 2014**

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Audit Committee Survey - Graphical Analysis of Survey Results

Survey Results of Audit Committee Members
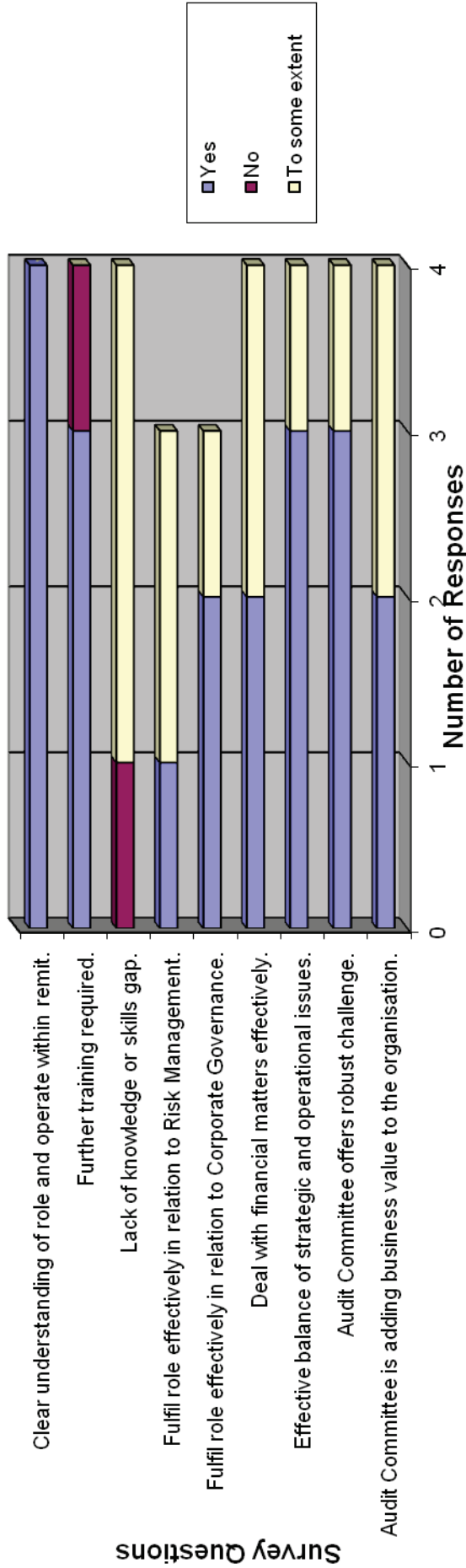
Audit Committee Survey - Graphical Analysis of Survey Results

Survey Results of Non-Audit Committee Members

Survey Questions

Number of Responses

Legend:
- Yes
- No
- To some extent

Survey question categories:
- Balance operational and strategic is appropriate.
- Each member contributes and challenges effectively.
- Focused on key issues.
- Access to technical advice when necessary.
- Sufficient reporting to provide assurance on responsibilities
- Audit Committee offers robust challenge.

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.

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Internal Audit - Annual Report & Opinion Statement 2013/14

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Contact Officer: Muir Laurie
Telephone: 01895 556132

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REASON FOR ITEM

The UK Public Sector Internal Audit (IA) Standards requires the Head of IA to deliver an annual Internal Audit (IA) report and opinion statement that can be used by the Council to inform and support its Annual Governance Statement. Therefore, in setting out how it meets the reporting requirements, this report and opinion statement also outlines how IA has supported the Council in meeting the requirements of the Accounts and Audit (England) Regulations 2011. The report also summarises the main findings arising from the 2013/14 IA assurance and consultancy work.

This report provides the opportunity for the Head of IA to highlight to the Committee any significant matters arising from the work of IA during 2013/14. The draft report was considered by the Council's Corporate Management Team (CMT) on 16 July 2014 to allow comment by the officer body responsible for the Council's internal control, corporate governance and risk management arrangements.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the IA Annual Report and Opinion Statement 2013/14.

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 new Public Sector IA Standards which came into force on 1 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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Annual Internal Audit Report & Opinion Statement 2013/14

17 July 2014

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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 give an objective opinion to the Council on whether the control environment is operating as expected. In 'traditional' IA teams this usually means compliance testing of internal controls. However, the IA service at Hillingdon is fully embracing the risk based approach which means IA will give greater assurance to the Council because it is based on the key risks to the achievement of the organisation's objectives. As a result, IA 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.

1.1.3   The new UK Public Sector IA Standards (PSIAS) which came into force on 1 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 (AGS).

1.2   The Purpose of the Annual Internal Audit Report and Opinion Statement

1.2.1   This annual report summarises the main findings arising from the 2013/14 IA assurance and consultancy work. The report also provides IA key stakeholders including the Council's Corporate Management Team (CMT) and the Audit Committee, with an opportunity to hold the Council's Head of Internal Audit (HIA) to account on delivery of the 2013/14 IA Plan and on the effectiveness of the IA service.

1.2.2   The UK PSIAS require the HIA to deliver an annual IA report and opinion statement that can be used by the organisation to inform its AGS. Therefore, in setting out how it meets the reporting requirements, this report and opinion statement also outlines how IA has supported the Council in meeting the requirements of the Accounts and Audit (England) Regulations 2011.

2. Executive Summary

2.1   Despite a reduction in IA capacity during the year and the negative impact that the 2012/13 slippage has had on available 2013/14 IA resources, the HIA is pleased to report that **as at 16 July 2014, 94% of the 2013/14 IA assurance reviews have been completed to final report stage**. When you consider that at the end of November 2013 only 3 non-school 2013/14 audits had been finalised, **this represents a significant achievement for IA and highlights a positive direction of travel for the service**.

2.2   Delivery of the revised IA Plan for 2013/14 has been achieved in such a comparatively timely manner by implementing a number of new initiatives. These have included applying introducing a fully risk based approach to help focus IA resources, restructuring the IA management team to generate greater front line capacity and applying a range of lean auditing principles to the IA process. In addition, the HIA believes this relative success is predominantly due to the more collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Council. Further details of this area of work can be found at para 6.1 of this report.

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2.3   From the 2013/14 IA work undertaken and from the other sources of assurance referred to in para 3.7:

> *It is the HIA's opinion that overall IA can provide* **REASONABLE** *assurance that the system of internal control that has been in place at Hillingdon Council for the year ended 31 March 2014 accords with proper practice, except for the significant internal control issues referred to in para 3.8 (see para 3.12 for further details).*

2.4   A total of **49** 2013/14 IA assurance reports and **7** consultancy reports have been finalised this year including **5 LIMITED** and **1 NO** assurance IA opinions. It is worth noting that just under half of the **LIMITED** assurance reports relate to schools.

2.5   All 2013/14 **HIGH** and **MEDIUM** risk recommendations raised by IA were accepted by management with positive action proposed, including the risk and control issues highlighted in the **six** audits highlighted at para 2.6. Further analysis of the IA assurance levels issued in 2013/14 along with an analysis of the risk recommendations raised can be found in section 4 of this report.

2.6   The key findings from these **six IA assurance reviews** were as follows:

(i) Housing Rent Arrears – **NO** Assurance

- As detailed at Appendix A, IA raised **13 recommendations** as part of this audit including 6 **HIGH** risk recommendations. In particular IA found evidence of significant delays in updating rent account/ tenancy changes on i-World and a severe lack of management review of this process. There was a lack of communication across the different functions within Housing Services as well as insufficient management oversight of rent arrears. As a result IA was unable to give any assurance as to the accuracy of the total arrears data being produced. The Audit Sponsor response to the recommendations raised was very positive and the management proposed by the Head of Housing appears constructive. IA has confirmed that significant management action has been taken. As at 16 July, 5 of the 6 **HIGH** risk recommendations have been verified as implemented.

(ii) Bishop Winnington-Ingram C of E Primary School – **LIMITED** Assurance

- As detailed at Appendix A, IA raised **8 recommendations** as part of this audit including 1 **HIGH** risk recommendation in relation to debt management and recovery. Specifically, IA identified that the School had debts over three months old totalling £83,730 from parents/ guardians in relation to before and after school care. There were weak controls in place to follow up and recover payment of these debts, which represents a significant weakness in the design and operation of the School's control environment. However, the school has confirmed that it has put new procedures in place for invoicing parents termly in advance rather than in arrears. The school is in the process of chasing old debts and IA has confirmed that a stronger system is now in place for debt recovery.

(iii) West Drayton Primary School – **LIMITED** Assurance

- As detailed at Appendix A, IA raised **10 recommendations** as part of this audit including 1 **HIGH** risk recommendation in relation to an *ultra vires* finance lease. As part of this review, IA identified the School had procured four photocopiers costing £22,847 over a three year period through a finance lease. This is a type of contractual arrangement that local authority schools do not have the mandate to enter into. However, since this time further guidance has been issued by the Council as a number of schools had entered theses type of arrangements. IA subsequently carried out a follow-up audit in February 2014 and confirmed that positive action has been taken by the school to address the vast majority of the control issues identified. One recommendation remained outstanding as the timescale for completion had not been reached. As a result, IA issued a revised opinion of **SUBSTANTIAL** assurance on 31 March 2014 (refer to Appendix A).

(iv) Inspection Team – **LIMITED** Assurance

- As detailed at <u>Appendix A</u>, IA raised **8 recommendations** as part of this audit including 2 **HIGH** risk recommendations, both in relation to time recording. Specifically, IA identified that 70% of the Council's care providers were not using the Electronic Call Monitoring System (ECMS), an electronic logging system that enables care providers and the Council to monitor accurate records of time spent by a care worker in the service user's home. Furthermore, IA found that the Inspection Team did not check that carers' timesheets accurately to ensure it reflected the time spent by carers in providing care. In particular, timesheets were not being reviewed before the invoice supplied by the care provider was processed for payment to see if carers were for example 'double booking' time. Management action is in progress and IA is in the process of following these recommendations up.

(v) Looked After Children Placed Out of Borough – **LIMITED** Assurance

- As detailed at <u>Appendix A</u>, IA raised **4 recommendations** as part of this audit including 2 **HIGH** risk recommendations in relation to care and placement plans. Specifically, IA found that Management approval of plans on Protocol ICS could be circumvented. This appeared to be as a result of some inadequate user update restrictions on Protocol ICS. As such, IA concluded that the control provided by manager approval was potentially compromised. In addition, IA found that there were delays in submission and approval of Care Plans and Placement Plans. Manager approvals were recorded as having been given after the effective dates of the action. As a result of this, plans could proceed without formal manager approval and any changes required would have to be made in retrospect. Management action is in progress and IA is in the process of following these recommendations up.

(vi) Corporate Anti-Fraud and Anti-Corruption Arrangements – **LIMITED** Assurance

- As detailed at <u>Appendix A</u>, IA raised **17 recommendations** as part of this audit including 1 **HIGH** risk recommendation, 9 **MEDIUM** risk recommendations, 7 **LOW** risk recommendations and 1 **NOTABLE PRACTICE**. The focus of this review was not on the Council's approach to benefit fraud, where IA noted that the Corporate Fraud Investigation Team (CFIT) has been recognised by the Department for Work and Pensions (DWP) as running the best performing Single Fraud Investigation Service pilot in the Country. Further, the DWP has acknowledged the innovative team working within the CFIT which is producing positive outcomes for Hillingdon residents through high quality benefit fraud investigations.

- The focus of this audit was on the corporate arrangements the Council has in place in relation to Anti-Fraud and Anti-Corruption (AF&AC). The key finding coming out of this audit was the lack of strategic oversight by senior officers and Members regarding the Council's corporate AF&AC arrangements. Currently these arrangements are spread across 3 Corporate Directors which has resulted in a diffusion of responsibilities which has impacted on the level of awareness across the organisation on what the Council's AF&AC arrangements are. This includes who has ownership and responsibility for the relevant AF&AC policies and procedures which are either out of date or do not exist. It is IA's judgement that whilst Directors proactively cascade key AF&AC messages to their staff, there are parts of the organisation which have a poor AF&AC culture with a relatively low level of understanding amongst staff of how to prevent and detect fraud.

- This audit is just in the process of being finalised and therefore discussions with management are ongoing in relation to the best way forward. Further information on the management action proposed will be included as part of an oral update by the HIA at the next Audit Committee meeting (currently planned for 30 July 2014).

2.7   Focussing dedicated IA resource to the **follow-up of previous recommendations** due to have been implemented has helped achieve a much improved outcome for the Council over the 2013/14 year. As at 16 July 2014, **94%** (96 out of 102) of the **HIGH** risk recommendations raised in 2012/13 and 2013/14 due to have been implemented, have been **confirmed by management as now in place**.

2.8   In addition, as at 16 July 2014, **93%** (340 out of 365) of the **MEDIUM** risk recommendations raised in 2012/13 and 2013/14 due to have been implemented, have been **confirmed by management as now in place**. Whilst there is scope for improvement, overall, these results compare extremely favourably when compared to previous years. Further details of this area of work can be found at section 5 of this report.

3. Head of Internal Audit Opinion Statement 2013/14

3.1   Background

3.1.1   The HIA opinion statement is provided to inform the Chief Executive and Leader of the Council to assist them in completing the AGS, which forms part of the statutory Statement of Accounts for the 2013/14 year. The AGS provides public assurances about the effectiveness of the Council's governance arrangements, including the system of internal control. The HIA opinion statement meets the Council's statutory requirement under Regulation 4 of the Accounts and Audit (Amendments) (England) Regulations 2011 and in line with the UK PSIAS.

3.2   Scope of Responsibility

3.2.1   The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council 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.

3.2.2   In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk. Specifically, the Council has a statutory responsibility for conducting a review of the effectiveness of the system of internal control on at least an annual basis.

3.3   The Purpose of the System of Internal Control

3.3.1   The Council's system of internal control is designed to manage risk to a reasonable level rather than to completely eliminate the risk of failure to achieve policies, aims and objectives. Consequently, it can only provide a reasonable, and not absolute, assurance of effectiveness.

3.3.2   The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's vision, strategic priorities, policies, aims and objectives. It also is designed to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3.4   Annual Opinion Statement on the Effectiveness of the System of Internal Control

3.4.1   The HIA opinion is based primarily on the work carried out by the Council's IA service during 2013/14, as well as a small number of other assurance providers. Where the work of the CFIT has identified weaknesses of a systematic nature that impact on the system of internal control, this has been considered in forming the HIA opinion.

3.4.2   The IA Plan for 2013/14 was developed to primarily provide CMT and the Audit Committee with independent assurance on the adequacy and effectiveness of the systems of internal control, including an assessment of the Council's corporate governance arrangements and risk management framework.

3.5   Basis of Assurance

3.5.1   All 2013/14 IA reviews have been conducted in accordance with the UK PSIAS which came into force on 1 April 2013. A self-assessment assurance review of the IA service conducted in May 2014 (as detailed at Appendix A) confirmed that Hillingdon's IA service has overall met the requirements of the UK PSIAS in 2013/14.

3.5.2   In line with the UK PSIAS, the HIA is professionally qualified and suitably experienced. The skills mix within the rest of the in-house IA team is currently under development, but during the year it has been supported by a partnership with Baker Tilly. As a result, the 2013/14 IA resources fulfilled the UK PSIAS requirements in terms of the combination of professionally qualified and experienced staff.

3.6   Qualifications to the Opinion

3.6.1   The Council's IA service has had unrestricted access to all areas and systems across the authority and has received appropriate co-operation from officers and members. The IA function has had sufficient resources to enable it to provide adequate coverage of the authority's control environment to provide the overall opinion (refer to para 3.12.3). Consequently, **there are no qualifications to the HIA opinion statement for 2013/14**.

3.7   Other Assurance Providers

3.7.1   In formulating the HIA overall opinion on the Council's system of internal control, the HIA has taken into account the work undertaken by other sources of assurance, and their resulting findings and conclusions which included:

- Coverage of the Corporate Fraud Investigations Team;

- The work of the Corporate Risk Management Group (refer to para 3.10);

- The work of the Corporate Governance Working Group (refer to para 3.11);

- The work of the Hillingdon Information Assurance Group;

- The Audit Committee (a review of the effectiveness of the Audit Committee was conducted in May 2014);

- External inspections i.e. Ofsted; and

- Coverage by Deloitte (External Audit) including grant claim certification i.e. Housing Benefits Subsidy.

3.8   Significant Internal Control Weaknesses

3.8.1   IA is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise during the year. **There were relatively few significant control weaknesses identified during 2013/14**. Work is ongoing to strengthen the Council's control environment in relation to the significant control weaknesses identified. These included:

1.   Our May 2014 audit highlighted that there was **no regular corporate reporting of housing rent arrears** apart from what is included in the Annual Statements of Accounts. In addition, **IA was unable to provide assurance as to the accuracy of the arrears data** being produced and reported to the Head of Housing, due to the **lack of effective system of controls** to verify the accuracy and completeness of data. Furthermore, **a number of significant delays in setting up rent accounts** were revealed during this audit; IA understands there had been delays of as much as nine months. These delays in actions were occurring for a variety of reasons, but the failure in prompt and effective communication within the relevant Council teams was the main reason identified. IA notes that prompt management action was proposed and is being well progressed in this area.

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2. Our assurance and consultancy coverage this year has identified a **few examples of poor contract management in relation to major contracts** that the Council has. This includes inconsistent compliance with contract standing orders, weaknesses in relation to financial reporting and a lack of monitoring and senior management oversight in relation to some major contract spend. IA is of the opinion that this has resulted in **the Council achieving poor value for money on some major contracts during 2013/14**. The Council are considering this IA finding before deciding specifically what action is required.

3. IA coverage and the Council's management have identified **a significant number of instances in 2013/14 of non adherence to Council policies and procedures**. This is partly due a large number of the Council's policies being compliance based and of a very detailed and prescriptive nature. It is also partly as a result of some of the Council's policies failing to be kept up to date with the dynamic level of organisational change that the Council is going through. The Council are considering this IA finding before deciding on specifically what action is required.

4. The majority of schools in Hillingdon are high performing and have strong governance arrangements. However the results of IA work in 2013/14 and IA's cumulative audit knowledge indicate that **there are a significant number of Hillingdon schools with weaknesses in their governance arrangements**. As part of the solution to this, from 2014/15 onwards a risk-based approach will be taken with IA assurance reviews of Hillingdon schools. In particular cross-cutting audits of themed areas will be carried out at a risk-based selection of schools. This approach will provide oversight across all Hillingdon schools of the key issues arising, whilst also providing a mechanism for sharing best practice.

5. In autumn 2013, **Ofsted carried out a joint inspection** of the Council's "Services for children in need of help and protection, children looked after and care leavers" and a "Review of the effectiveness of the Local Safeguarding Children Board (LSCB)". Ofsted concluded that there are no widespread or serious failures that create or leave children being harmed or at risk of harm. However, Ofsted stated that the Council is not yet delivering good protection and help and/ or care for children, young people and families. In addition, the LSCB was found not to be demonstrating the characteristics of good. The overall Ofsted judgement in both areas was reported as **'Requires Improvement'**. However, **work is already well under way by the Council towards making the required improvements**. An IA review to establish progress with the improvement action plan is planned for September 2014.

3.9   Internal Control Improvements

3.9.1   In addition to the action taken by senior management to address the significant control weaknesses, IA has identified during the year a number of areas where other improvements have strengthened the control environment. These include:

- The **controls surrounding the Council's core financial systems remain strong**. There is significant change planned in 2014/15 with the upgrade of the Oracle Financials system. Substantial work is ongoing in this area to safeguard the integrity of data through the transition to the upgraded system.

- The Council has been successful at continuing to **achieve transformational savings** and **improve its financial resilience**. This has been done whilst at the same time continuing to deliver a range of innovative projects to help drive forward major cultural change across the Council. The Hillingdon Improvement Programme (HIP) has been a fundamental part of this success and helped **improve the services delivered to residents** in line with the Council's vision of *'Putting Our Residents First'*.

- The Council's **response to benefit fraud and tenancy fraud has been robust** which has achieved positive results for the Council and its residents. At the same time, the CFIT's exceptional work in this area has helped develop an effective anti-fraud culture in this key area of the Council.

3.10   Risk Management

3.10.1 The IA opinion on the effectiveness of the Council's Risk Management (RM) arrangements is based on **the Chartered Institute of Internal Auditors' Risk Maturity Model**. IA has identified that there is good RM practice in some areas of the Council's operations but that there are areas where the understanding of the RM policy was poor. Further, IA's review of the Council's RM arrangements concluded that whilst the approach to RM at a strategic level was generally good, risk identification and management at a more operational level was a scattered silo based approach.

3.10.2 The RM policy and guidance was last updated in February 2013. This audit highlighted that a particularly good feature within the RM policy and guidance was the comprehensive detail as well as the clarity of roles, responsibilities and accountabilities of Members and Officers in relation to RM.

3.10.3 The Council has an established Corporate Risk Management Group (CRMG) in place which meets quarterly and discusses strategic risk issues in an effective manner. IA also noted that strategic risks are effectively monitored and reviewed by CMT as well as the Audit Committee. In addition, there are designated risk champions at SMT level for each group (Directorate) and each identified strategic risk has been delegated to a Chief Officer to own and manage.

3.10.4 However, IA's judgement was that the Council needs to improve the RM process for identifying and recording risks at an operational level. IA has concluded that risks below group level are not being treated consistently across the organisation. Specifically, operational risks are not always being adequately identified and recorded in a systematic, structured and timely manner. In addition, IA noted that the Council had not yet set and communicated a risk appetite. As a result, the IA assessment of **the Council's Risk Management maturity is** that the Council was **RISK AWARE** as at 31 March 2014.

CHARTERED INSTITUTE OF INTERNAL AUDITORS' RISK MATURITY MODEL
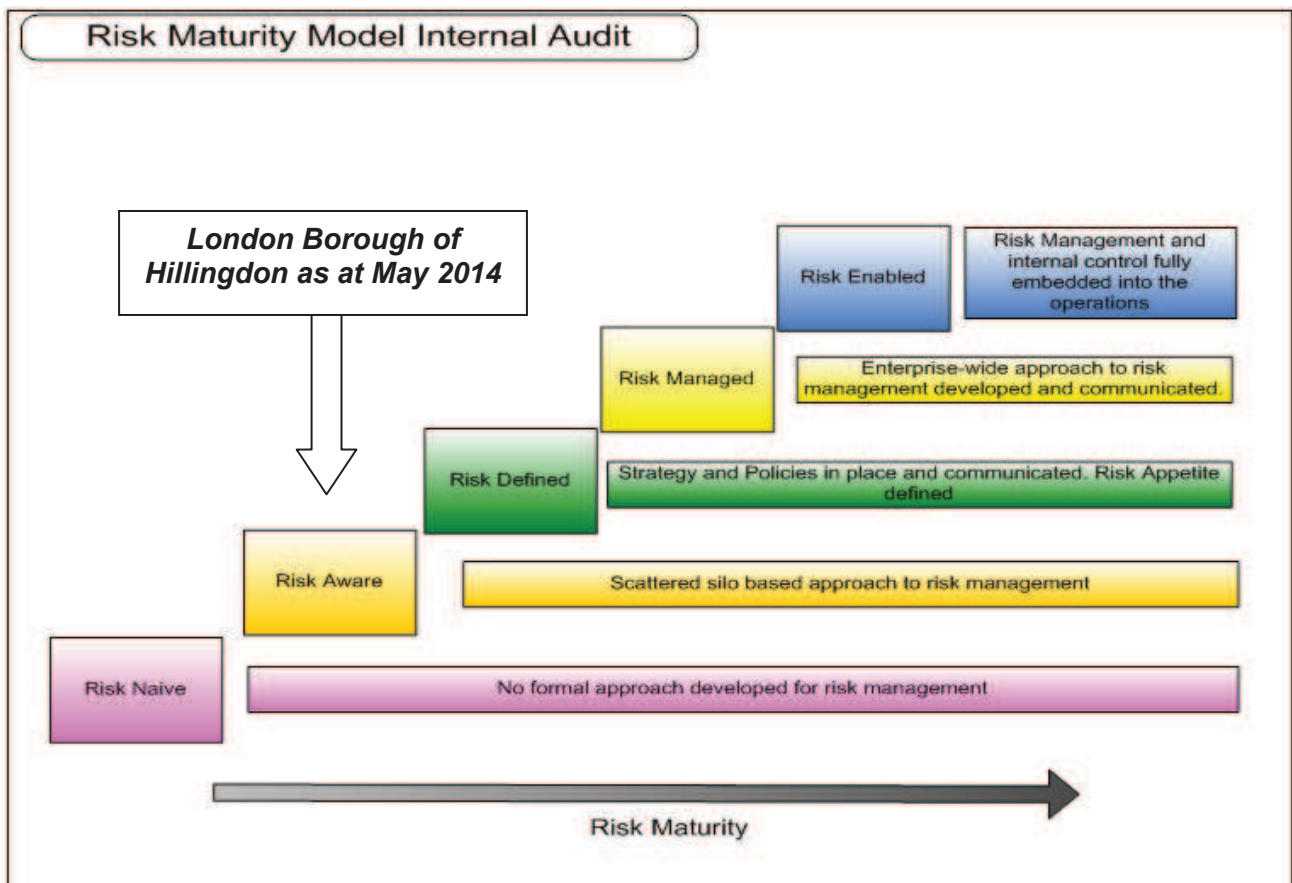
3.11 Corporate Governance

3.11.1 The 2013/14 IA opinion on the effectiveness of the Council's corporate governance arrangements is based on the **Langland's Report on 'Good Governance Standard for Public Services'**. The Langland's report contains best practice governance in the public sector and IA's assessment is highlighted in the table below:

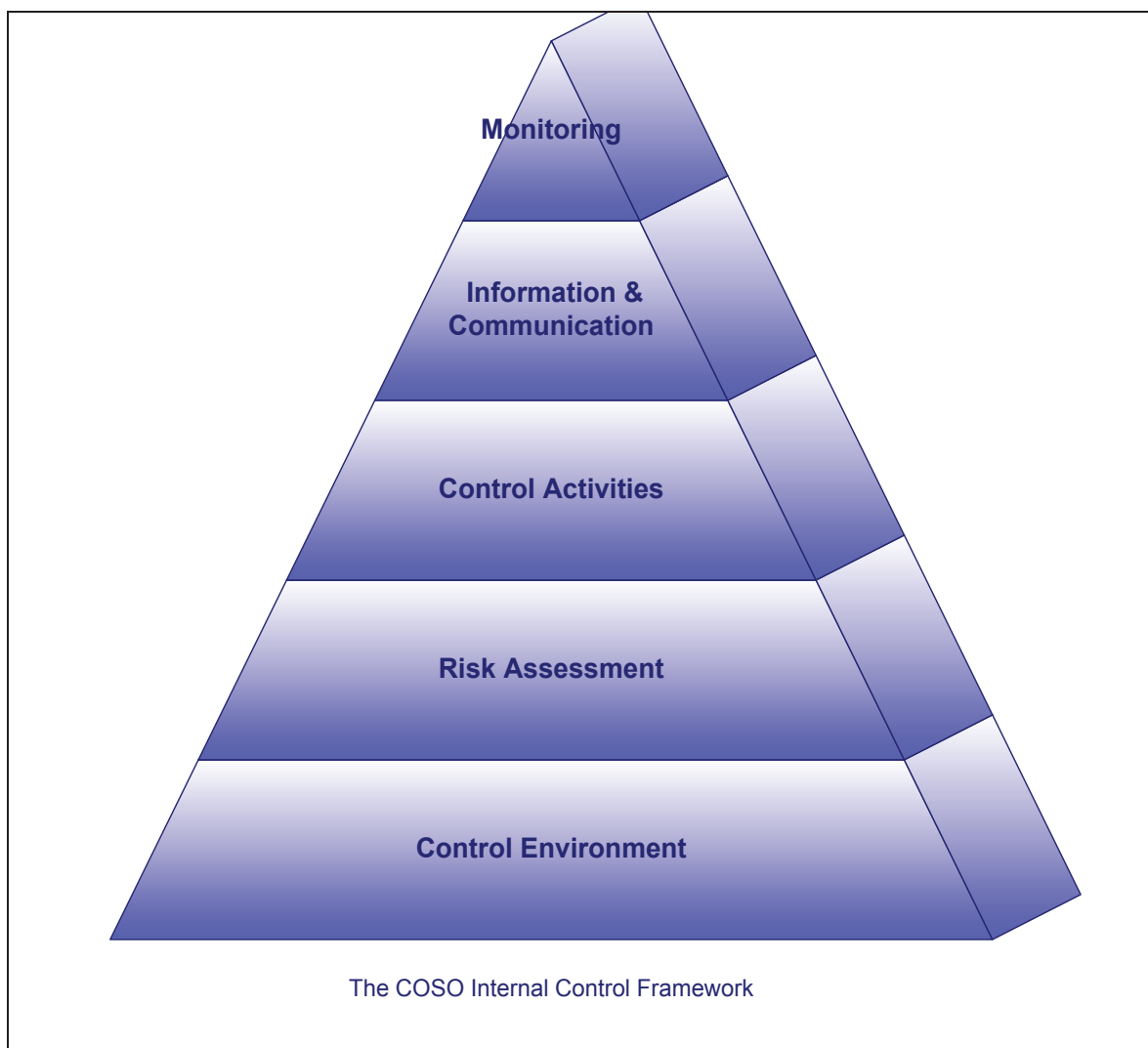| Langland's Governance Principles	IA Assessment of Hillingdon
1. Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.	**Substantial Assurance** - The Council's vision and strategic priorities are clearly communicated and understood by officers. The Council's vision *'putting our residents first'* provides the clear direction that is required to fulfil the Council's purpose and achieve positive outcomes for residents. Even without a formal corporate business plan, the overarching strategies of the Hillingdon Improvement Programme/ Business Improvement Delivery programme and Medium Term Financial Forecast provides the steer and focus to achieve the Council's vision and strategic priorities.
2. Good governance means performing effectively in clearly defined functions and roles.	**Limited Assurance** - The Council's Constitution comprehensively sets out how the Council is governed. However, it contains outdated information relating to a number of policies. The function and role of the Cabinet is clearly defined and documented within the Council's Constitution. Further, the role and responsibilities for the HIP Steering Group and CMT could be clearer and have not been directly communicated to staff. In IA's opinion, the Council's organisational structure is fit for purpose to deliver the Council's vision and priorities. However, there is scope to improve governance arrangements to provide further clarity relating to the roles and responsibilities of officers and Members.
3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour.	**Reasonable Assurance** - The Council has a Code of Conduct in place for both officers and Members to ensure values and behaviours are upheld consistently across the Council. Member and officer relations were found to be good with no concerns. Anti-Fraud & Anti-Corruption (including Whistleblowing and Gifts & Hospitality arrangements) were generally found to be in place. IA established the Council does not maintain a Local Code of (Corporate) Governance. In IA's opinion, this would assist the Council to demonstrate that the Council adheres to the desired CG culture. It would also help improve accountability to stakeholders and allow staff to better understand the benefits of good governance.
4. Good governance means taking informed, transparent decisions and managing risk.	**Reasonable Assurance** - The Council's Cabinet operates as an effective Member decision making body which is renowned by officers for making swift decisions. IA confirmed that a Cabinet Scheme of Delegations (SD) was in place. Group SDs are in place, however, since the reorganisation of the Council's structure, separate SDs for both the 'Childrens' and 'Adults' groups have yet to be approved. This presents a risk that accountability for decisions are unclear in these groups. RM arrangements were found to be in place and have been reviewed separately by IA. The Council's AGS process was overall found to be adequate, although there is scope for improvement.

5. Good governance means developing the capacity and capability of the governing body to be effective.	**Reasonable Assurance** - The Council's Cabinet brings direction and stability to the organisation. It has demonstrated that it provides continuity of knowledge and relationships, with the same Cabinet Members reappointed into their Cabinet positions this year. There are induction, training and development arrangements in place to ensure Members have the rights skills and knowledge to perform their Cabinet duties effectively. Member performance is evaluated by their respective political groups. Officers were complimentary about the role and clear direction that the Cabinet provides.
6. Good governance means engaging stakeholders and making accountability real.	**Reasonable Assurance** - The Council engages with stakeholders using a vast array of engagement and consultation activities to make accountability real. There is clear accountability between the Cabinet and its Executive Committees. Policy Overview and Scrutiny arrangements are in place and appropriately reported. It is pleasing to report that recommendations proposed by Policy Overview Committees are fully endorsed by the Cabinet. Various mechanisms are in place to obtain feedback and engage with officers, residents and service users. Petition and consultation arrangements were also found to be in place. However, IA identified there is scope for improvement with regards to reporting of key information in relation to the Council's Vision, Strategic Priorities, Strategies, financial position, performance, achievements, outcomes and satisfaction of service users. This will improve accountability and enhance stakeholder confidence, trust and interest.

3.11.2 As a result, **Hillingdon's overall Governance arrangements were assessed by IA as Reasonable**. This IA review confirmed that the Council's vision and strategic priorities provides both officers and Members with a very clear direction. This is complimented by a strong and stable political leadership that controls and leads the organisation to achieve positive outcomes for residents. The Council's governance arrangements are underpinned by its Constitution which explains how the Council is governed and how it operates. IA also noted the Cabinet is collectively viewed as highly effective and renowned for quick decision making. In IA's opinion, although the Council's CG arrangements are not fully in line with more traditional CG models, **the outcomes the Council has achieved within a period of austerity measures and constant change are nothing short of remarkable**. This demonstrates that the overall direction and control is a good fit for the organisation at this time. It is apparent that the Council put their residents at the forefront of all activity that it engages in, maintaining a high resident satisfaction rating following the most recent residents' survey.

3.11.3 The Council exemplifies strong financial management and control that is illustrated by the healthy, currently unallocated reserves balances of approximately £36m. The centralisation of procurement activity has added to robust financial control over expenditure. The Council continues to uphold a 0% council tax increase for Hillingdon residents for the 6th consecutive year (for the over 65s, it has been frozen for 8 years). Hillingdon is the only local authority in the country that has completed their £10m library refurbishment programme, with the Council also investing £50m to improve sport and leisure facilities, £150m in the latest school building and expansion programme and a record amount of money has been spent on road resurfacing. The borough's parks and open spaces were recently awarded 24 Green Flags (the most in the country), whilst recycling services continue to improve. Nevertheless, as part of the CG review, IA has identified a number of areas where the Council could further enhance its CG arrangements. In IA's opinion these improvements could be made without having a negative impact on the strong leadership and level of control that is currently in place.

3.12   Internal Control

3.12.1 The IA opinion on the Council's internal control system is **based on the best practice on Internal Control from the Committee of Sponsoring Organisations of the Treadway Committee** (COSO). The diagram below details the elements of the COSO internal control framework.

The COSO Internal Control Framework

Monitoring

Information & Communication

Control Activities

Risk Assessment

Control Environment

The COSO Internal Control Framework

3.12.2 As expected the majority of IA recommendations related to improvements over control activities. These include recommendations relating to written procedures, authorisations, reconciliations and segregation of duties. The other component of the framework with a notable number of recommendations is information and communication. These relate to operational, financial and compliance information that is captured and communicated in an accurate and timely manner. As noted at para 3.10, there are weaknesses within the risk management process, so although there were only a few IA recommendations raised in 2013/14 that related to the risk assessment component of the COSO framework, it should not be inferred that risk assessment is robust.

3.12.3 The individual IA assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations have a bearing too. From the IA work undertaken in 2013/14, and the other sources of assurance referred to in para 3.7, **it is the HIA's opinion that overall IA can provide REASONABLE assurance that the system of internal control that has been in place at the Council for the year ended 31 March 2014 accords with proper practice**, except for the significant internal control issues referred to in para 3.8.

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4. Analysis of Internal Audit Activity 2013/14

4.1   Internal Audit Assurance Work 2013/14

4.1.1   The 2013/14 IA assurance work may be summarised by the assurance level achieved (definitions of the IA assurance levels are included at Appendix B) as per the table below:

| Assurance Level	Number of IA Assurance Reports	Assurance %
Substantial	8	16%
Reasonable	35	72%
Limited	5	10%
No	1	2%
TOTAL	49	100%

4.1.2   The pie chart below depicts the levels of assurances achieved based on a percentage of the total assurance audits completed by IA in 2013/14:
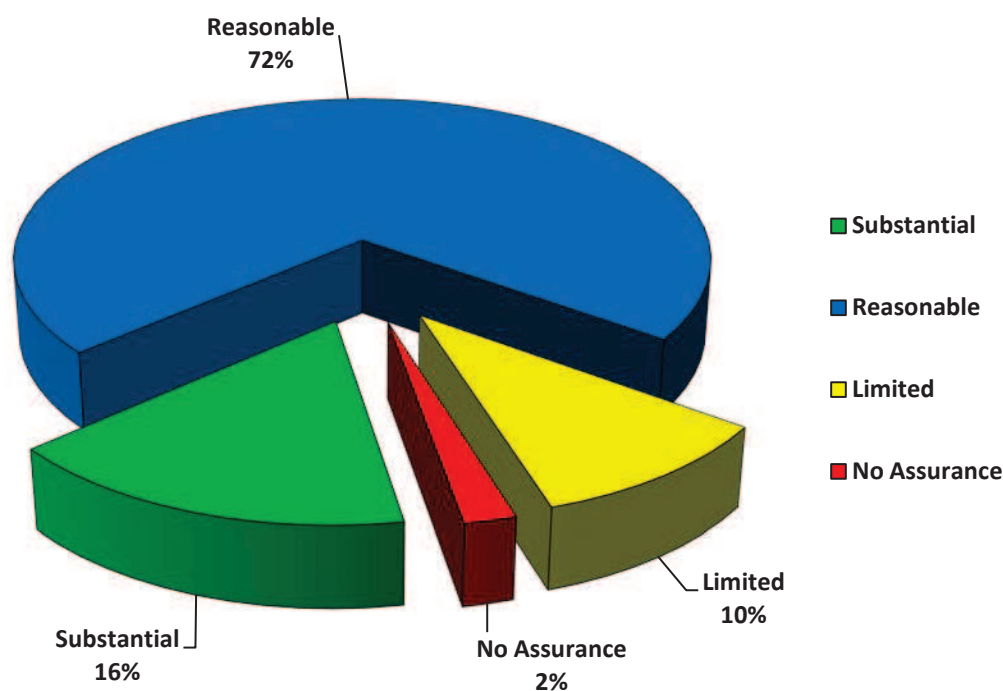
4.1.3   This chart highlights the positive news for the Council that **88%** of the areas audited in 2013/14 were assessed by IA as providing Reasonable or Substantial levels of assurance. The individual assurance audits carried out during 2013/14 are listed at Appendix A which indicates the assurance levels achieved and provides an analysis of the IA recommendations made (in accordance with the recommendation risk ratings as outlined at Appendix B). There were **315** IA assurance recommendations raised in total in 2013/14:

Risk Rating	Number of IA Recommendations	Recommendations %
HIGH	25	8%
MEDIUM	172	55%
LOW	118	37%
TOTAL	315	100%
NOTABLE PRACTICE	6	-

4.1.4   Given that a more risk based IA approach has been applied in 2013/14, it is in line with IA's expectations that **two thirds of the IA recommendations raised** are **HIGH** or **MEDIUM** risk. The breakdown of IA recommendations by risk rating (per Appendix C) is provided in the bar chart below:
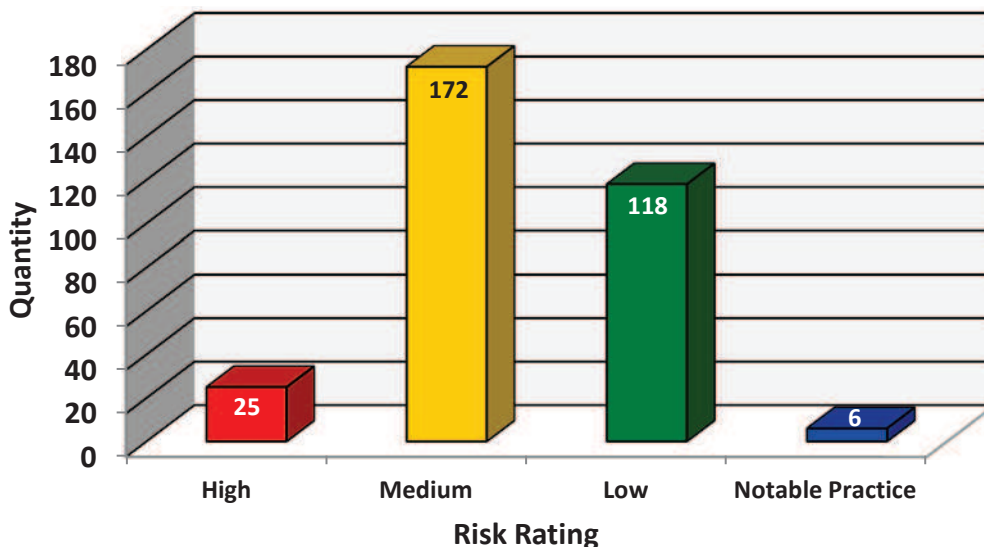
4.1.5   The bar chart at para 4.1.4 highlights that there were **only 25 HIGH** risk recommendations raised by IA in 2013/14 (79 in 2012/13). This in part reflects **an overall improvement in the Council's control environment during 2013/14**.

4.2   Internal Audit Consultancy Work 2013/14

4.2.1   During 2013/14 IA has gradually increased the amount of consultancy work that it carries out across the Council. This includes **IA staff sitting on project/ working groups**, whilst ensuring IA staff are clear about whether they are there in an assurance or advisory capacity. This type of approach is helping increase IA's knowledge of corporate developments which 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. It is also part of IA's intention to ensure that the scope of any work it carries out is closely aligned to Transformation work being carried out across the organisation.

4.2.2   Further to this, in line with the PSIAS, IA coverage this year included a range of consultancy work. IA advice included testing and certification of several grant claims including **testing of the Housing Benefits Subsidy grant claim** on behalf of External Audit (Deloitte). In addition, IA was an active member of a number corporate project groups including the Corporate Risk Management Group, Business Continuity Group, Corporate Governance Working Group (in relation to the Annual Governance Statement), Public Health Steering Group, and the Asset Management ICT Group. As part of this participation, IA aims to provide insightful, independent and informed advice in order to reduce the risk of the Council failing to achieve its objectives.

4.2.3   As detailed at Appendix A, IA also conducted **7** specific consultancy pieces of work in 2013/14. This included reviews in relation to Council garages, the Troubled Families Programme and Boiler Maintenance and Repairs.

4.3   Other Internal Audit Work 2013/14

4.3.1   Since July 2013, a significant amount of time has been spent developing and progressing the IA Quality Assurance and Improvement Programme (QAIP). The QAIP document sets out, in line with the UK PSIAS, how IA is maintaining the required quality standards and achieving continuous improvement.

5. Internal Audit Follow Up

5.1   IA continues to 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 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, which tend to take up a disproportionate amount of IA time to follow up.

5.2   The full definitions of the IA recommendation risk ratings are included at Appendix C. If progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, IA will implement the escalation procedure agreed with management (as set out in the updated IA Management Protocol).

5.3   Since Q3 of last year, the implementation of recommendations raised by IA has been monitored solely by one member of the IA team. Having a single point of contact has increased the effectiveness and consistency with which recommendations are followed up, whilst also enabling the rest of the IA team to focus on delivery of the IA plan. However, the introduction of e-audit software (TeamMate) for all 2014/15 IA work will replace the current manual follow up procedure, which will further streamline the process of following up IA recommendations in the future. TeamMate will also provide CMT with greater oversight of IA recommendations.

5.4   The focus of the IA work on follow-up this year has been on all the outstanding **HIGH** and **MEDIUM** risk recommendations which have reached their target date for implementation. **All IA recommendations for 2011/12 and earlier years have now been confirmed by management that control improvements are now implemented**.

5.5   As at 16 July 2014, **for 2012/13 IA assurance reviews** there are **27** IA recommendations outstanding which include:

- **6 HIGH** risk recommendations, all of which have now have agreed extended implementation dates (which are not yet due); and

- **21 MEDIUM** risk recommendations outstanding, all of which have now agreed an extended implementation date (which are not yet due).

5.6   In line with the revised 2013/14 IA Plan approved by CMT and Audit Committee, there was a total of **49** IA assurance reviews undertaken (refer to Appendix A for further details). These assurance reviews have resulted in **315** IA recommendations being raised in 2013/14 as well as **6 NOTABLE PRACTICES**.

5.7   The table below summarises the **status of IA 2013/14 recommendations** raised as at 16 July 2014:

2013/14 IA Recommendation Status as at 16 July 2014	HIGH	MEDIUM	LOW	Total	NOTABLE PRACTICE
Total No. of Recommendations Raised (per Appendix A)	25	172	118	**315**	6
No. Due for Follow-up Implementation	23	127	-	**150**	-
No. of Recommendations Implemented	23	123	-	**146**	-
No. of Recommendations Outstanding	0	4	-	**4**	-

5.8   Given that IA is taking a risk based approach at the Council, it is also a positive outcome that there were approximately **seven times as many MEDIUM risk recommendations than HIGH risk recommendations raised** in 2013/14.

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5.9   Positive management action was proposed to address all **197** of the 2013/14 **HIGH** and **MEDIUM** risk IA recommendations raised. Whilst **24%** of 2013/14 **HIGH** and **MEDIUM** risk recommendations had not yet reached their target date for implementation, IA is pleased to report that **97%** of recommendations which were due for implementation have been confirmed by management as being implemented. During the year, IA has also undertaken verification testing on **HIGH** and **MEDIUM** risk recommendations to confirm and support management's assertion that recommended actions have been successfully implemented.

5.10   Of the **150** (**76**%) recommendations for 2013/14 which have reached their implementation date, only **4** (**3%**) **MEDIUM** risk recommendations remain outstanding as at 16 July 2014. The bar chart below highlights this:
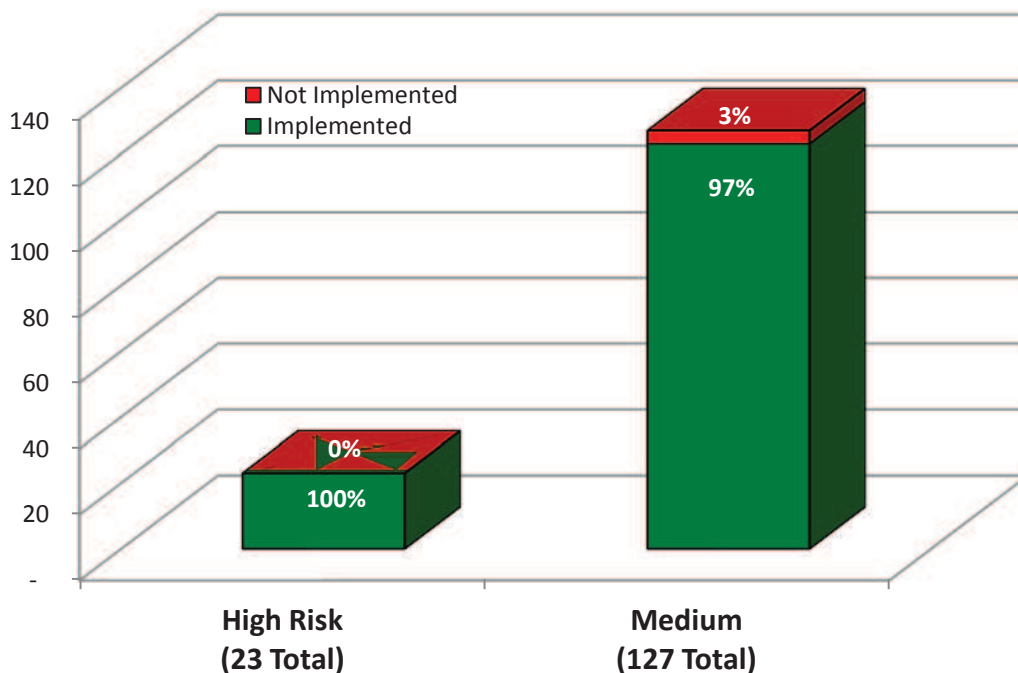
5.11   The status of outstanding IA recommendations has been discussed at CMT (on 14 May and 16 July) and good progress is being made on establishing which of these require urgent management attention and which are no longer relevant (i.e. following organisational restructure). More detailed information on any outstanding **HIGH** risk recommendations will be provided by the HIA as part of an oral update at the next Audit Committee meeting (due on 30 July 2014).

5.12   Overall and in comparison to 2012/13 (where 38% of **HIGH** risk recommendations and 22% of **MEDIUM** risk recommendations were outstanding) the results of IA's follow-up work demonstrate **a positive direction of travel** regarding the management action taken during 2013/14 in response to the IA recommendations raised. Nevertheless, there is more work for IA to do in terms of working with management to improve the timely implementation of management action to mitigate **HIGH** and **MEDIUM** risks.

6. Review of Internal Audit Performance

6.1   Delivery of Internal Audit Days

6.1.1   IA was able to complete **91%** of the revised 2013/14 IA Plan to draft report stage **by 30 April 2014**. Whilst this is significantly better than what has been achieved in previous years, it still falls some way short of the challenging targets that IA has set for itself in 2014/15 (refer to Appendix D). Clearly IA's performance needs to significantly improve to achieve the 2014/15 KPIs, but the HIA remains confident that these targets will be achieved once the improvements to the IA service become embedded.

6.1.2   After deducting a sufficient time allocation for IA planning, management review, staff training and other IA overhead time, the planned IA days for 2013/14 was 1,700. However, due to significant slippage in delivering the 2012/13 IA Plan, **the actual total days delivered on 2013/14 work was approximately 1,300 IA days**.

6.1.3   The diagram below illustrates this:
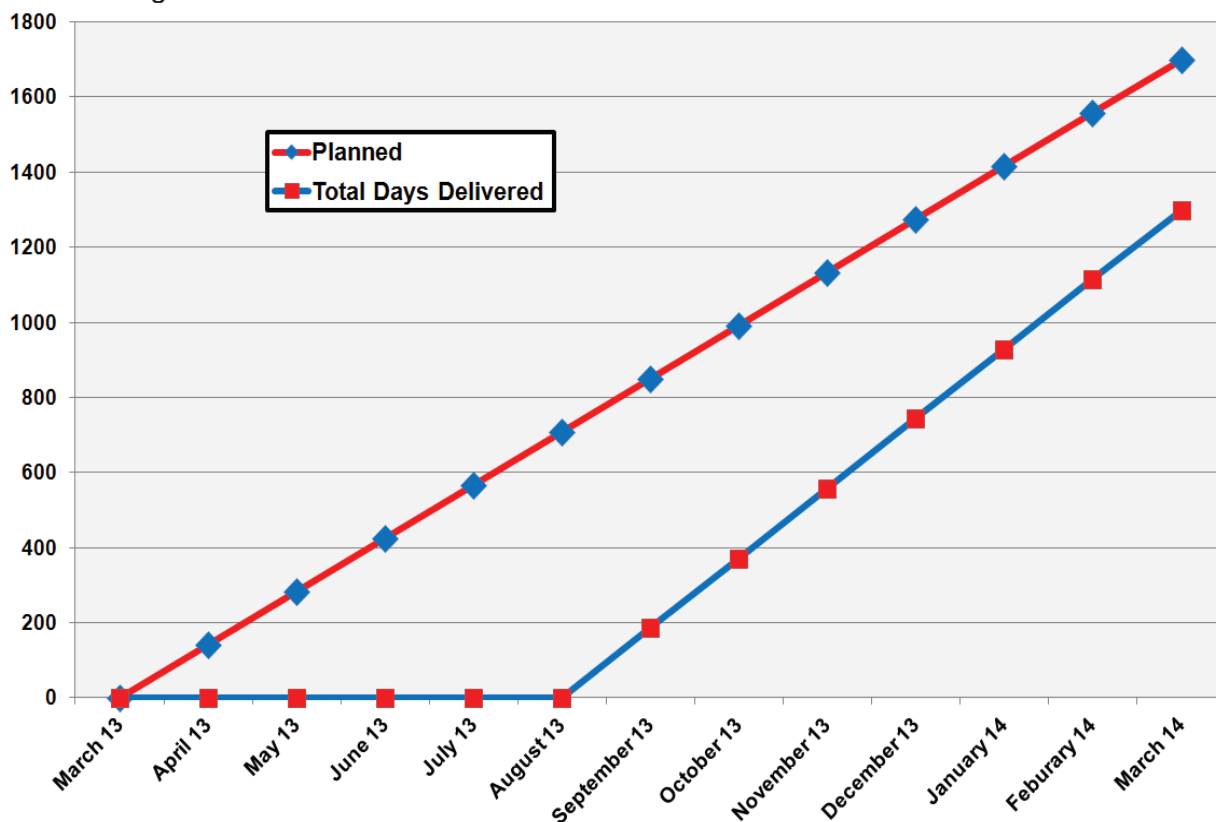
6.1.4   As previously reported to CMT and the Audit Committee, 2013/14 IA work effectively did not fully commence until August 2013 due to slippage from the previous year. Whilst this performance by the IA service could be regarded as poor, it does compare favourably with the previous two years (2012/13 audits did not fully commence until November 2012 and the first 2011/12 IA assurance audit report was not finalised until January 2012). This highlights how vital it is to the success of the IA service and Council that the IA Plan is delivered in a timely and prompt manner. It is against this backdrop that IA is pleased to report that work on the 2014/15 IA Plan commenced on 2 April 2014.

6.2   Client Feedback Questionnaires

6.2.1   As part of continuous improvement, IA introduced a new Client Feedback Questionnaire (CFQ) on 1 October 2013 which is sent out at the completion of all audit reviews to obtain formal management feedback. The **IA CFQ target** previously agreed with CMT and the Audit Committee was for IA to achieve **an overall average score of 3 or above** on each of the eight CFQ areas. As a recap on the CFQ scores:

- **4** means the clients <u>strongly agrees</u>;
- **3** is <u>agree</u>;
- **2** is <u>disagree</u>; and
- **1** is <u>strongly disagree</u>.

6.2.2   There is not an option on the CFQ for the client to indicate that they 'neither agree or disagree'. This is a deliberate decision by the HIA to enable management to form an overall opinion on the work that IA does i.e. did the audit review add value or not?

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6.2.3   Inherently with any feedback mechanism such as this, there is a risk that the CFQ results can become skewed where a client is unhappy i.e. if there are large number of recommendations or a poorer assurance level than expected/ anticipated, the client may be inclined to dismiss the value of the IA work with a low CFQ score.

6.2.4   However, as can be seen from the table below, IA has exceeded its target on all eight of the CFQ areas in 2013/14. The table shows the average score from the **40 CFQs completed since 1 October 2013** (as per Appendix A):

IA CFQ Areas	Average Score
Q1. Planning: The planning arrangements for the IA review were good	3.2
Q2. Scope: The scope of the IA review was relevant	3.2
Q3. Conduct: The IA review was conducted in a highly professional manner	3.2
Q4. Timing: The IA review was carried out in a timely manner	3.1
Q5. Report: The IA report was presented in a clear, logical and organised way	3.2
Q6. Recommendations: The IA recommendations were constructive and practical	3.1
Q7. Value: The IA review added value to your service area	3.1
Q8. Overall: I look forward to working with IA in future	3.4

6.2.5   From the CFQs IA have also received a range of formal client comments on IA performance this quarter, a selection of which is highlighted below:

Harefield Junior School

- *"Firstly a thank you to the auditor, who was very professional. She also put us at ease. Only a couple of comments – it was a shame to be marked down on something which was not the fault of current school staff. I can understand why, but still sad, since we had tried our best to resolve the situation! We look forward to working with Internal Audit in the future".*

Lady Bankes Junior School

- *"The auditor was very helpful and supportive. I did not feel she was critical or judgmental, especially given the situation the school has faced for the past year. She was helpful on site as well with some suggestions and advice – very good".*

Building Control - Dangerous Structures

- *"The auditor conducted the internal audit review in a very professional and approachable manner. He took time to understand the Dangerous Structure process and asked the necessary questions when clarification was required. A pleasure to carry out the audit with."*

Creditors

- *"The audit was carried out over a short time period which really suited us as this was during a busy period for the Corporate Payments Team. The auditor was extremely polite and made some useful discoveries/recommendations."*

Staff Declarations of Interests

- *"It was a refreshing change to 'commission' work from the Internal Audit service rather than having audit thrust upon us... and I would be happy to seek this sort of support again."*

<u>Treasury Management</u>

- *"Only comment is in relation to planning of the audit and the communication of when access to the team and information was needed. Would have been helpful for the auditor to have gained an understanding of the key pressure times within the function and to avoid those and to have pre-arranged times to meet, rather than just turning up and expecting the team to stop what they were doing to assist."*

<u>Staff Declarations of Interests</u>

- *"The presentation of the report itself demonstrated a lack of understanding on the part of the auditor in terms of the different processes that exist on this subject."*

<u>Inspections</u>

- *"We felt that there was a lack of understanding of the area that led to some suggestions that were unrealistic given current and foreseeable resource constraints."*

<u>Housing Benefits</u>

- *"In this audit it took a lot of intervention from me to get the audit recommendations into a meaningful state."*

6.2.6   Whilst the HIA proactively seeks informal feedback from management on IA reviews, IA is extremely grateful to management for the formal feedback in CFQs it has received. A **100% completion rate of CFQs** since the updated CFQ template was introduced last October has exceeded the HIA's expectations and will genuinely help IA improve as a service.

7. Forward Look

7.1   There have been a number of significant changes in the IA service over the last 12 months, which CMT and the Audit Committee have been kept informed of via the IA quarterly progress reports. Some of the key developments have included implementing IA software, restructuring the IA management team, devising more meaningful IA KPIs and introducing a fully risk based approach.

7.2   As part of the new fully risk based approach, in 2014/15 IA is carrying out risk based thematic cross-cutting reviews across a number of schools at a time, rather than visiting each school on a 3 year cyclical basis. This allows IA to share the results of these reviews with all Hillingdon schools, which will help raise awareness of common risk and control issues in schools, as well as share best practice.

7.3   Looking forward to 2014/15, the IA focus will be on delivering consistently high quality value added IA reviews and work is under way on delivering the 2014/15 IA Plan. An updated IA Strategy will be presented to CMT and Audit Committee in November/ December 2014 and this will need to reflect the changing expectations of IA's key stakeholders. IA will also need to consider the skills mix that it has within the service to ensure it is right for the business needs of the Council going forward.

7.4   IA would like to take this opportunity to formally thank all those staff throughout Hillingdon Council with whom IA it had contact during the year. There has been an increased collaborative approach in IA's relationship with staff and management who have responded positively, both informally and through the formal CFQ reporting, to the comments IA has made. There are no other matters that the HIA needs to bring to the attention of the Council's CMT or Audit Committee at this time.

Muir Laurie ACCA, CMIIA
Head of Internal Audit

17 July 2014

APPENDIX A

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2013/14

Key:

IA = Internal Audit	**NP** = Notable Practice
H High Risk	**CFQ** = Client Feedback Questionnaire
M = Medium Risk	Reasonable[1] = was Satisfactory Assurance
L = Low Risk	Substantial[2]= was Full Assurance

2013/14 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 16 July 2014	Assurance Level	Risk Rating				CFQ Received
				H	**M**	**L**	**NP**	
1463	Harefield Infant School	Final report issued 7 June 2013	Reasonable[1]	-	5	2	-	N/A
1467	Glebe Primary School	Final report issued 7 June 2013	Reasonable[1]	-	3	2	-	N/A
1464	Botwell House Primary School	Final report issued 2 July 2013	**Substantial[2]**	-	1	2	-	N/A
1465	Dr Tripletts (CE) School	Final report issued 18 July 2013	Reasonable[1]	-	6	3	-	N/A
1466	Field End Infant School	Final report issued 23 July 2013	**Substantial[2]**	-	-	2	-	N/A
1468	Grange Park Junior School	Final report issued 23 July 2013	Reasonable[1]	2	5	1	-	N/A
1471	St Andrew (CE) School	Final report issued 24 July 2013	Reasonable[1]	1	4	3	-	N/A
1470	Rabbsfarm Primary School	Final report issued 13 September 2013	Reasonable	-	5	3	-	N/A
1472	St Catherine RC Primary School	Final report issued 30 September 2013	Reasonable	-	7	5	-	N/A
1506	Treasury Management	Final report issued 10 October 2013	**Substantial**	-	-	-	-	Yes
1539	E-invoices	Final report issued 23 October 2013	Reasonable	1	3	2	-	Yes
1508	Arts Theatre Service	Final report issued 1 November 2013	Reasonable	-	3	1	-	Yes
1535	Warrender Primary School	Final report issued 13 November 2013	Reasonable	-	4	1	-	Yes
1534	Harefield Junior School	Final report issued 18 November 2013	Reasonable	2	1	1	-	Yes

APPENDIX A (cont'd)

2013/14 IA Assurance Reviews (cont'd):

| IA Ref. | IA Review Area | Status as at 16 July 2014 | Assurance Level | Risk Rating | | | | CFQ Received |
				H	M	L	NP	
1469	Highfield Primary School	Final report issued 25 November 2013	Reasonable	1	3	-	-	Yes
1533	Lady Bankes Junior School	Final report issued 27 November 2013	Reasonable	2	4	3	-	Yes
1496	Trading Standards	Final report issued 2 December 2013	Substantial	-	-	3	1	Yes
1537	West Drayton Primary School	Final report issued 9 December 2013	Limited	1	8	1	-	Yes
1536	Bishop Winnington-Ingram C of E Primary School	Final report issued 9 December 2013	Limited	1	6	1	-	Yes
1575	ContrOCC Security & Management Information (ICT system)	Final report issued 9 December 2013	Reasonable	-	5	3	-	Yes
1513	Childrens' Performance Licences & Chaperone Licenses	Final report issued 10 December 2013	Reasonable	1	5	2	1	Yes
1481	Recruitment Checks for Agency Staff	Final report issued 16 December 2013	Reasonable	-	1	1	-	Yes
1486	Maintenance of Bridges and Other Highway Structures	Final report issued 16 December 2013	Reasonable	-	4	1	-	Yes
1473	Building Control - Dangerous Structures	Final report issued 16 December 2013	Reasonable	1	5	2	-	Yes
1489	Access to Shared Drives	Final report issued 9 January 2014	Reasonable	-	3	1	-	Yes
1561	Employee Expenses	Final report issued 12 February 2013	Reasonable	-	1	3	-	Yes
1551	Inspection Team	Final report issued 17 February 2014	Limited	2	4	2	-	Yes
1582	West Drayton Primary School - Follow Up Audit	Final report issued 31 March 2014	Substantial	-	1	-	-	Yes
1522	Looked After Children Placed Out of Borough	Final report issued 3 April 2014	Limited	2	2	-	1	Yes
1542	Sheltered and Extra Care Housing	Final report issued 14 April 2014	Reasonable	-	2	1	-	Yes
1490	Events	Final report issued 17 April 2014	Reasonable	-	5	-	-	Yes
1574	Creditors	Final report issued 17 April 2014	Reasonable	-	4	2	-	Yes

APPENDIX A (cont'd)

2013/14 IA Assurance Reviews (cont'd):

IA Ref.	IA Review Area	Status as at 16 July 2014	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
1555	Housing Benefits	Final report issued 23 April 2014	**Substantial**	-	-	3	1	Yes
1559	Council Tax	Final report issued 24 April 2014	**Substantial**	-	3	1	-	Yes
1585	Day Centres	Final report issued 6 May 2014	Reasonable	-	5	3	-	Yes
1507	Housing Rents	Final report issued 6 May 2014	**No**	6	5	2	-	Yes
1548	Cash Collection Services	Final report issued on 8 May 2014	Reasonable	-	4	5	-	Yes
1556	National Non-Domestic Rates	Final report issued on 12 May 2014	Reasonable	1	1	-	-	Yes
1487	Children in Care Teams 1 & 2	Final report issued on 13 May 2014	Reasonable	-	2	1	-	Yes
1558	Debtors	Final report issued on 14 May 2014	Reasonable	-	3	3	-	Yes
1573	Staff Gifts, Hospitality & Sponsorships	Final report issued on 12 May 2014	Reasonable	-	3	1	-	Yes
1512	Pensions Admin – Employees' Contributions	Final report issued on 16 May 2014	Reasonable	-	3	1	-	Yes
1587	Risk Management	Final report issued on 16 May 2014	Reasonable	-	10	10	1	Yes
1571	Capital Budget Monitoring	Final report issued on 19 June 2014	**Substantial**	-	-	1	-	Yes
1591	Effectiveness of Internal Audit	Final report issued on 24 June 2014	Reasonable	-	3	7	-	N/A
1552	Corporate Health & Safety	Final report issued on 25 June 2014	Reasonable	-	4	3	-	Yes
1588	Corporate Governance	Draft report issued on 3 July 2014	Reasonable	-	3	11	-	
1590	Effectiveness of the Audit Committee	Draft report issued on 15 July 2014	Reasonable	-	4	5	-	
1583	Anti Fraud & Anti Corruption Arrangements	Draft report issued on 16 July 2014	**Limited**	1	9	7	1	
	Total number of IA Assurance Recommendations raised in 2013/14			**25**	**172**	**118**	**6**	
	Total percentage of IA Assurance Recommendations raised in 2013/14			**8%**	**55%**	**37%**	**-**	

22.

APPENDIX A (cont'd)

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2013/14 (cont'd)

2013/14 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 16 July 2014	CFQ Received?
1476	Council Garages	Final report issued 29 August 2013	N/A
1520	Troubled Families Programme	Final report issued 6 December 2013	Yes
1550	Boiler Maintenance and Replacement	Final report issued 31 December 2013	Yes
1568	Establishment Funds and Invoicing	Final report issued 16 January 2014	Yes
1560	Staff Declarations of Interests	Final report issued 28 January 2014	Yes
1578	Troubled Families Programme Grant Claim	Grant claim certified 28 January 2014	Yes
1577	Annual Summary of Schools Coverage	Final report issued 11 April 2014	N/A

APPENDIX B

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
Substantial	There is a **good level of assurance** 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 **positive assurance** that objectives will be achieved.
Reasonable	There is a **reasonable level of assurance** 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 **some risk** that objectives will not be achieved.
Limited	There is a **limited level of assurance** 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 **significant risk** that objectives will not be achieved.
No	There is **no assurance** 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 **high risk** 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 C

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk	Definition
HIGH ●	The recommendation relates to **a significant threat** 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. **The risk requires senior management attention**.
MEDIUM ●	The recommendation relates to **a potentially significant threat** 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. **The risk requires management attention**.
LOW ●	The recommendation relates to **a minor threat or opportunity** 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. **The risk may be tolerable in the medium term**.
NOTABLE PRACTICE ●	The activity **reflects current best management practice** or is an innovative response to the management of risk within the Council. **The practice should be shared with others**.

APPENDIX D

INTERNAL AUDIT KEY PERFORMANCE INDICATORS 2014/15

KPI Ref.	Performance Measure	Target Performance
KPI 1	**HIGH** risk IA recommendations where positive management action is proposed	98%
KPI 2	**MEDIUM** risk IA recommendations where positive management action is proposed	95%
KPI 3	**LOW** risk IA recommendations where positive management action is proposed	90%
KPI 4	**HIGH** risk IA recommendations where management action is taken within agreed timescale	90%
KPI 5	**MEDIUM** risk IA recommendations where management action is taken within agreed timescale	75%
KPI 6	Percentage of IA Plan delivered to **draft report** stage by 31 March	90%
KPI 7	Percentage of IA Plan delivered to **final report** stage by 31 March	80%
KPI 8	Percentage of draft reports issued as a final report within 15 working days	90%
KPI 9	Client Satisfaction Rating	80%
KPI 10	IA work fully compliant with the UK **PSIAS** and **IIA Code of Ethics**	100%

Key:

PSIAS = Public Sector Internal Audit Standards
IIA = Chartered Institute of Internal Auditors (UK)

The **previous (2013/14) IA KPIs** were:

- KPI1 - Deliver **90%** of the agreed IA Plan to final report stage by 31 March 2014;
- KPI 2 - Deliver **95%** of the agreed IA Plan to draft report stage by 31 March 2014; and
- KPI3 - Deliver **95%** of completed audits within the agreed time allocation.

26.

The Draft Annual Governance Statement 2013-14

Contact Officer: Kevin Byrne
Telephone: 01895 250665

SUMMARY

1. An update on preparing the Annual Governance Statement (AGS) for 2013/14 was last reported to the Committee on 11 March 2014. Steady progress has been made to deliver the key components feeding into the draft AGS, which has included collecting cross-Council assurance statements and reflecting progress in Internal Audit reviews of key processes. Currently, the Council is on schedule to publish the AGS alongside the Statement of Accounts in September 2014.

2. During March and April, all Deputy Directors and Heads of Service submitted governance assurance statements. The review process has highlighted a number of governance issues that are outlined in section 5 of the attached draft AGS (Appendix A).

3. A full draft 2013-14 AGS is attached for comment.

REASON FOR REPORT

4. This briefing provides the Audit Committee with a progress update and presents a draft 2013-14 AGS for comment.

RECOMMENDATION

5. **Members are invited to review the production of the draft 2013-14 AGS and offer comments on the process.**

6. **At this stage the AGS is draft and subject to possible amendment. The Committee will be invited to adopt the AGS once it is signed and agreed by the Leader of the Council and the Chief Executive, for publication alongside the annual accounts in September 2014. There are also a number of areas where we anticipate progress before the AGS is published and these have been identified with square brackets within the text.**

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DRAFT

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.

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 1st 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.

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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.

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, 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 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. [Note: Review in light of Internal audit review of anti-fraud and anti-corruption arrangements]

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 fully 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 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.

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.

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 report to the Corporate Management Team is being prepared to address this issue : UPDATE]

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.

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

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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.

Fran Beasley   Cllr Ray Puddifoot MBE
Chief Executive   Leader of the Council
XX September 2014   XX September 2014

Internal Audit - Progress Report for Quarter 1 2014/15

Contact Officer: Muir Laurie
Telephone: 01895 556132

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 one 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 1 (1 April to 30 June 2014).

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 new Public Sector IA Standards which came into force on 1 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 1

30 June 2014

www.hillingdon.gov.uk

Contents

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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) which came into force on 1 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.

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 quarter one IA assurance and consultancy work covered during the period 1 April to 30 June 2014. 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 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 The delay in finalising the 2013/14 planned programme of work has had a negative impact upon the commencement of 2014/15 IA reviews during the quarter one period. However, IA work on the 2014/15 IA plan commenced on 2 April and planning has now been initiated on all quarter one audits. Overall the IA service has been strengthened over the quarter one period with enhancements to its methodology, skills mix and IT software to help deliver value to the Council.

2.2 The HIA is confident that further efficiencies brought by the new audit software will in future significantly reduce slippage and positively impact delivery of the IA plan. Improving the efficiency of the IA process in this way creates greater capacity for IA to add value across the organisation. It also reduces the management time required in the IA process and IA is grateful to management for their co-operation in this area. Developing a more collaborative approach to IA work across the Council will help reduce the risk of IA 'over-auditing' and also ensure that going forward IA resource is more focussed on the greatest risks facing the authority.

2.3 As part of IA's commitment to continuous improvement of the services it provides, IA has undertaken a variety of consultancy work from the contingency allocation within the IA Plan. Attached at Appendix B is the list of 2014/15 consultancy requests as well as a list of additions and timing deferrals to the 2014/15 IA Plan. The planned programme of IA work has been discussed by the HIA with the relevant senior managers, including CMT. However, there have been a significant number of deferrals (4) within the quarter at the request of management. We are actively seeking to bring forward other audits to ensure IA resource is effectively utilised throughout the year to enable the delivery of the IA Plan, and associated assurances, to key stakeholders.

2.4   A key area of IA assurance work that has been successfully carried out in this quarter is in relation to Chantry School. Whilst the draft report for this is still in preparation, IA is able to confirm that a **NO** assurance opinion will be given on this audit. As part of this review IA found major control weaknesses surrounding the School's governance arrangements, financial management processes, personnel procedures (including recruitment) and ICT arrangements (including data security). CMT and the School's Interim Executive Board have responded positively to the emerging IA findings and improvement action is already well under way. The IA report on Chantry School is due to be finalised in the next few weeks and the HIA will provide an oral update to the Audit Committee at its meeting on 30 July 2014.

2.5   The HIA recognises that going forward the IA service needs to continue to improve its performance, particularly with regard to delivery of the IA Plan. However, significant steps have been taken by the IA service to achieve its strategic objectives. In particular, the IA planning is now fully risk based and the approved 2014/15 IA Plan provides sufficient flexibility and contingency to allow for new and emerging risks to be covered. Its successful delivery is largely dependent on available IA resource as well as how quickly the new initiatives within IA become fully embedded.

2.6   Further details of the IA work carried out in the quarter one period are included in section 3 of this report.

3. Analysis of Internal Audit Activity in 2014/15 Quarter 1

3.1   2014/15 Internal Audit Assurance Work

3.1.1   All of the IA assurance reviews carried out in the 2014/15 quarter one period are individually listed at Appendix A. It 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).

3.1.2   Due to the focus on finalising the 2013/14 IA Plan within the early part of quarter one, at the date of this report, no 2014/15 IA assurance reviews have yet reached final report stage. However, good progress has been made with the quarter one allocation of the IA Plan with **23%** at planning stage, **54%** at fieldwork stage and **23%** at draft reporting stage. Nevertheless, IA performance in relation to timely delivery of the IA Plan needs to continue to improve going forward.

3.1.3   Appendix A highlights progress of the **13** IA assurance reviews planned for this quarter. Whilst IA is on track to complete these audits in a reasonable timescale, there remains a significant challenge ahead for the IA service to ensure timely completion of the 2014/15 IA Plan. Given the significant level of transformational change going on across the organisation and the subsequent risks that are created, both CMT and the Audit Committee can take reasonable assurance from the results of the IA assurance work completed in quarter one.

3.2   2014/15 Internal Audit Consultancy Work

3.2.1   IA is gradually increasing the amount of consultancy work that it carries out across the Council. This includes IA staff attending working and project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach will help increase IA's knowledge of corporate developments which can feed into the risk based deployment of IA resource on assurance work. Also, participation in project/ working groups will help individual IA staff develop, whilst at the same time increasing the value IA provides to the Council. There is also scope to ensure that any work IA carries out is more closely aligned to the Transformation work which continues to be carried out across the Council.

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3.2.2   During quarter one, IA carried out a range of consultancy work including:

- advice in relation to the 2013/14 Annual Governance Statement, including active participation in the Corporate Governance Working Group;

- participation in the Hillingdon Information Assurance Group;

- attendance at a number of other corporate project groups (i.e. the Oracle Programme Board, the School's Expansion Programme, etc).

- participation in the Corporate Risk Management Group; and

- participation in the Public Health Steering Group.

3.2.3   As detailed at <u>Appendix A</u>, we also conducted **six** specific pieces of consultancy and **two** pieces of grant verification work this quarter, **five** of which have been finalised as memos and at the date of this report, **three** of which are work in progress. Due to the nature of consultancy work, we do not provide an assurance opinion or formal recommendations for management action. Instead we provide advice and suggestions for senior management to consider, although **the methodology of our consultancy work is still under development.**

3.2.4   The IA consultancy review of Purchase Requisitions - Chargeable Reactive Maintenance Works under £250, found that chargeable works under £250 undergo some level of management scrutiny prior to payment. However, the process for review, approval and contract management is all conducted by a single officer and we found minimal evidence of formal senior management oversight. It is against this backdrop that IA has suggested a number of improvements that senior management is in the process of considering.

3.2.5   The IA consultancy review of Domestic Violence Homelessness Process confirmed that Housing Officers have adopted the correct approach. Specifically, domestic violence claimants' initial requests for accommodation are prioritised. However, for those claimants who have longer-term accommodation needs, our judgement is that **Housing Officers should be investigating the longer-term claims more proactively and sensitively to gather more information in relation to the domestic violence case**. The Council's Multi Agency Safeguarding Hub (MASH) had a soft launch in November 2013 with a hard launch due to take place on 1 October 2014. There are three issues which are in the process of being resolved prior to the hard launch:

- Confirm MASH personnel (specifically to agree the core, extended and virtual teams);

- Ensure connectivity between the MASH Protect ICT software and ICS Protocol; and

- Arrange premises which provide firewalled, confidential space for MASH partners to operate.

3.3   Follow-up of Previous Internal Audit Recommendations

3.3.1   IA continues to 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 will also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations.

3.3.2   The implementation of recommendations raised by IA is now monitored solely by one member of the IA team. 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 and also ensures that organisationally IA has a more consistent and streamlined approach to the process of following-up IA recommendations. This approach has achieved extremely positive results for the Council's overall control environment, with the vast majority of recommendations now promptly implemented by management.

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3.3.3   The implementation of IA software (TeamMate), detailed under para 3.4 below, will further enhance IA follow-up work through a dedicated follow-up module within the software. This allows IA to monitor the progress and status of all recommendations and management action plans established whilst placing greater responsibility on management, as owners of the risk, to provide progress updates.

3.3.4   Implementation status updates on the IA software may be entered by IA team members and/or by action owners based on authorised access levels. The plan is that email notifications, either automatic or manually triggered, will be used as reminders to management to help ensure timely responses and follow-up action.

3.3.5   Follow-up work within this quarter has been undertaken on all outstanding IA recommendations arising from 2011/12, 2012/13 and 2013/14 coverage. The results from our follow-up work are reported within the 2013/14 Annual IA Report and Opinion Statement. During this quarter we have also undertaken verification testing on **HIGH** and **MEDIUM** risk recommendations to confirm and support management's assertion that recommended actions have been successfully implemented. Again, this is referred to in the 2013/14 Annual IA Report and Opinion Statement.

3.4   Other Internal Audit Work 2014/15

3.4.1   During the quarter, IA has been involved in the implementation of a new audit software tool, TeamMate. This will help improve the efficiency of IA's processes through the use of technology, whilst implementing a paperless IA approach at Hillingdon. Furthermore, this audit tool will enhance IA's risk based approach as well as helping to further develop and enhance the IA methodology.

3.4.2   TeamMate has been designed as an IA software tool to significantly reduce time spent on those elements that provide less value by empowering users at all levels to spend less time documenting and reviewing, and more time providing value-added services. Studies have shown that on average, auditors spend in excess of 40% of their time documenting and reviewing working papers and preparing their reports. TeamMate users report average productivity increases of 20-25% in the first year of TeamMate use.

3.4.3   Also, within the quarter we have successfully tendered for the delivery of the West London Waste Authority (WLWA) annual IA Plan of approximately 30 days per year for the next 3 years. This is a positive step for IA which will provide additional revenue to the Council as well as significant experience to the IA team. We are confident that the delivery of these 30 IA days per year, equating to less than 1% of the total IA resource at Hillingdon, will not affect the quality of delivery of our core responsibilities to the Council, CMT and the Audit Committee.

3.5   Internal Audit Performance

3.5.1   The new IA Key Performance Indicators (KPIs) previously agreed with CMT and the Audit Committee are:

- KPI 1 – **HIGH** risk IA recommendations where positive management action is proposed;

- KPI 2 – **MEDIUM** risk IA recommendations where positive management action is proposed;

- KPI 3 – **LOW** risk IA recommendations where positive management action is proposed;

- KPI 4 - **HIGH** risk IA recommendations where management action is taken within agreed timescale;

- KPI 5 - **MEDIUM** risk IA recommendations where management action is taken within agreed timescale;

- KPI 6 - Percentage of IA Plan delivered to **draft report** stage by 31 March;

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- KPI 7 - Percentage of IA Plan delivered to **final report** stage by 31 March;

- KPI 8 - Percentage of draft reports issued as a final report within 15 working days;

- KPI 9 - Client Satisfaction Rating; and

- KPI 10 - IA work fully compliant with the **PSIAS** and **IIA Code of Ethics**.

3.5.2   As at 30 June 2014, no 2014/15 IA assurance reports have been issued as final reports and therefore we are unable as yet to fully report on performance against the new suite of IA KPIs. Nevertheless, we believe that these KPIs are more meaningful and will provide sufficient challenge to IA. They measure the quality, efficiency and effectiveness of the IA service and thus assist us in providing an added value assurance and consulting service to our stakeholders.

4. Forward Look

4.1   Looking ahead to quarter two, IA faces a number of challenges including the first audits delivered utilising the new IA software. Resulting from this will also be a learning piece for IA and officers on the monitoring, follow-up and tracking of IA recommendations. In addition, IA will have completed the first tranche of thematic school reviews and be able to reflect upon the new approach to IA coverage of Hillingdon schools.

4.2   The IA service will, over the next quarter, be undertaking the process of updating its IA Strategy enabling us to align our objectives to the organisation. The new IA Strategy will have a five-year time horizon and have 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.

4.3   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 ACCA, CMIIA
Head of Internal Audit

30 June 2014

APPENDIX A

Key:

IA = Internal Audit	**NP** = Notable Practice
H = High Risk	**CFQ** = Client Feedback Questionnaire
M = Medium Risk	
L = Low Risk	**ToR** = Terms of Reference

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 QUARTER 1 (1 April 2014 to 30 June 2014)

2014/15 IA Assurance Reviews (carried out since 1 April 2014):

IA Ref.	IA Review Area	Status as at 30 June 2014	Assurance Level	Risk Rating				CFQ Received?
				H	**M**	**L**	**NP**	
A1	Schools – Recruitment Procedures	Draft report in progress	-					
A2	Health Contributions / CCG (C&YP Services)	Background planning in progress						
A3	Health Contributions / CCG (Adult Services)	ToR issued and fieldwork commenced	-					
A5	IAS Data Quality (Adult Services)	Background planning in progress	-					
A7	Housing - Temporary Accommodation	ToR issued and fieldwork commenced	-					
A9	Schools - Budgetary Control	ToR issued and fieldwork commenced	-					
A10	Business Continuity	ToR issued and fieldwork commenced	-					
A11	Performance Management	ToR issued and fieldwork commenced	-					
A13	Northgate - Contract Management	ToR issued and fieldwork commenced	-					
A14	Software Licensing	Draft report in progress	-					
A15	Members' Declarations of Interests	Background planning in progress	-					
A16	Planning Applications - Community Infrastructure Levy (CIL) (formally titled Planning Advice and Appeals)	ToR issued and fieldwork commenced	-					
A36	Chantry School	Draft report in progress	-					
		Total Number of IA Recommendations Raised in 2014/15 Q1						
		Total % of IA Recommendations Raised in 2014/15 Q1						

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APPENDIX A (cont'd)

2014/15 IA Consultancy Reviews (carried out since 1 April 2014):

IA Ref.	IA Review Area	Status as at 30 June 2014	CFQ Received?
C1	Domestic Violence Homelessness Process	Final IA consultancy memo issued 11 April 2014	
C2	Purchase Requisitions - Chargeable Reactive Maintenance Works under £250	Final IA consultancy memo issued 15 April 2014	
C3	Standby Payments	ToR issued and fieldwork commenced	
C4	Cemeteries Process	Final IA consultancy memo issued 18 June 2014	
C5	Planning Applications - prior approvals and low fee income generation	ToR issued and fieldwork commenced	
C6	Ruislip High School	ToR issued and fieldwork commenced	

2014/15 IA Verification Reviews (carried out since 1 April 2014):

IA Ref.	IA Review Area	Status as at 30 June 2014
GC1	Troubled Families Grant	IA memo issued 29 April 2014
GC2	Adoption Reform Grant	IA memo issued 27 May 2014

REVISIONS TO THE 2014/15 INTERNAL AUDIT PLAN

IA reviews added to the Operational Plan:

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
Quarter 1				
A16	Planning Applications - Community Infrastructure Levy (CIL)	Assurance	James Rodger, Head of Planning, Green Spaces and Culture	As part of initial discussions on the planning application and appeals audit we received a request to split this audit into three separate pieces of work; two assurance and one consultancy. This assurance piece, replacing the audit of planning application and appeals, will review the strategy and processes in place to manage the transition from Section 106 Agreements (S106) to the Community Infrastructure Levy (CIL).
A36	Chantry School	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Request received from the School's Interim Executive Board to provide some independent assurance on the school's internal control, risk management and corporate governance arrangements.
C1	Domestic Violence Homelessness Process	Consultancy	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	The Deputy Chief Executive and Corporate Director Residents Services, in liaison with Cllr Simmonds (the Deputy Leader of the Council), requested IA to conduct a consultancy review of the number of people claiming homelessness through domestic violence and establish whether these claimants are known to the Multi Agency Safeguarding Hub.
C2	Purchase Requisitions - Chargeable Reactive Maintenance Works under £250	Consultancy	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	The Deputy Chief Executive and Corporate Director Residents Services requested IA to review the requisition process for chargeable reactive maintenance works under £250 payable to the Council's main contractor.
C3	Standby Payments	Consultancy	Fran Beasley, Chief Executive and Corporate Director of Administration	Request received from the Employee Relations Manager to assist the internal review being undertaken to help embed a robust control framework.

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APPENDIX B (cont'd)

IA reviews added to the Operational Plan

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
C4	Cemeteries Process	Consultancy	James Rodger, Head of Planning, Green Spaces and Culture	Request received from the Head of Planning, Green Spaces and Culture to provide advice on the flow of information and communication throughout the interment process.
C5	Planning Applications - prior approvals and low fee income generation	Consultancy	James Rodger, Head of Planning, Green Spaces and Culture	As part of initial discussions on the planning application and appeals audit we received a request to split this audit into three separate pieces of work, two assurance and one consultancy. This consultancy piece will help identify improvements and suggest best practice for the department's prior approvals and low fee generating application process.
C6	Ruislip High School	Consultancy	Dr Martina Lecky, Head teacher, Ruislip High School	Ruislip High School is an academy school within the London Borough of Hillingdon. They have requested IA to carry out a piece of consultancy work in relation to the procedures and controls in place for IT inventory at the school. It is intended that our findings and recommendations will be used by management at the school to help strengthen areas of potential weakness in controls in this area.
GC1	Troubled Families Grant	Grant Claim Verification	Merlin Joseph Director Children & Young People's Service	The Council receives a payment by results grant from the Department for Communities and Local Government (DCLG) 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.
GC2	Adoption Reform Grant	Grant Claim Verification	Merlin Joseph Director Children & Young People's Service	The Council received the grant to provide support towards expenditure lawfully incurred. IA checked that the grant claim expenditure incurred was in accordance with the conditions of the grant, with sufficient evidence to support this.

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APPENDIX B (cont'd)

IA reviews added to the Operational Plan

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
Quarter 2				
C7	Primary Care Contracts	Consultancy	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Request received from the Interim Director of Public Health, following IA attendance at the Public Health Steering Group, to undertake a review of the process of developing primary care contracts.
A37	Planning Applications and Appeals for Major Projects	Assurance	James Rodger, Head of Planning, Green Spaces and Culture	As part of initial discussions on the planning application and appeals audit we received a request to split this audit into three separate pieces of work, two assurance and one consultancy. This assurance piece will review the planning applications and appeals process for major projects.

IA reviews deferred from Operational Plan 2014/15

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
Quarter 1				
A4	ICS Data Quality (C&YP Services)	Assurance	Merlin Joseph, Director of Children and Young Peoples Services	At the request of the Director, this has been deferred for at least 3 months due to staffing and operational pressures.
A6	Ofsted Improvement Action Plan	Assurance	Merlin Joseph, Director Children & Young People's Service	Timing of audit deferred to Q2 due to recent appointment of Interim Head of Children's Services.
A8	Corporate Construction	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Timing of audit to be aligned to restructure of the service to provide assurance that the control framework is effective following a period of change.
A12	Mortuary	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	At the request of the Manager, this has been deferred for at least 6 months due to staffing and operational pressures.

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APPENDIX B (cont'd)

IA reviews deferred from Operational Plan 2014/15

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
Quarter 3				
CF3	E-Invoices	Core Financial System	Paul Whaymand, Corporate Director of Finance	Timing of audit deferred from Q3 to Q4 due to unavailability of Corporate Payments Manager at the proposed timing of the audit.

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APPENDIX C

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
Substantial	There is a **good level of assurance** 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 **positive assurance** that objectives will be achieved.
Reasonable	There is a **reasonable level of assurance** 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 **some risk** that objectives will not be achieved.
Limited	There is a **limited level of assurance** 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 **significant risk** that objectives will not be achieved.
No	There is **no assurance** 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 **high risk** 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.

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APPENDIX D

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk	Definition
HIGH ●	The recommendation relates to **a significant threat** 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. **The risk requires senior management attention**.
MEDIUM ●	The recommendation relates to **a potentially significant threat** 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. **The risk requires management attention**.
LOW ●	The recommendation relates to **a minor threat or opportunity** 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. **The risk may be tolerable in the medium term**.
NOTABLE PRACTICE ●	The activity **reflects current best management practice** or is an innovative response to the management of risk within the Council. **The practice should be shared with others**.

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Internal Audit – Audit Committee Annual Report 2013/14

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REASON FOR ITEM

For good governance it is essential that the Audit Committee not only meets and considers the reports and information within its remit, but also ensures that the wider Council is aware of the breadth and extent of the work it does on its behalf. This report contains the information that it is proposed to present to Council so that it can be assured that the Audit Committee is acting appropriately on its behalf.

OPTIONS AVAILABLE TO THE COMMITTEE

- If necessary, suggest any amendments that should be made before the report is presented to Council on 11 September 2014.
- Approve the report.

SUMMARY

This report summarises for the Council the work of the Audit Committee during 2013/14 in undertaking its responsibilities for overseeing and challenging the key areas within its remit, specifically:

- Internal Control;
- Risk Management;
- Corporate Governance;
- Internal Audit;
- External Audit;
- Anti Fraud and Anti Corruption;
- Annual Accounts/ financial reporting requirements; and
- Treasury Management.

The report provides an opportunity for Council Members to review the work of the Audit Committee and comment on its contribution and performance.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

- Audit Committee meeting minutes 2013/14
- Audit Committee Terms of Reference

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Audit Committee   30 July 2014
PART I – MEMBERS, PUBLIC & PRESS

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Annual Report of the Audit Committee 2013/14

24 July 2014

Report Distribution:
Audit Committee on 30 July 2014
Council on 11 September 2014

HILLINGDON
LONDON

www.hillingdon.gov.uk

1. Introduction

1.1   In line with best practice guidance, the Audit Committee is required to submit an annual report to Council outlining the Audit Committee's activities over the previous year. This report summarises, for the Council, the work of the Audit Committee during the 2013/14 municipal year and how it has undertaken its responsibilities for reviewing and scrutinising the key areas within its remit. Specifically these include:

- Internal Control;

- Risk Management;

- Corporate Governance;

- Internal Audit;

- External Audit;

- Anti Fraud and Anti Corruption;

- Annual Accounts/ financial reporting requirements; and

- Treasury Management.

1.2   Accordingly, in compliance with the Accounts and Audit (England) Regulations 2011, the Audit Committee has reviewed the effectiveness of the Council's systems of internal control, risk management framework and corporate governance arrangements, by receiving regular reports from the areas above that contribute to the overall control framework.

1.3   This report provides an opportunity for Members to review the work of the Audit Committee and comment on its contribution and performance.

2. Key Activities of the Audit Committee

2.1   The Terms of Reference of the Committee are attached at Appendix A. These were last amended at the Council meeting held on 9 May 2013, following a review by the Corporate Services & Policy Partnerships Committee. The updated Terms of Reference outlines the different roles and responsibilities that surround the Council's wide ranging audit and governance activities, namely: strategy and policy (Leader/ Cabinet Members), service delivery (officers) and review, monitoring and strategic oversight (Audit Committee).

2.2   During the year membership of the Audit Committee comprised of:

- Mr. John Morley - Independent Chairman to 5 June 2014;

- Cllr George Cooper - Vice Chairman, reappointed 5 June 2014;

- Cllr Richard Lewis - Appointed May 2011, reappointed 5 June 2014;

- Cllr Raymond Graham - May 2011 to 5 June 2014;

- Cllr Paul Harmsworth - May 2011 to 5 June 2014;

- Cllr Tony Eginton - Appointed 5 June 2014; and

- Cllr Susan O'Brien - Appointed 5 June 2014.

2.3   In line with best practice, during the 2013/14 municipal year the Audit Committee was chaired by an independent Chairman. The 2013/14 independent Chairman was a qualified accountant with substantial relevant experience in the private and public sectors. This post is in the process of being re-appointed by the Council.

2.4   In addition, Internal Audit has recently highlighted that the 2013/14 Audit Committee membership was in slight breach of the Council's Constitution. Specifically, the Council's

Constitution states that members of the Audit Committee should not sit concurrently on the Council's Executive Scrutiny Committee. Unfortunately this has inadvertently not been complied with in 2013/14 or in previous years. However, as soon as the matter was brought to the attention of officers by Internal Audit, corrective action was taken to ensure that in future all Audit Committee membership will be in full adherence to the Council's Constitution.

2.5   The role delegated by the Council to the Audit Committee is to provide independent assurance over the system of internal controls, the risk management framework and the corporate governance arrangements in operation at the Council.

2.6   The Audit Committee has fulfilled this role by undertaking the following key activities:

   a) Oversight of Internal Audit

- The Audit Committee oversaw the activity of the Council's Internal Audit service to assist it in its role. During the year, the Audit Committee has reviewed the 2012/13 Internal Audit Annual Report, received Internal Audit progress report updates, scrutinised Internal Audit performance and approved the 2014/15 Internal Audit Plan as well the updated Internal Audit Charter.

- The Committee also reviewed the key findings from Internal Audit reviews and sought explanations from the Head of Internal Audit about the recommendations emanating from 'limited' or 'no' assurance audits. It monitored the number of outstanding high and medium risk recommendations and was pleased to note a substantial reduction in the number of outstanding Internal Audit recommendations this year.

- The Committee played an important role in raising the profile of Internal Audit by supporting it in its role of assisting management in the Council. During the year it encouraged the modernising of the Internal Audit department, and the introduction of more streamlined reporting.

- Internal Audit is now adopting a more collaborative approach in working with management to help achieve positive outcomes for the Council. In addition the Audit Committee was informed of the increased amount of consultancy work carried out by Internal Audit.

- In keeping with good governance arrangements, Members of the Audit Committee have had a private meeting with the Head of Internal Audit this year.

- The Audit Committee is satisfied that Internal Audit is effective and adds value to the Council.

   b) Oversight of External Audit

- The Audit Committee reviews the activity of the Council's External Auditors (Deloitte) to assist it in its role of monitoring the system of internal controls, the risk management framework and governance arrangements of the Council's operations. The Audit Committee has received and considered the annual external audit report, as well as the external audit plan. The Committee also received external audit progress report updates and reviewed external audit performance.

- In keeping with good governance arrangements, Members of the Audit Committee have had a private meeting with External Audit this year.

- The Audit Committee is satisfied that External Audit is effective and adds value to the Council.

   c) Prevention and Detection of Fraud and Corruption

- Hillingdon Council operates a zero tolerance policy towards fraud and corruption. Responsibilities for the Council's anti-fraud and anti-corruption arrangements are spread across three corporate directors.

- The Corporate Fraud Investigations Team (CFIT) carries out a range of investigations, although predominantly its focus has been on benefit fraud.

- Hillingdon has been recognised by the Department for Work and Pensions as running the best performing Single Fraud Investigation Service pilot, acknowledging innovative team working and high quality benefit fraud investigations which have produced positive outcomes.

- The process of presenting cases to court has been streamlined and this has reduced the time taken for cases to be prepared. Direct working with the Crown Prosecution Service has also been expanded.

- The National Fraud Initiative (NFI), detecting potential fraud by matching electronic data sets within and between public and private sector bodies, formally transferred to the CFIT in January 2014. The Team is now resourced to manage, analyse and investigate any data matches arising.

- The Committee has responsibility for the oversight of the effectiveness of the Council's policies and procedures to prevent and detect fraud and corruption. It has received consolidated reports from the CFIT on a bi-annual basis. During 2013/14 there has been a focus on tenancy fraud and in particular benefit fraud.

- The Audit Committee is generally satisfied with the effectiveness of the Council's anti-fraud and anti-corruption arrangements and notes the high performance of the CFIT on benefit fraud in particular.

d) Risk Management

- The Audit Committee approved the Council's Risk Management Policy and Guidance in March 2013. The Committee has monitored and reviewed the Council's risk management arrangements during the year through a bi-annual risk management report, including the Corporate Risk Register. It sought assurances that action was being taken on risk related issues.

- The Audit Committee is satisfied that these arrangements enable it to provide sufficient challenge to officers around the identification and management of the key risks to the Council.

e) Approval of Accounts

- In September 2013 the Committee approved the Council's annual statement of accounts for 2012/13. This included considering whether appropriate accounting policies have been followed and whether there are concerns arising from the external audit of the financial statements that need to be brought to the attention of the Council. The Committee scrutinised the accounts in some detail and challenged the officers where appropriate. As part of this process the Committee considered the External Auditor's Annual Report to those charged with governance on issues arising from the external audit of the accounts. An unqualified external audit opinion was provided by the External Auditor in September 2013.

- In addition, the Audit Committee reviewed the Balances and Reserves Statement 2014/15, contained within the budget reported to Cabinet and Council in February 2014. This provides further detail on the Council's approach to the management and measurement of balances and outlining technical accounting guidance used alongside analysis of specific risks that lead to a determination of a prudent 'reserves and balances range'. The Audit Committee is satisfied that the Finance Team is effective and adds value to the Council.

f) Corporate Governance

- The Audit Committee successfully oversaw the production of the Council's Annual Governance Statement (AGS) for 2012/13 and approved it as part of the Statement of Accounts.

- In addition, the Committee is currently in the process of providing oversight in relation to the production of the AGS for 2013/14.

- During the year the Committee were briefed by senior officers on the Council's approach to cyber security, as well as the improved procurement process being introduced across the organisation.

g) Treasury Management

- The Treasury Management Strategy Statement (including Prudential Indicators and Annual Investment Strategy) for the forthcoming financial year is submitted to Cabinet prior to agreement at full Council before the start of the financial year. The Audit Committee considered an early draft of the Treasury Management and Investment Strategy in January 2014. The strategy was then approved by Council as part of the budget setting process in February 2014.

3. Improvements in the Audit Committee's Effectiveness

3.1   The Audit Committee is committed to continuous improvement and has implemented several activities to develop the effectiveness of individual Members and the Committee as a whole. The Committee requested a Training and Development Plan for all Audit Committee Members. A training session is planned for September (date to be confirmed), which will outline to Audit Committee Members the role of the Committee in the organisation, together with providing Members with information on the organisational structure of the Council.

3.2   Furthermore, regular training sessions on a range of relevant subjects within the Audit Committee's remit are being built into the Training and Development Plan. Topics include an overview of the Council's Corporate Governance arrangements, the role of Internal and External Audit, fraud prevention, detection and investigation, understanding local government accounts and risk management. These timely and relevant sessions will enable the Audit Committee to perform its duties more effectively. It was noted that the independent Chairman received relevant training during the year as part of his Audit Committee responsibilities in other organisations.

3.3   In line with best practice, an independent review of the Audit Committee's effectiveness has been conducted by Internal Audit. Internal Audit concluded that there are areas of good collective understanding across the Committee. They also reported that having an independent Chairman of the Committee has helped the Committee remain independent and objective. However, the audit also raised several low risk recommendations in relation to the Audit Committee Terms of Reference which do not fully comply with best practice.

3.4   Linked to this, following amendments to the Audit Committee's Terms of Reference in May 2013, concern was expressed at the deletion of the power the Audit Committee had to require senior managers of Council services to attend meetings. The External Auditors have noted that it is unusual for the Audit Committee of a local authority not to have this power. However, during the year there have been no occasions where the lack of this power has hindered the effectiveness of the Audit Committee in any way. The Internal Audit report on the effectiveness of the Audit Committee is due to be reported to the Audit Committee at its planned meeting of 30 July 2014.

4. Conclusion

4.1   The Audit Committee considers that it has continued to make a significant contribution to ensuring that the key elements of the Council's system of internal controls, risk management framework and corporate governance arrangements are given proper consideration and are appropriately challenged. The Committee will continue to develop this role and contribute to strengthen governance throughout the authority.

4.2   I would like to thank all Members and officers who have been involved in the work of the Audit Committee throughout the past year.

Cllr George Cooper
Vice Chairman of the Audit Committee
London Borough of Hillingdon

24 July 2014

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.

WORK PROGRAMME 2014/15

Contact Officer: Khalid Ahmed
Telephone: 01895 250833

REASON FOR ITEM

This report is to enable the Committee to review meeting dates and forward plans.

OPTIONS AVAILABLE TO THE COMMITTEE

1. To confirm dates for meetings

2. To make suggestions for future working practices and/or reviews.

INFORMATION

All meetings to start at 5.00pm

Meetings	Room
30 July 2014 at 7.00pm	CR 5
25 September 2014	CR 3A
16 December 2014	CR 3
17 March 2015	CR 3A

AUDIT COMMITTEE

2014/15 DRAFT Work Programme

30 July 2014	Consolidated Fraud Investigation Report	Corporate Fraud Investigation Manager
	Annual Internal Audit Report & Opinion Statement 2013/14	Head of Internal Audit
	Annual Review on the Effectiveness of Internal Audit	Head of Internal Audit
	Review of the Effectiveness of the Audit Committee	Head of Internal Audit
	Draft Annual Governance Statement	Head of Policy
	Head of Internal Audit Annual Assurance Statement	Head of Internal Audit
	Internal Audit Progress Report - Quarter 1 2014/15	Head of Internal Audit
	Audit Committee Annual Report to Council	Head of Internal Audit
	Audit Committee Work Programme	Democratic Services Manager

Meeting Date	Item	Officer/member
25 September 2014	Approval of the 2013/14 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2014	Director of Finance/Deloitte
	Deloitte Annual Audit Letter	Director of Finance/Deloitte
	External Audit Report to the Audit Committee on the 2013/14 audit of the Pension Fund Financial Statements	Director of Finance/Deloitte
	Internal Audit Progress Report Quarter 2 2014/15 and plan amendments	Head of Internal Audit
	Risk Management Quarter 1 Report – PART II	Head of Policy
	Audit Committee Work Programme	Democratic Services Manager

16 December 2014	* Private Meeting with Head of Internal Audit to take place before the meeting	
	Internal Audit Strategy	Head of Internal Audit
	Internal Audit Progress Report Quarter 3 2014/15 and plan amendments	Head of Internal Audit
	Treasury Management Strategy and Investment Strategy 2015/16	Director of Finance
	Corporate Fraud Investigation Progress Report	Corporate Fraud Investigation Manager
	Deloitte Annual Grant Audit Letter	Director of Finance/Deloitte
	Corporate Fraud Team Work Plan	Corporate Fraud Investigation Manager
	Proposed 2014/15 Training and Development Plan for Audit Committee Members	Head of Democratic Services
	Audit Committee Work Programme	Democratic Services Manager

17 March 2015	* Private meeting with the Council's External Auditors to take place before the meeting	
	Internal Audit – Draft Internal Audit Plan	Head of Internal Audit
	Internal Audit Progress Report Quarter 4 2014/15 and plan amendments	Head of Internal Audit
	Internal Audit – Revised Internal Audit Charter	Head of Internal Audit
	Annual Governance Statement – Interim Report	Head of Policy
	Balances and Reserves Statement	Director of Finance
	Revisions to the Treasury Management Strategy Statement and Investment Strategy 2014/15 to 2016/17	Director of Finance

	Deloitte – 2014/15 Annual Audit Plan	Director of Finance/Deloitte
	Risk Management Report Part II	Head of Policy
	Audit Committee Work Programme	Democratic Services Manager