



HILLINGDON  
LONDON



## Audit Committee

### Members on the Committee

Rajiv P Vyas (Chairman)  
Cllr Richard Lewis (Vice-Chairman)  
Cllr Tony Eginton (Labour Lead)  
Cllr Peter Davis  
Cllr Susan O'Brien

**Date:** THURSDAY, 2 JULY 2015

**Time:** 5.00 PM

**Venue:** COMMITTEE ROOM 4 -  
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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Contact: Khalid Ahmed  
Tel: 01895 250833  
Fax: 01895 277373  
Email: [kahmed@hillington.gov.uk](mailto:kahmed@hillington.gov.uk)

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<http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CIId=256&MIId=2352&Ver=4>

*Putting our residents first*

Lloyd White  
Head of Democratic Services  
London Borough of Hillingdon,  
3E/05, Civic Centre, High Street, Uxbridge, UB8 1UW  
[www.hillingdon.gov.uk](http://www.hillingdon.gov.uk)

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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 Declarations of Interest
- 3 Minutes of the meetings held on 17 March and 14 May 2015 **(Pages 1-10)**
- 4 Exclusions 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 Team Progress Report April 2015 to May 2015 **(Pages 11-18)**
- 6 Internal Audit - Annual Report & Opinion Statement 2014/15 **(Pages 19-52)**
- 7 Internal Audit - Effectiveness of Internal Audit **(Pages 53-70)**
- 8 Internal Audit - Effectiveness of the Audit Committee **(Pages 71-82)**
- 9 Internal Audit - Progress Report for Quarter 1 2015/16 (including the 2015/16 Quarter 2 IA Plan) **(Pages 83-104)**
- 10 Skills Matrix and Training & Development Programme for Audit Committee Members  
To be provided with an oral update.
- 11 Draft Annual Governance Statement 2015/16
- 12 Work Programme 2015/16 **(Pages 104-108)**

## **PART II**

- 13 Risk Management Report & Q4 Corporate Risk Register

# Agenda Item 3

## Minutes

### Audit Committee

Tuesday 17 March 2015

Meeting held at Committee Room 3A- Civic Centre, High Street, Uxbridge UB8 1UW



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	<p><b>Members Present:</b> Councillors Richard Lewis (Vice-Chairman - In the Chair), George Cooper, Tony Eginton and Susan O'Brien.</p> <p><b>Apologies:</b> Rajiv Vyas (Independent Chairman)</p> <p><b>Officers Present:</b> Kevin Byrne (Head of Policy and Partnerships), Garry Coote (Corporate Fraud Investigation Manager), Sian Kunert (Chief Accountant), Muir Laurie (Head of Internal Audit), Nancy Le Roux (Deputy Director of Strategic Finance), Perry Scott (Head of Corporate Procurement and Commissioning), Iain Watters (Corporate Finance - Financial Planning Manager), Paul Whaymand (Corporate Director of Finance), Martyn White (Senior Internal Audit Manager) and Khalid Ahmed (Democratic Services Manager).</p> <p><b>Others Present:</b> Jonathan Gooding (External Auditors - Deloitte).</p>
34.	<p><b>DECLARATIONS OF INTEREST</b></p> <p>Councillors Cooper and Eginton declared Non-Pecuniary Interests in items on the agenda which related to schools as both were Governors of schools in the Borough. Both remained in the room and took part in discussions on the items.</p> <p>Councillor Eginton declared a Non-Pecuniary Interest in Agenda Item 5 – Deloitte -Annual Grant Audit Letter because he was a retired Member of the Local Government Pension Scheme. He remained in the room and took part in discussions on the item.</p> <p>Councillor O'Brien declared a Non-Pecuniary Interest in items on the agenda which related to schools as she had been working for a school in the Borough. She remained in the room and took part in discussions on the items.</p>
35.	<p><b>MINUTES OF THE MEETING HELD ON 16 DECEMBER 2014</b></p> <p>Agreed as an accurate record.</p>
36.	<p><b>EXCLUSION OF THE PRESS AND PUBLIC</b></p> <p>It was agreed that all the items on the Agenda be considered in public with the exception of Agenda Item 15 - Internal Audit - Draft Internal Audit Strategy 2015-2020 and Agenda Item 16 - Risk Management Report.</p>

<p>37.</p>	<p><b>DELOITTE - ANNUAL GRANT AUDIT LETTER</b></p> <p>Deloitte’s Draft Annual Audit Letter provided a summary of the key findings on the grant work undertaken by Deloitte for the year ended 31 March 2014.</p> <p>Members were informed that Deloitte was responsible for certifying 2 claims and returns under the contract with the Audit Commission, both of which were certified by the required deadline. Their key findings from this work were that as a result of errors identified during the audit, an adjustment was made to 1 return prior to certification and a qualification letter was issued in respect of the same grant claim.</p> <p>Reference was made to the reason for the qualification which related to Housing and Council Tax benefit Scheme where there had been 4 identified errors on the initial testing of 60 cases.</p> <p><b>RESOLVED –</b></p> <p><b>1. That the report be noted.</b></p>	<p><b>Action By:</b></p>
<p>38.</p>	<p><b>DELIVERING THE ANNUAL GOVERNANCE STATEMENT (AGS) 2014-15</b></p> <p>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:-</p> <ul style="list-style-type: none"> <li>• Performance management &amp; data quality</li> <li>• Risk Management processes</li> <li>• Improvement and transformation</li> <li>• Legal and regulatory assurance</li> <li>• Financial control assurances</li> <li>• Service delivery assurances from Directors and Heads of Service</li> <li>• Annual Internal Audit report and assurance</li> <li>• External inspection reports and assurances</li> </ul> <p>Members were informed that the Council's Corporate Governance Working Group would guide and oversee the delivery of the AGS and ensure that key changes to governance arrangements and control systems were reported, review actions against control weaknesses identified in the AGS 2013-14 and highlight cross-Council assurance sources.</p> <p><b>RESOLVED –</b></p> <p><b>1. That the sources of management information and assurance used to produce the AGS be noted.</b></p>	





	<p><b>1. That the information contained in the report be noted.</b></p>	<b>Action By:</b>
41.	<p><b>REVISIONS TO THE TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2015/16 TO 2019/20</b></p> <p>Members were reminded that this Committee had considered a draft Treasury Management Strategy Statement and Investment Strategy at the last meeting and this report contained the changes from the draft to the final version of the Statement.</p> <p><b>RESOLVED -</b></p> <p><b>1. That the contents of the Treasury Management Strategy Statement and Investment Strategy be noted.</b></p>	
42.	<p><b>INTERNAL AUDIT - UPDATED INTERNAL AUDIT CHARTER</b></p> <p>Members were informed that the Internal Audit Charter set out the purpose, authority, responsibility and position of the Internal Audit Service within the Council. The Committee was informed that this was a key document in respect to the Council's internal control, risk management and corporate governance framework.</p> <p>Reference was made to the Committee's terms of reference requiring amendment to include the reviewing and approving of the Internal Audit Charter.</p> <p><b>RESOLVED –</b></p> <p><b>1. That the Committee reviewed and approved the updated Internal Audit Charter.</b></p>	<b>Khalid Ahmed / Muir Laurie</b>
43.	<p><b>INTERNAL AUDIT - PROGRESS REPORT FOR QUARTER 4 2014/15</b></p> <p>The Head of Internal Audit presented the report which provided summary information on all Internal Audit work covered in relation to the 2014/15 Internal Audit Plan, together with assurance levels in respect of the quarter four period.</p> <p>Members were informed that since the last progress report, 8 assurance reviews had been completed to final report stage, 3 additional opinion statements had been issued, 7 consultancy reviews had been finalised and 1 grant claim had been verified.</p> <p>Reference was made to the three significant deferrals in the</p>	

	<p>Residents Services Group; Corporate Construction, Housing - Planned Maintenance and Housing Repairs. The Committee was informed that a No assurance opinion could be given for each of these three areas but that Internal Audit would work with management on a consultancy basis to provide advice and support in relation to the design and implementation of the new processes and procedures.</p> <p>The Council's Interim Deputy Director of Asset Management (Head of Corporate Procurement and Commissioning) attended the meeting and informed Members that he had been given the responsibility to restructure these areas and look at making changes to the operating models and processes for these services. Reference was made to the assistance which would be given by Internal Audit who would work with management to improve systems in these areas.</p> <p>Discussion took place on Internal Audit's Key Performance Indicators and in particular KPI 8 - percentage of draft reports issued as a final report within 15 working days, where the target performance had not been reached. The Head of Internal Audit reported that the service was reliant on timely management responses to achieve the required targets. The Committee was informed that the failure to achieve this target indicated that potentially some managers were over-stretched.</p> <p><b>RESOLVED –</b></p> <ol style="list-style-type: none"> <li><b>1. That the Internal Audit progress report for 2014/15 Quarter 4 be noted.</b></li> <li><b>2. That the coverage, performance and results of Internal Audit activity in this quarter be noted.</b></li> </ol>	<b>Action By:</b>
44.	<p><b>INTERNAL AUDIT - DRAFT INTERNAL AUDIT PLAN</b></p> <p>The Committee was informed that the Council's Internal Audit Plan detailed the planned Internal Audit activity for the forthcoming year.</p> <p>Members were informed that after deducting an appropriate amount of allocated time for Internal Audit planning, reporting, management review, staff training and other Internal Audit overhead time, the total available Internal Audit chargeable time for 2015/16 at Hillingdon was 1,300 days.</p> <p>Reference was made to Internal Audit coverage which also included consultancy work and that this comprised 286 days allocation. Members were informed that this work included advising, training, facilitating and conducting specific reviews.</p> <p><b>RESOLVED –</b></p>	

	<p><b>1. That approval be given to the draft Internal Audit Plan.</b></p>	<b>Action By:</b>
<b>45</b>	<p><b>WORK PROGRAMME 2015/16</b></p> <p>Noted. It was agreed to reschedule the private meeting which was to take place with the External Auditors prior to the next meeting of the Committee.</p>	
<b>46.</b>	<p><b>PROGRESS ON SKILLS MATRIX AND TRAINING AND DEVELOPMENT PLAN</b></p> <p>The Committee was provided with an update on the progress made in relation to the production of a Skills Matrix and a Training and Development Plan for Audit Committee Members.</p> <p>It was agreed that a draft be circulated to Members by the end of April for their comments and input.</p>	<b>Muir Laurie</b>
<b>47.</b>	<p><b>INTERNAL AUDIT - DRAFT INTERNAL AUDIT STRATEGY 2015/16</b></p> <p>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</p> <p>The Senior Internal Audit Manager presented the report which provided details of the approach which would be taken to develop the Internal Audit strategy for the next five years.</p> <p><b>RESOLVED –</b></p> <p><b>1. That the draft Internal Audit Strategy 2015-2020 be approved.</b></p>	
<b>48.</b>	<p><b>RISK MANAGEMENT REPORT 2014/15</b></p> <p>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</p>	

	<p>The report presented to Members the Corporate Risk Register till the end of December 2014 and also provided a summary of changes in risks on the Corporate Risk Register during the previous 12 months.</p> <p><b>RESOLVED –</b></p> <p><b>1. That the Committee reviewed the Corporate Risk Register (as at the end of December 2014), as part of the Committee's role to independently assure the risk management arrangements in the Council.</b></p>	
	<p><b>The meeting which commenced at 5.00pm, closed at 6.15pm</b></p> <p><b>Next meeting: 2 July 2015 at 5.00pm</b></p>	

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.

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**Minutes****AUDIT COMMITTEE****14 May 2015****Meeting held at Council Chamber - Civic Centre,  
High Street, Uxbridge UB8 1UW**

	<b>Committee Members Present:</b> Councillors Richard Lewis (Vice-Chairman), Peter Davis, Tony Eginton and Susan O'Brien
1.	<b>ELECTION OF VICE-CHAIRMAN</b> ( <i>Agenda Item 1</i> )  <b>RESOLVED: That Councillor Richard Lewis be elected Vice-Chairman of the Audit Committee for the 2015/2016 municipal year.</b>
	The meeting, which commenced at 8.42 pm, closed at 8.47 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 Team Progress Report April 2015 to May 2015

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

### REASON FOR ITEM

To inform members of the work undertaken by the Corporate Fraud Investigation Team (CFIT) from April 2015 to May 2015.

### OPTIONS AVAILABLE TO THE COMMITTEE

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

### INFORMATION

#### 1. Roles and Responsibilities

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 (CFIT) 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.

In September 2014 the Leader agreed a Business Case to re-structure the Corporate Fraud Investigation Team with effect from October 2014. This re-structure has ensured a fully resourced Fraud Team to deliver the Councils aim to detect and prevent fraud through a zero tolerance approach and take appropriate action against offenders.

Corporate Fraud Investigation Team activities since April 2015 included:

- Social Housing fraud
- Council Tax/Business Rates inspections
- Single Person Discount (SPD)
- Temporary Accommodation and Housing Needs Reception
- Right to Buy investigations
- Proceeds of Crime investigations
- Housing Waiting List
- Insurance Claims
- Enhanced Recruitment Verification
- Blue Badge
- Procurement fraud

## **2. Corporate Fraud Investigation Team Objectives**

The Corporate Fraud Investigation Team aims to maximise income and reduce expenditure for the Council. The team intends to detect and prevent fraud across all Council activities and when appropriate prosecute offenders. The results of the work of the CFIT will ensure Hillingdon is able to achieve the objective of putting residents first.

## **3. Performance Outcomes April 2015– May 2015**

### **3.1 Social Housing Fraud**

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

The CFIT investigates suspected cases of social housing fraud which are identified either by direct referral from Housing Officers, data matching exercises or telephone calls to the fraud hotline. Since April 2015 the CFIT has recovered 14 properties which are now available to be re-let to residents in genuine housing need. An example of one case where the property was recovered was initiated by a phone call from a housing tenant who was suspicious about the new residents at the property next door. On investigation it was found that the property had been advertised for private rental on Gumtree for £750 a month. The person who had rented the flat was unaware that it was a council property and was an innocent victim of the sub-letting fraud. The property has now been re-let to a person in genuine housing need and the original tenant is being prosecuted.

The Audit Commission, in their report 'Protecting the Public Purse 2014' estimated that nationally it costs councils on average £18,000 a year for each family placed in temporary accommodation. Using this calculation the savings for Hillingdon this year are £252,000. The target set by CFIT for 2015/16 is to recover 52 properties (1 a week). To date in 2015/16 this target has been exceeded.

In total since the commencement of this project in 2010 the CFIT have recovered 200 properties which using the Audit Commission calculation equates to savings of £3.6 million.

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

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

To increase awareness of social housing fraud the Corporate Fraud Investigation Team will be promoting their work at residents meetings in 2015/16 as part of the forward work programme.

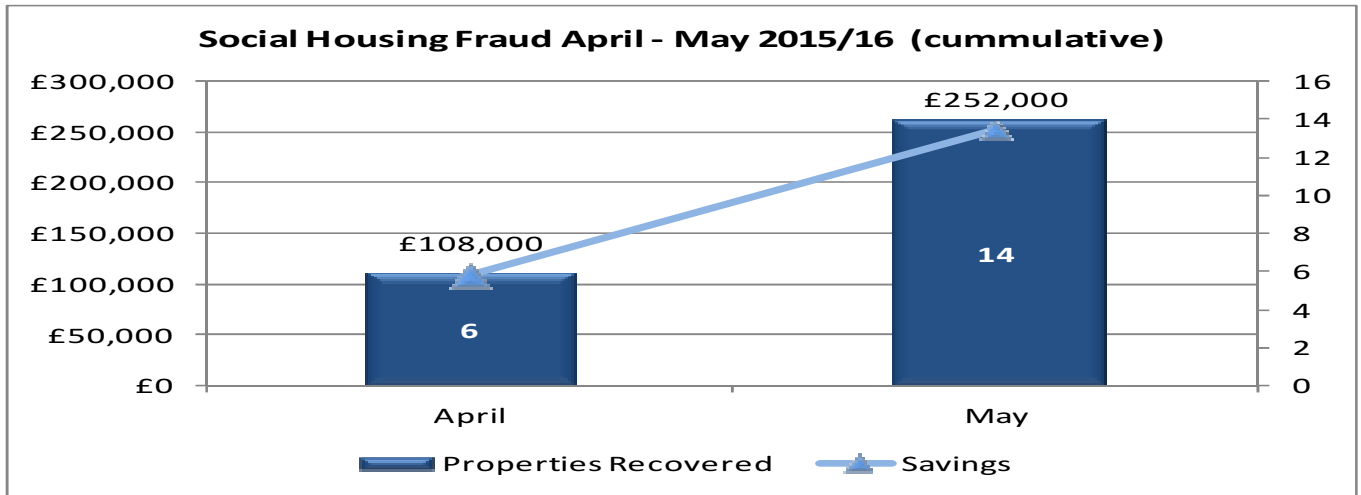
A new initiative planned for 2015/16 will involve working in partnership with Registered Social Landlords (RSL's). The CFIT will match data from RSL's with a Credit Reference Agency to identify fraudulent sub-letting and then work with RSL's to investigate individual cases. In return

for delivering this service RSL's have committed to ensuring that all recovered properties will be exclusively made available to Hillingdon Council, thereby helping to reduce housing pressures.

Table 1

Social Housing Fraud						
2014/15						
	April		May		Total	
	Number	Savings	Number	Savings	Number	Savings
Properties Recovered	6	£108,000	8	£144,000	14	£252,000

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



### 3.2. Council Tax and Business Rates Inspections

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

This year from April to May 2,181 visits have been carried out. The visiting programme is very intense and officers are trained in all areas of work to ensure an efficient and planned approach to all visits.

Council Tax Inspections are generally reactive and identify the status of those claiming discounts and exemptions. Where the visit establishes the wrong amount of Council Tax is being charged the account is changed and the person re-billed. 1,389 Council Tax inspection visits have been made from April to May 2015.

Business Rate inspection visits are carried out to check occupation status of commercial premises to ensure the Council maximises the non domestic rate revenue. Similarly, the new build visits are carried out to ensure properties are rated for domestic or business rates as soon as they are completed. It is estimated that for the 2 year period from April 2014 there will be approximately 1,400 new build properties being developed in Hillingdon. This represents a significant amount of additional revenue. 792 visits have been made between April and May 2015 to check Business Rates and New Build Inspections.

Initiatives to identify Business Rates avoidance include data matching Business Rates records to highlight new or unregistered businesses. Business Rate revenue is also maximised through

expanding charging opportunities, for example charging business rates for advertising hoardings.

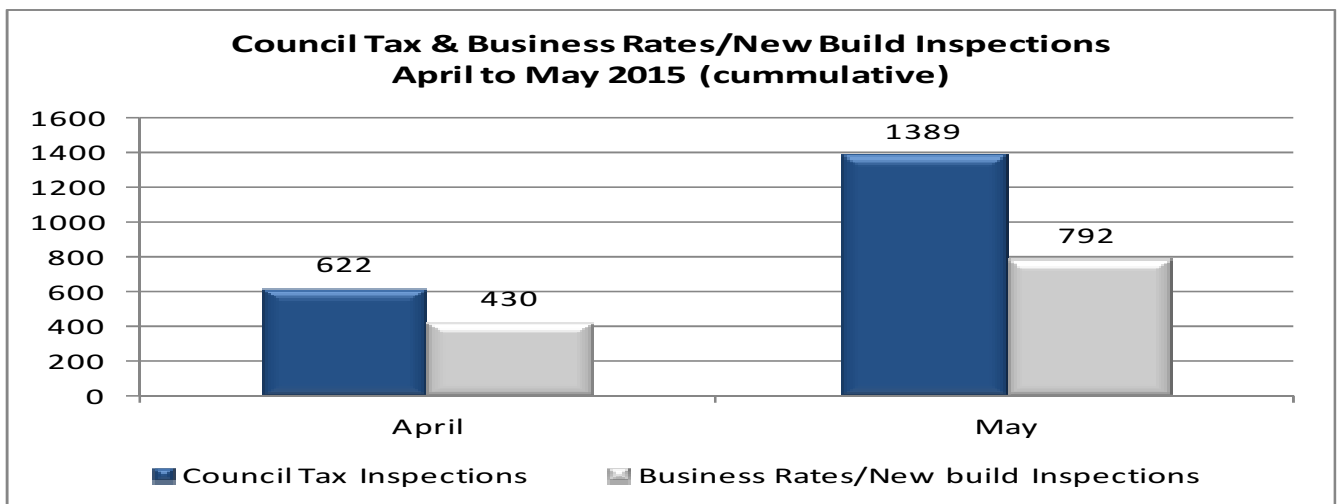
The robust visiting programme continues in 2015/16 working with internal partners such as planning to monitor new developments with the aim of maximising revenue potential.

The CFIT has recently received feedback from an external organisation who conducted a health check relating to the identification and investigation of maximising Business Rates income. This company has previously advised other Local Authorities of actions they could take to improve services and increase revenue for their Council. Feedback from the organisation concluded that the CFIT has an extremely robust approach in this area and were only able to make minor recommendations for improvement.

Table 2

<b>Council Tax and Business Rates/New Build Inspections</b>				
	2014/15			
	April	May	YTD	Income*
Number of Council Tax Inspections	622	767	1,389	Increase in CT revenue
Number of Business Rates and New Build Inspections	430	362	792	Increase in Business Rate/New Build revenue

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



### 3.3 Single Person Discount

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

Under the first work stream SPD records are being matched against Hillingdon First cards. The matching exercise establishes if more than one person is registered for a Hillingdon First card at an address where SPD is being claimed. To date 68 SPD cases have been stopped resulting in an overpayment of £28k which will be recovered as additional revenue.

The second work stream concerns 'notices of the intention to marry' submitted to the Registrar's Office. Couples have to include their current residence on these applications and these details have been matched to SPD claims. Records from April 2014 are being checked and to date 51 cases have been identified resulting in an overpayment of £40k which will be recovered.

The third work stream involves data matching SPD records with the Electoral register. To date 172 cases have been identified resulting in additional income of £131k for recovery.

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

In April 2015 a CFIT project team commenced a significant data matching exercise with the credit reference agency Experian. This matches all SPD claims with credit reference information to establish if applications for SPD are genuine. Officers from the CFIT investigate all relevant cases. The CFIT has set a target to achieve a minimum income of £300,000 in 2015/16 on this project. In April the CFIT received the first report from Experian and data matches have been rated into categories of high, medium and low depending upon the likelihood of an incorrect SPD claim. The CFIT begun working through these lists in May. To date 2 cases have been confirmed as ineligible for SDP. One of the cases will result in a SPD being removed back to 1999, a period of 15 years where the Council Tax payer failed to declare a lodger in her household.

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

### **3.4 Temporary Accommodation & Housing Needs reception**

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

The CFIT carries out unannounced visits to Bed & Breakfast/Temporary Accommodation to verify residency. Since April 2015 through the work of the CFIT 2 cases have been cancelled. This represents a saving of approximately £574 a week. The average duration of a bed & breakfast placement is 13 weeks. Therefore on these 2 cancellations alone approximately £7,462 will be saved through this activity.

The CFIT are working with Housing Officers to identify applicants where there is a suspicion that a fraudulent claim has been made. This could include applicants submitting false wage slips in an attempt to verify economic activity. This would indicate financial independence which is a condition for some claimants to secure a tenancy and increase welfare benefits. Another example is where people falsely claim they are being evicted from an address in Hillingdon

when they have never actually been a resident at this address. They are often giving this fraudulent information to attempt to meet the 10 year residency rule. Officers from the CFIT have trained Housing Officers on the identification of possible fraudulent claims. These cases are then referred to the CFIT for investigation.

Since April this year 2 applicants have withdrawn their claim for housing support as a result of contact with the CFIT.

From April 2015 the CFIT has expanded this work to verify the claims of people awaiting permanent accommodation to verify they are still eligible and their circumstances mean that they have a genuine housing need. To date 132 verification visits have taken place.

Table 3

<b>Temporary Accommodation &amp; Housing Needs Reception</b>		
	<b>YTD 2014/15</b>	<b>Savings per week</b>
Temporary Accommodation Cancelled	2	*£574
Number of cases withdrawn after CFIT contact	2	

\*Average B&B placement = 13 weeks calculates to £7,462

### 3.5 Right to Buy

All Right to Buy applications are verified by the Corporate Fraud Investigation Team. Since April 2015 the CFIT have carried out 11 Right to Buy visits, following CFIT involvement 2 applications have been rejected.

One of these cases concerned a gentleman who had applied for a mortgage whilst he was still claiming housing benefit. Cross referencing the income details on his housing benefit application with his mortgage broker identified that he was making false income statements and the mortgage offer was withdrawn.

Table 4

<b>Right to Buy</b>		
	<b>2015/16</b>	
	<b>YTD</b>	<b>Savings</b>
Number of Right to Buy visits	11	
Number of applications rejected	2	<b>£141,400 (discount)</b>

### 3.6 Proceeds of Crime Investigations

The role of the Accredited Financial Investigator 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 the offender has benefited financially from their crimes and a criminal lifestyle can be demonstrated. These investigations are complex and are often challenged by the offender which results in lengthy legal processes. Therefore it may take many months for a case to reach court and a confiscation order agreed and paid.

Since April 2015 the CFIT have been working on 11 investigations of which 7 are currently before the courts. Confiscation orders have been obtained in a number of cases and Hillingdon will receive 37.5% of the amount awarded under the Home Office Incentivisation scheme. Since 1<sup>st</sup> April 2015, offenders have paid £93,536 towards their confiscation orders. Hillingdon will receive its incentivisation amount of £35,076 on the 30th September 2015.

A new project commenced in February 2015 to work with the Planning Enforcement Team to establish cases where the Proceeds of Crime Act can be applied to breaches of planning law. Although the focus would be on rogue landlord cases, POCA could apply to any case where a planning enforcement notice has not been complied with and the offender has benefited financially. The Council's first planning POCA case was very successful. A landlord converted his house and outbuildings into a hotel without planning permission and a Confiscation Order was granted under POCA for £170,000, of which Hillingdon received an incentivisation amount of £63,750.

From 1<sup>st</sup> June 2015 a Planning Enforcement Officer will be working with the CFIT Financial Investigator on a part-time basis to ensure effective identification of cases where planning regulations have been breached. All breaches of Planning Notices since April 2013 are being considered by this project.

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

### **3.7 Housing Waiting List**

A project was set up by the CFIT in April 2015 to review the current Housing Register Waiting List. The purpose of the project was to identify through checking council records, such as Council Tax information and electoral registration, people on the waiting list who were no longer entitled to Social Housing because their circumstances had changed or they provided false information on their application. Removing these people from the waiting list means that the Council will have an accurate data relating to current social housing needs for effective forward planning.

Since the project commenced on 27<sup>th</sup> April 2015, the CFIT have targeted the cases with the highest potential. This has meant that 465 applicants have been removed from the waiting list of 3567. In the process of this exercise the CFIT has also identified 7 cases where the household has been incorrectly claiming Single Person Discount for Council Tax.

### **3.8 Insurance Claims**

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

### **3.9 Enhanced Recruitment Verification**

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

### **3.10 Blue badge**

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

### **3.11 Procurement fraud**

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



# Agenda Item 6

## Internal Audit - Annual Report & Opinion Statement 2014/15

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

### REASON FOR ITEM

The UK Public Sector Internal Audit Standards (PSIAS) requires the Head of Internal Audit (IA) to deliver an Annual 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 2014/15 IA assurance and consultancy work.

This report provides the opportunity for the Head of IA to highlight to the Audit Committee any significant matters arising from the work of IA during 2014/15. The draft report was considered by CMT on 10<sup>th</sup> June 2015 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 are asked to note the Annual IA Report and Opinion Statement 2014/15.**

### 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.

The PSIAS, which came into force on the 1<sup>st</sup> April 2013, 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.

Audit Committee 2 July 2015

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# INTERNAL AUDIT

## Annual Internal Audit Report & Opinion Statement 2014/15

24<sup>th</sup> June 2015



# Contents

The Internal Audit key contacts in connection with this document are:

**Muir Laurie**

Head of Internal Audit

t: 01895 556132

e: [mlaurie@hillingsdon.gov.uk](mailto:mlaurie@hillingsdon.gov.uk)

**Martyn White**

Senior Internal Audit Manager

t: 01895 250354

e: [mwhite@hillingsdon.gov.uk](mailto:mwhite@hillingsdon.gov.uk)

**Sarah Hydrie**

Assistant Internal Audit Manager

t: 01895 277907

e: [shydrie@hillingsdon.gov.uk](mailto:shydrie@hillingsdon.gov.uk)

**Anthony Dean**

Assistant Internal Audit Manager

t: 01895 556130

e: [adean2@hillingsdon.gov.uk](mailto:adean2@hillingsdon.gov.uk)

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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 (Amendments) (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 fully embraces the risk based approach which means IA 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 do not just comment on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.
- 1.1.3 The UK Public Sector IA Standards (PSIAS), which came into force on the 1<sup>st</sup> April 2013, 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 all of the 2014/15 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 2014/15 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 significant reduction in IA capacity during the year, the HIA is pleased to report that **the revised 2014/15 IA plan was 96% complete to draft report stage by 31<sup>st</sup> March and 100% complete by 29<sup>th</sup> May 2015**. This is an excellent achievement for IA and the Council in comparison to previous years and highlights the continued positive direction of travel for the IA service.
- 2.2 Delivery of the IA plan for 2014/15 has been achieved in such a comparatively timely manner by **implementing a number of new initiatives**. These have included continuing to embed 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. This has included the implementation of IA software (TeamMate) which has improved the efficiency of the IA service. The HIA believes a key factor in IA's relative success this year 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 IA performance can be found at para 6.1 of this report.

- 2.3 From the 2014/15 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<sup>st</sup> March 2015 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 In total **73** pieces of IA work have been delivered as part of the 2014/15 IA plan. This included **7** grant claim audits, **27** consultancy reviews, **5** follow-up reviews and **34** assurance reviews. Less than a quarter of the 34 assurance reviews resulted in a **LIMITED** (12%) or **NO** (12%) assurance IA opinion. All 2014/15 **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 **eight** audits highlighted at para 2.5 below. Further analysis of the IA assurance levels issued in 2014/15 along with an analysis of the risk recommendations raised can be found at section 4 of this report.

- 2.5 The key findings from these **eight IA assurance reviews** were as follows:

(i) Chantry School – NO Assurance

- As detailed at **Appendix A**, we issued the final report for this audit on 3<sup>rd</sup> September 2014 and raised **26** recommendations including **15 HIGH** risk recommendations. As part of this review we found major control weaknesses surrounding the School's governance arrangements, financial management processes, personnel procedures (including recruitment) and ICT arrangements (including data security). However, CMT and the School's IEB responded positively to the IA findings and the vast majority of the improvement action required was promptly implemented. In fact, the IEB made great strides in improving the School's governance arrangements in a relative short period of time.
- An IA follow-up review of Chantry School was completed in quarter 3 which verified that **12 HIGH** and **7 MEDIUM** risk recommendations had been implemented. As part of this follow-up review we found that **3 HIGH** risk recommendations remained outstanding, with each evidencing partial implementation. Following our follow-up verification work the assurance level was revised from **NO** to **REASONABLE** assurance in response to the positive management action taken to address the risks identified.

(ii) Corporate Construction, Housing Repairs & Planned Maintenance - NO Assurance

- As detailed at **Appendix A**, there were 3 significant deferrals in the Residents Services Group within 2014/15 relating to Corporate Construction, Housing - Planned Maintenance and Housing Repairs. These areas were assessed as **HIGH** risk and were included in the 2014/15 IA Plan approved by CMT and the Audit Committee in March 2014. Their inclusion was following the risk based IA planning process in 2013/14 where management highlighted to IA that they were aware of serious failings in how the operations of the Housing repairs, maintenance and Construction services were functioning. Options were therefore prepared by management for major changes to the operating model, structure and processes for these services.
- Unfortunately, because of their radical nature, these changes took longer to agree than expected. As a result, the change process, which included consultation with a significant number of potentially affected staff, only commenced in quarter four. Therefore IA reluctantly accepted that the planned assurance work in these areas had to be delayed until later in 2015/16, once the changes are fully embedded. As a result, IA issued a **NO** assurance opinion to CMT and the Audit Committee on these 3 areas. The restructure consultation period has now finished and management are in the process of implementing the new processes. IA has recently begun work with management on a consultancy basis to provide advice and support in relation to the design and implementation of the new processes and procedures in these 3 areas.

(iii) Planning Applications Community Infrastructure Levy (CIL) – LIMITED Assurance

- As detailed at **Appendix A**, we issued the final report for this audit on 18<sup>th</sup> September 2014 and raised **9** recommendations including **1 HIGH** risk recommendation. As part of this review we undertook a data matching exercise comparing Commencement Notices received by Building Control (from August 2012) to all outstanding CIL leviable developments, as per Ocella (at the time of testing). The data match identified instances in which the development has commenced and the Council had not issued a subsequent Demand Notice and invoice for payment. As a result, the Council was failing in its obligation as a charging and collecting authority for the Mayoral Scheme under the CIL (Amendment) Regulations 2013. The authority is able to retain 5% of Mayoral CIL payments collected as an administrative fee. Positive management action was proposed to address the IA findings with detailed improvement action recorded. These recommendations will be followed up in due course. It is also important to note that client feedback received by IA in relation to this review was very positive with a 97% client satisfaction rating received; clearly supporting the value provided through this piece of work.

(iv) Schools Governance Arrangements – LIMITED Assurance

- Using a risk-based approach for sample selection, **7 schools** were chosen for testing as part of this thematic review. As detailed at **Appendix A**, IA raised **41 recommendations**, across the 7 schools visited as part of this audit, including **7 HIGH** risk recommendation, **21 MEDIUM** risk recommendations, **13 LOW** risk recommendations and **14 NOTABLE PRACTICE**.
- Specifically, IA identified that **6 out of the 7** schools in our sample were not complying with the requirements of the School Information (England) (Amendment) Regulations 2012, requiring Schools to publish specific information online. In addition, 4 out of the 7 schools did not have all statutory policies required by the Department for Education (DfE) in place.

(v) High Level Mileage Users – LIMITED Assurance

- As detailed at **Appendix A**, IA raised **2 MEDIUM** and **2 LOW** risk recommendations as part of this audit. IA found that whilst adequate arrangements are in place to ensure that the high level mileage aspect of the Payment of Car Allowances policy is complied with, further, requirements of management and staff are clearly documented within the Council's Conditions of Service Handbook. However, we established that these two documents contain different definitions in relation to the number of miles travelled on a weekly basis to be considered a "high mileage user".
- Specifically, we established that there is a lack of knowledge and understanding of these documents in relation to complying with the requirements for high level mileage users. This is supported by analysis of ResourceLink HR system data which identified that 10 of the 20 employees sampled were incorrectly in receipt of the high level lump sum payment, nine of which received the lump sum payment for two consecutive years. As a result, a relatively significant value of incorrect lump sum payments has been made to ineligible employees over the past two years.

(vi) Data Protection – LIMITED Assurance

- As detailed at **Appendix A**, IA raised **10 recommendations** as part of this audit including **1 HIGH** risk recommendation, **3 MEDIUM** risk recommendations, and **6 LOW** risk recommendations. Our audit highlighted that considerable improvements have been made to the Council's Data Protection (DP) arrangements in the last few years. Nevertheless, the results of our ethical probity testing highlighted that whilst regular communications to staff to promote and raise awareness and understanding of DP does occur, we have concluded that the Council's approach to DP is not yet fully established or consistently embedded across the organisation. In particular, the testing we carried out during the working day and outside of core office hours across the Civic Centre identified a significant number of potential internal breaches of data security i.e. confidential papers being left unsecured during the working day and/or overnight.

- As a result, our opinion is there is a considerable threat of the Council failing to achieve its statutory obligations in relation to DP. However, positive management action has been proposed to each of the 4 recommendations raised which will be followed up in due course.
- 2.6 Focussing dedicated IA resource to the process of **following-up recommendations** raised by IA that are due to have been implemented, has helped achieve a much improved outcome for the Council during the 2014/15 year. Specifically, as at 5<sup>th</sup> June 2015, **100%** (50) of the **HIGH** risk IA recommendations raised in 2013/14 and 2014/15 due to have been implemented; have been **confirmed by management as now in place**.
- 2.7 In addition, as at 24<sup>th</sup> June 2015, **98%** (214 out of 219) of the **MEDIUM** risk IA recommendations raised in 2013/14 and 2014/15 due to have been implemented, have been **confirmed by management as now in place**. Whilst there remains some further scope for improvement in this area, overall, these results compare extremely favourably when compared to previous years at Hillingdon and to other similar type and sized organisations. Further details of the work done on the follow-up of previous IA recommendations can be found at section 5 of this report.

### 3. Head of Internal Audit Opinion Statement 2014/15

#### 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 2014/15 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 is 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 2014/15, as well as a small number of other assurance providers. Where the work of the Corporate Fraud Investigations Team (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 2014/15 was developed primarily to 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 2014/15 IA reviews have been conducted in accordance with the UK PSIAS. A self-assessment assurance review of the IA service conducted in May 2015 confirmed that Hillingdon's IA service has overall met the requirements of the UK PSIAS in 2014/15.
- 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 has been strengthened during the year and has been supported by an external contractor. As a result, the 2014/15 IA resources fulfilled the UK PSIAS requirements in terms of the combination of professionally qualified and suitably experienced staff.

### 3.6 Qualifications to the Opinion

- 3.6.1 During 2014/15 the Council's IA service:
- had **unrestricted access to all areas and systems** across the authority;
  - received **appropriate co-operation from officers and members**;
  - 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 2014/15.**

### 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 CFIT;
  - 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 April to June 2015);
  - 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.

3.8.2 **There were relatively few significant control weaknesses identified by IA during 2014/15.** Work is ongoing to strengthen the Council's control environment in relation to the significant control weaknesses identified. These included (but are not limited to):

1. The audit of the Protocol Integrated Adults' System (IAS) data quality highlighted a service user who had a **duplicate home care plan**. Upon further enquiry, a report from ICT identified an additional 91 cases of duplicate home care plans. These duplications are occurring **as a result of amendments to a service user's home care plan**, whereby a new home care plan is set up reflecting the changes, and the old care plan is not subsequently closed down by the responsible officer.

Samples of duplicate home care plans were checked on ContrOCC and we were able to identify a number of duplicate payments. This sample testing was selected from a report of current active service users who have duplicate home care plans, however, historically there could potentially be many such cases and we would urge management to investigate and examine the full extent of this issue.

2. Our assurance and consultancy coverage this year has identified a few examples of **contract management weaknesses in relation to major contracts** that the Council has. This includes inconsistent compliance with contract standing orders, weaknesses in relation to financial reporting and in some cases a lack of monitoring and senior management oversight in relation to some major contract spend. However, the results of our more recent testing clearly indicate that the Council's commissioning and category management business model is helping strengthen its contract management arrangements. We plan to undertake an audit of contract management within 2015/16 to further assist the Council in this area.
3. During 2014/15 IA and management have identified **a number of instances of non adherence to Council policies**. We believe this is partly due a large number of the Council's policies being compliance based and of a very detailed and prescriptive nature. However, it is also partly as a result of some of the Council's policies not being kept up to date with the dynamic level of organisational change that the Council is going through. IA plan to help inform the process of updating these policies during 2015/16.
4. The majority of schools in Hillingdon are high performing and have strong governance arrangements. However the results of IA work in 2014/15 and IA's cumulative audit knowledge indicate that **there are a significant number of Hillingdon schools with weaknesses in their governance arrangements**. The risk-based approach to IA assurance reviews of Hillingdon schools providing cross-cutting audits of themed areas a risk-based selection of schools provides greater 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 (at that time) that the Council was 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'**.

We have recently reviewed the Council's progress against the Ofsted Improvement Action Plan. Overall we have provided a **SUBSTANTIAL** assurance opinion and concluded that **the Council is making good progress with the required improvements**. However, the IA review also highlighted that a historical management decision had been taken to transfer the legal requirement for all Looked After Children to undertake a Personal Education Plan (PEP) to the Virtual School. This resulted in significant slippage in PEPs being completed as well as creating issues regarding the lack of effective monitoring of PEPs due to insufficient staff capacity to complete this work. Nevertheless, work is ongoing to take this issue forward.

### 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 2015/16 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 fraud continues to be robust** which has achieved positive results for the Council and its residents. At the same time, the CFIT's good work has helped develop a strong anti-fraud culture in the Council.

### 3.10 Risk Management

3.10.1 Risk Management (RM) is the process by which risks are identified and evaluated so that appropriate risk treatment measures can be applied to reduce the likelihood and impact of risks materialising. In the event a risk materialises, this could inhibit the Council to achieve its objectives and fulfil its strategic priorities.

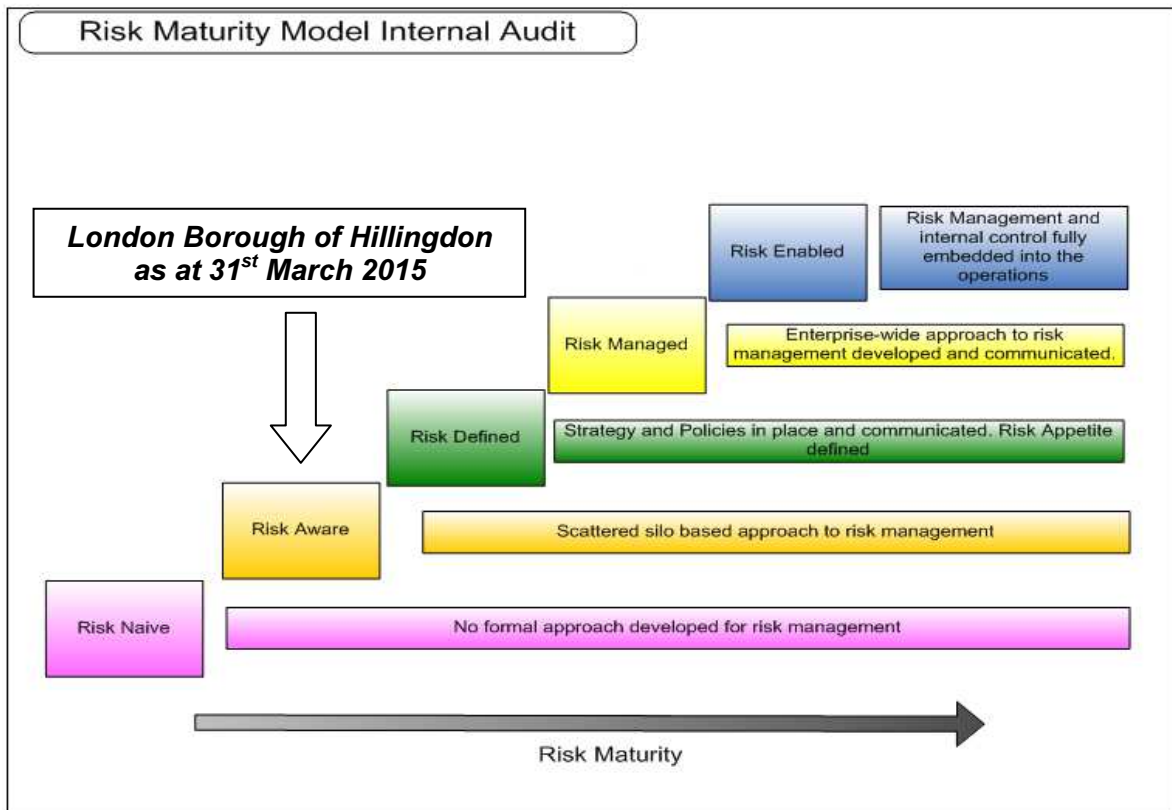
3.10.2 The IA opinion on the effectiveness of the Council's RM arrangements is based on **the Chartered Institute of Internal Auditors' Risk Maturity Model**. IA has identified that there is good RM practice in some areas of the Council's operations but that there are areas where the understanding of 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 has remained a scattered silo based approach.

3.10.2 The RM policy and guidance was updated and approved in July 2014. Our 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 a sufficient manner. IA also noted that strategic risks are monitored and reviewed by CMT as well as the Audit Committee on a quarterly basis. 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, our follow-up review of RM in 2014/15 concluded that the Council needs to further improve the process for identifying and recording risks at an operational level. In particular, IA's judgement in this area is that risks below Group level are not being treated consistently across the organisation. Further, service risk registers, whilst encouraged, are not in place for the majority of services across the Council. We have therefore concluded that the approach to managing operational risks still requires significant work if the Council is to achieve its objective of a **Risk Defined** maturity level. Also, IA noted that whilst the Council's risk appetite has been defined, it is our opinion that it is currently too vague and unclear to be able to drive forward the RM practices and processes. As a result, the IA assessment of **the Council's Risk Management maturity is** that the Council was **RISK AWARE** as at 31<sup>st</sup> March 2015.

**CHARTERED INSTITUTE OF INTERNAL AUDITORS' RISK MATURITY MODEL**



**3.11 Corporate Governance**

3.11.1 The 2014/15 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.	<b>SUBSTANTIAL Assurance</b> - The Council's vision and strategic priorities are clearly communicated and understood by officers. The Council's vision <i>'putting our residents first'</i> 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.	<b>REASONABLE Assurance</b> - The Council's Constitution comprehensively sets out how the Council is governed. However, it contains some 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 roles and responsibilities for the HIP Steering Group and CMT have strengthened during the year. As a result, it is IA's opinion, that the Council's organisational structure is fit for purpose to deliver the Council's vision and priorities. Nevertheless, there is scope to further improve understanding of governance across the Council and to provide additional clarity relating to roles and responsibilities.

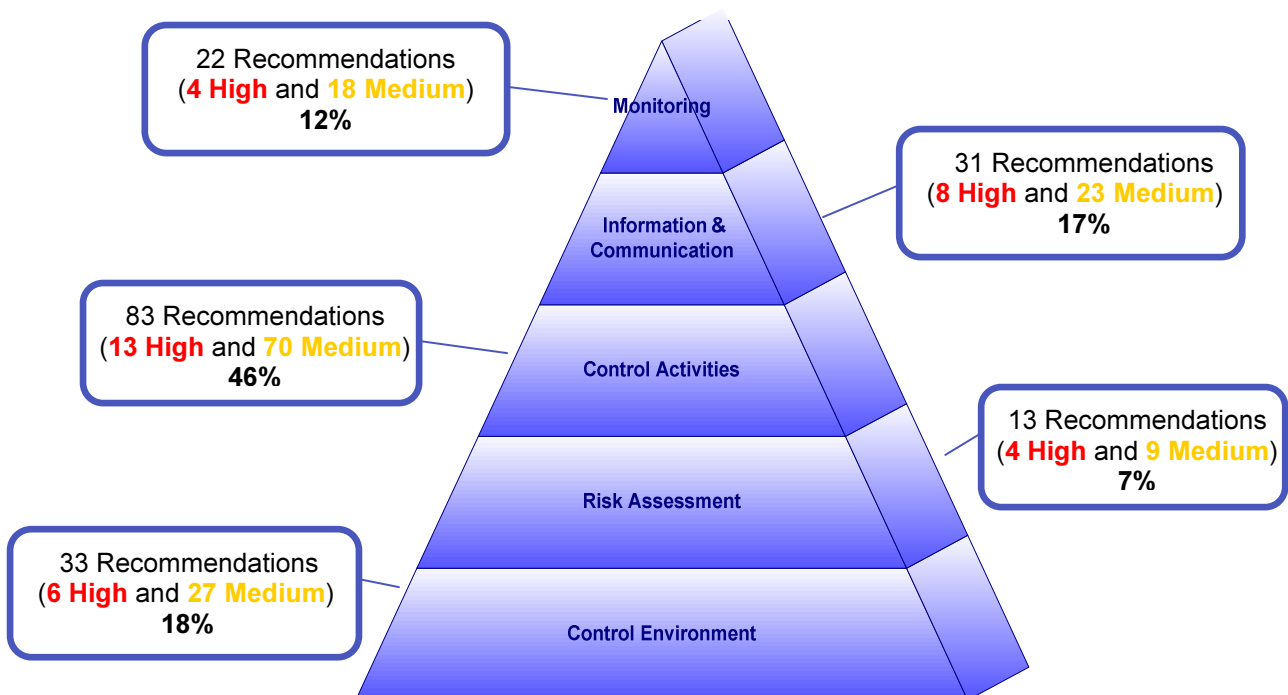
Langland's Governance Principles	IA Assessment of Hillingdon
3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour.	<b>REASONABLE Assurance</b> - The Council has a Code of Conduct in place for both officers and Members to ensure values and behaviours are upheld consistently across the Council. Member and officer relations were found to be good with no significant concerns. Anti-Fraud and Anti-Corruption policies (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.	<b>REASONABLE Assurance</b> - The Cabinet operates as an effective Member decision making body which is known by officers for making swift decisions. IA confirmed that a Cabinet Scheme of Delegations (SD) was in place and Group SDs are in place. However, since the structural reorganisation, SDs for Residents Services, Children and Young People's Services & Adult Social Care Services have not yet been finalised. This presents a potential risk that accountability for decisions may be unclear. 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 further improving understanding across the organisation of what governance is and what it means.
5. Good governance means developing the capacity and capability of the governing body to be effective.	<b>REASONABLE Assurance</b> - The Council's Cabinet brings direction and stability to the organisation. It has demonstrated that it provides continuity of knowledge and relationships, with minimal change to the Cabinet Members/ roles this year. There are induction, training and development arrangements in place to help 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 positive about the role and clear direction that the Cabinet provides. There is scope to improve the take up of Member training and development sessions.
6. Good governance means engaging stakeholders and making accountability real.	<b>REASONABLE Assurance</b> - 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. Recommendations proposed by Policy Overview Committees are generally 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. A staff survey has been conducted. However, IA identified there is further 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**. Our 2014/15 IA review of this area again 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 exceptionally good**. This demonstrates that the overall direction and control is a good fit for the organisation at this time. It is clear that the Council put their residents at the forefront of all activity that it engages in, maintaining a high resident satisfaction rating.

3.11.3 The Council exemplifies strong financial management and control that is illustrated by the relatively healthy reserves balances. The centralisation of the 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 8<sup>th</sup> consecutive year (for the over 65s, it has been frozen for 10 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 received 28 Green Flag Awards (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

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 components of the framework have a relative proportionate share of recommendations. As noted at para 3.10, there are some weaknesses within risk management processes, so although there were only a few IA recommendations raised in 2014/15 that related to the risk assessment component of the COSO framework, it should not be inferred that risk assessment is completely 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 2014/15, 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<sup>st</sup> March 2015 accords with proper practice**, except for the significant internal control issues referred to in para 3.8.

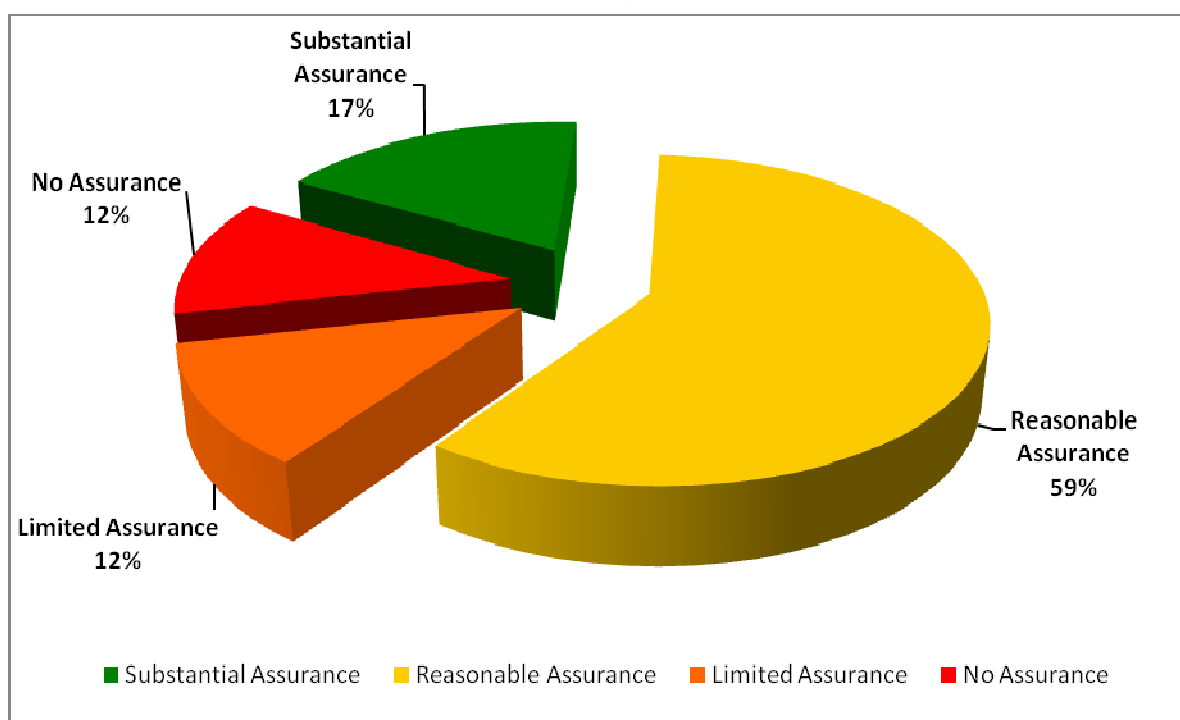
**4. Analysis of Internal Audit Activity 2014/15**

**4.1 Internal Audit Assurance Work 2014/15**

4.1.1 The 2014/15 IA assurance work is 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 2014/15 IA Assurance Reports	Percentage Split	Percentage Change from 2013/14
<b>SUBSTANTIAL</b>	6	17%	<b>+2%</b>
<b>REASONABLE</b>	20	59%	<b>-13%</b>
<b>LIMITED</b>	4	12%	<b>+2%</b>
<b>NO</b>	4	12%	<b>+10%</b>
<b>TOTAL</b>	<b>34</b>	<b>100%</b>	<b>-</b>

4.1.2 The pie chart below depicts the levels of assurances achieved based on a percentage of the total 2014/15 assurance audits completed by IA:

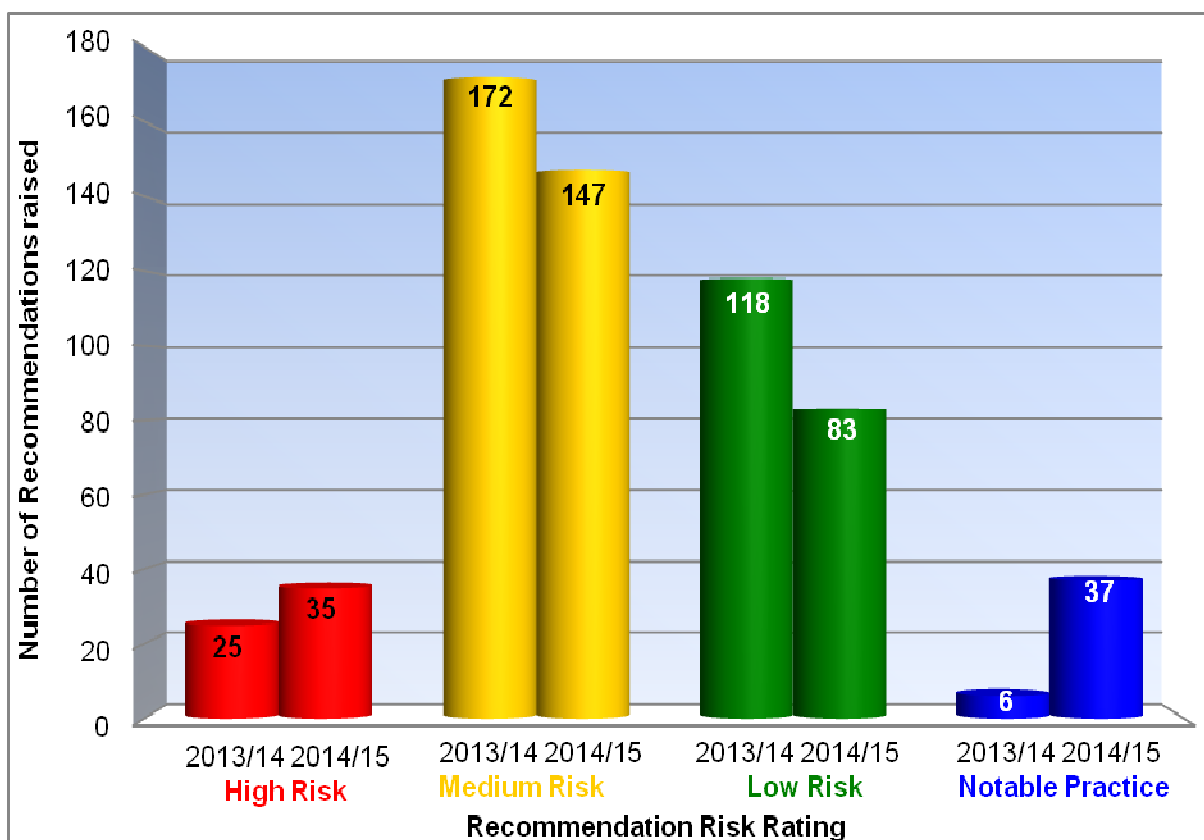


4.1.3 This chart highlights the positive news for the Council that **76%** of the areas audited in 2014/15 were assessed by IA as providing **SUBSTANTIAL** or **REASONABLE** levels of assurance. This represents a 13% reduction when compared with the results from 2013/14. However, this reduction is in line with IA's expectations given the risk based focus of IA coverage and the increased alignment of IA work to the key risks facing the Council. The individual assurance reviews carried out during 2014/15 are fully listed at **Appendix A** which indicates the assurance levels achieved (as outlined at **Appendix B**) and provides an analysis of the IA recommendations made (in accordance with the risk ratings as outlined at **Appendix C**).

4.1.4 There were **279** IA assurance recommendations raised in total in 2014/15:

Risk Rating	Number of 2014/15 IA Recommendations	Percentage Split	Percentage Change from 2013/14
<b>HIGH</b>	35	13%	+5%
<b>MEDIUM</b>	147	56%	+1%
<b>LOW</b>	83	31%	-6%
<b>TOTAL</b>	<b>265</b>	<b>100%</b>	-
<b>NOTABLE PRACTICE</b>	37	-	-

4.1.5 Given that a more risk based IA approach has been applied in 2014/15, it is in line with IA's expectations that **more than two thirds of the IA recommendations raised** are **HIGH** or **MEDIUM** risk. The breakdown of all 2014/15 IA recommendations by risk rating (as outlined at **Appendix C**), including a comparison with 2013/14 IA recommendations, is provided in the bar chart below:



4.1.6 The bar chart above highlights that there were **35 HIGH** risk recommendations raised by IA in 2014/15 (compared with **25** in 2013/14 and **79** in 2012/13). We therefore believe that in light of the above, and given the risk based approach to IA work, these results are positive and reflect **an overall improvement in the Council's control environment during 2014/15.**



## 4.2 Internal Audit Consultancy Work 2014/15

- 4.2.1 During 2014/15 there has been a significant increase in the volume of consultancy work, advice and guidance that IA has been asked to provide across the Council. This, in addition to the enhanced role that IA now has in helping Council services improve, is a sign of the achievement of the collaborative approach that IA strives to deliver to help services to succeed. In addition to the traditional consultancy reviews, 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.
- 4.2.2 Further to this, in line with the UK PSIAS, IA coverage this year included a range of consultancy work. This included testing/ certification of several grant claims including **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, Annual Governance Statement Group, Corporate Health & Safety Forum, and the Oracle Programme Board. 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 **12** specific consultancy pieces of work in 2014/15 in addition to formally providing consultancy advice and/or guidance on a further **15** topics. The consultancy work included reviews and/or support in relation to Primary Care Contracts, Facilities Management Invoice queries, Standby Payments and the Corporate Asset Register.

## 4.3 Quality Assurance and Improvement Programme 2014/15

- 4.3.1 In accordance with the UK PSIAS Attribute Standard 1300 and the IA Charter, a Quality Assurance and Improvement Programme (QAIP) has been developed by IA. This covers all aspects of IA Activity (IAA) and is designed to enable an evaluation of the IAA's conformance with the UK PSIAS and an evaluation of whether internal auditors apply the *Code of Ethics*. The QAIP also helps enable the ongoing performance monitoring of IA activity and sets out how IA is maintaining the required quality standards and achieving continuous improvement.
- 4.3.2 A significant amount of time has been spent developing and progressing the IA QAIP during 2014/15. As part of the recent IA Strategy Day the IA team reflected on the challenges ahead in 2015/16 and used this day as an opportunity to help generate ideas on how IA can further improve to help services continue to succeed. These improvement ideas have been captured in the QAIP and along with the recommendations arising from the recent annual effectiveness of IA review will be taken forward in 2015/16.

## 5. Internal Audit Follow Up 2014/15

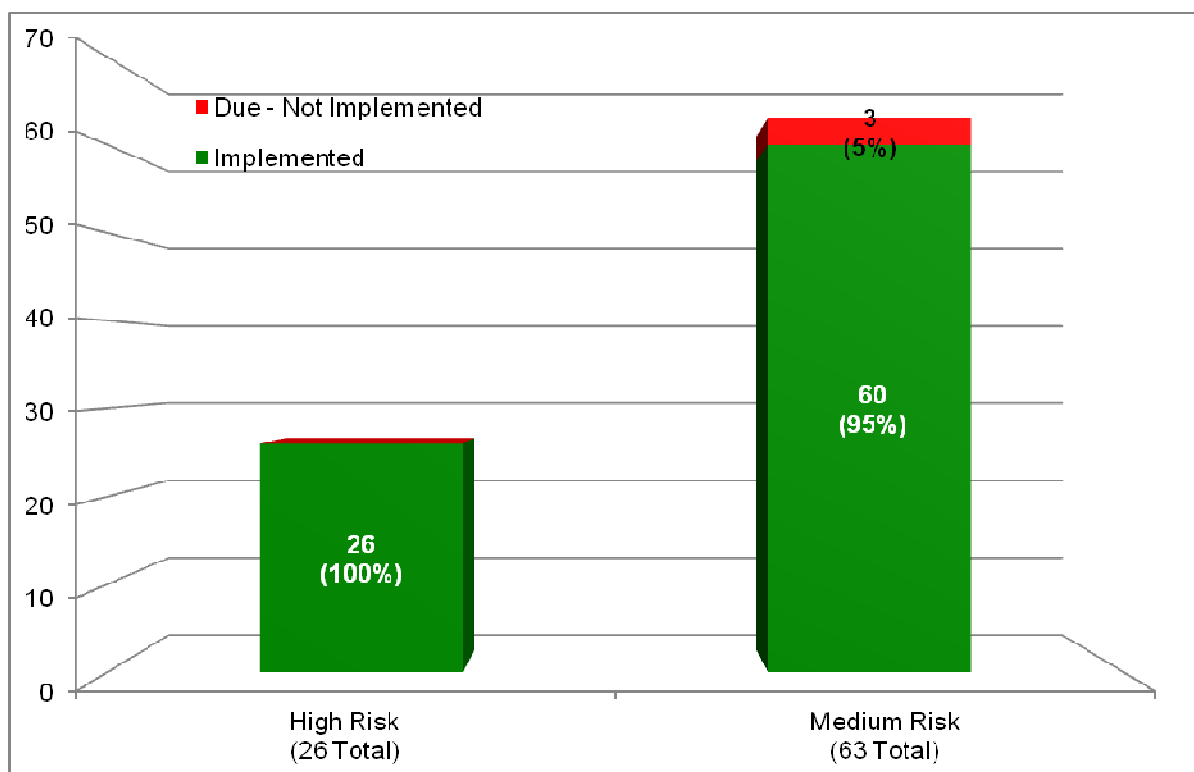
- 5.1 IA monitors all **HIGH** and **MEDIUM** risk recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. IA does not follow-up **LOW** risk IA recommendations as they tend to be minor 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.
- 5.2 It would also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations. The full definitions of the IA recommendation risk ratings are included at **Appendix C**.

- 5.3 The implementation of recommendations raised by IA continues to be monitored solely by one member of the IA team as TeamCentral (a module of the IA software TeamMate), becomes fully embedded across the Council. Having this single point of contact for this area of work allows the rest of the IA team to focus on delivery of the IA plan and will further streamline the process of following up IA recommendations in the future. TeamCentral will provide CMT and other senior managers with greater oversight and ownership of IA recommendations and the underlying risks.
- 5.4 The focus of the IA work on follow-up this year has been on **all** the outstanding **HIGH** and **MEDIUM** risk IA recommendations which have reached their target date for implementation. All **HIGH** and **MEDIUM** risk IA recommendations for 2012/13 and earlier years have now been confirmed by management that control improvements are now implemented. As at 24<sup>th</sup> June 2015, for 2013/14 IA assurance reviews there are **15 MEDIUM** risk IA recommendations outstanding, the vast majority of which have agreed an extended implementation date. There are **2 MEDIUM** risk IA recommendations outstanding in relation to 2013/14 which we are actively chasing. We will report the updated status of all these recommendations as part of the Quarter 2 IA Progress Report in September 2015.
- 5.5 IA will support and advise managers in formulating a response to the risks identified. As an organisational improvement function, IA will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways; Treat, Terminate, Tolerate, Transfer - **the 4 T's**. The full definitions of the response to risk are included at **Appendix C**.
- 5.6 The **34** IA assurance reviews have resulted in **265** IA recommendations being raised in **2014/15** as well as **37 NOTABLE PRACTICES** (refer to **Appendix A** for further details). Given that we apply a risk based IA approach to our coverage, it is a positive outcome that there were approximately **four times as many MEDIUM risk recommendations than HIGH risk recommendations raised** in 2014/15. The table below summarises the **status of IA 2014/15 recommendations** raised as at the 24<sup>th</sup> June 2015:

2014/15 IA Recommendation Status as at 24 <sup>th</sup> June 2015	HIGH	MEDIUM	LOW	Total	NOTABLE PRACTICE
Total No. of Recommendations Raised (per <b>Appendix A</b> )	35	147	83	<b>265</b>	37
Total No. of Recommendations Risks Tolerated by Management	-	3	-	<b>3</b>	-
No. Not Yet Due for Implementation	9	81	-	<b>90</b>	-
No. Due for Follow-up Implementation	26	63	-	<b>89</b>	-
No. of Recommendations Implemented	26	60	-	<b>86</b>	-
No. of Recommendations Outstanding	<b>0</b>	<b>3</b>	-	<b>3</b>	-

- 5.7 Positive management action was proposed to address **179** of the **182** 2014/15 **HIGH** and **MEDIUM** risk recommendations raised. In the three remaining cases, each relating to a **MEDIUM** risk recommendation, management have chosen to tolerate the risk (refer to **Appendix C** for risk treatment definitions). Each of these three instances was deemed acceptable by IA given that management remain accountable for the treatment and management of their risks.
- 5.8 Whilst **50%** of the 2014/15 **HIGH** and **MEDIUM** risk IA recommendations have not yet reached their target date for implementation, IA is pleased to report that **97%** of **HIGH** and **MEDIUM** risk recommendations which were due for implementation have been confirmed by management as being implemented.

- 5.9 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. Of the **89 (50%)** recommendations for 2014/15 which have reached their implementation date, only **3 MEDIUM** risk recommendations remain outstanding as at 24<sup>th</sup> June 2015. The bar chart below illustrates this:



- 5.10 The status of outstanding IA recommendations was discussed at CMT on 10<sup>th</sup> June 2015 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** and **MEDIUM** risk recommendations will be provided by the HIA as part of an oral update at the next Audit Committee meeting (due on 2<sup>nd</sup> July 2015).
- 5.11 Overall, in comparison to 2013/14 (where **0%** of **HIGH** risk recommendations and **3%** of **MEDIUM** risk recommendations were outstanding) the results of IA's follow-up work demonstrate that some additional action is required by management to ensure the effective and efficient implementation of **MEDIUM** risk IA recommendations to ensure enhancements to the control environment are achieved. There is also more work for IA to do in terms of ensuring that TeamCentral is fully embedded and operating effectively. IA will continue to work with management to improve the timely implementation of management action to mitigate **HIGH** and **MEDIUM** risks.

## 6. Review of Internal Audit Performance 2014/15

### 6.1 Key Performance Indicators

- 6.1.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. KPIs for 2015/16 have slightly been revised and are included at **Appendix D**.
- 6.1.2 Actual cumulative IA performance for 2014/15 against its KPIs is highlighted in the table overleaf:

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 1	<b>HIGH</b> risk IA recommendations where positive management action is proposed	98%	100%	<b>GREEN</b>
KPI 2	<b>MEDIUM</b> risk IA recommendations where positive management action is proposed	95%	98%	<b>GREEN</b>
KPI 3	<b>LOW</b> risk IA recommendations where positive management action is proposed	<b>KPI Retired</b>		
KPI 4	<b>HIGH</b> risk IA recommendations where management action is taken within agreed timescale	90%	100%	<b>GREEN</b>
KPI 5	<b>MEDIUM</b> risk IA recommendations where management action is taken within agreed timescale	75%	95%	<b>GREEN</b>
KPI 6	Percentage of IA Plan delivered to <b>draft report</b> stage by 31 March	90%	96%	<b>GREEN</b>
KPI 7	Percentage of IA Plan delivered to <b>final report</b> stage by 31 March	80%	84%	<b>GREEN</b>
KPI 8	Percentage of draft reports issued as a final report within 15 working days	90%	56%	<b>RED</b>
KPI 9	Client Satisfaction Rating	80%	87%	<b>GREEN</b>
KPI 10	IA work fully compliant with the <b>PSIAS</b> and <b>IIA Code of Ethics</b>	100%	95%	<b>GREEN</b>

- 6.1.3 As highlighted above, performance against **KPI 8** is reported as **RED** for 2014/15. This is due to 15 instances (out of 34 assurance reviews) where **management responses to the draft reports were not received within the target timescales** of 15 working days. Whilst IA facilitates this process, we are reliant on timely management responses to achieve this indicator. On 5 of the 15 occasions the management responses were received within just 3 days over the 15 working days target. However, in the other 10 cases there were significant delays (between 5 and 6 weeks) before management responses were provided. Potentially this indicates that some managers are over-stretched, although we are happy to report that the time taken to finalise reports from draft stage in other reports is **on average 15 working days**. Nevertheless, **IA KPI 8 has not been achieved for 2014/15**.
- 6.1.4 Management feedback continues to be positive on our assurance coverage and particularly on our consultancy work. The actual performance against **KPI 9** has further improved to **87%** this year, showing a clear positive direction of travel regarding managements' perception of the value delivered by the IA service. This is detailed further within para 6.2 below.

## 6.2 Client Feedback Questionnaires

- 6.2.1 As part of continuous improvement, IA introduced a new Client Feedback Questionnaire (CFQ) in 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 3.2 (80%) or above** across the eight CFQ areas. As a recap on the CFQ scores, **4** means the client strongly agrees; **3** is agree; **2** is disagree; and **1** is strongly disagree.

- 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?
- 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 dissatisfied 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 2014/15. In fact, when compared to the 2013/14 CFQ results, there is a distinctive and marked improvement on all of the 8 questions. This further supports the **positive direction of travel of IA** and also highlights the benefits arising from the IA restructures and other IA changes implemented are now being realised and recognised across the Council. The table below shows the average score from the **41 CFQs completed since 1<sup>st</sup> April 2014** (as per **Appendix A**):

IA CFQ Areas	Average Score 2014/15	Average Score 2013/14	Percentage Change from 2013/14
<b>Q1. Planning:</b> The planning arrangements for the IA review were good	<b>3.52</b>	<b>3.2</b>	<b>+8%</b>
<b>Q2. Scope:</b> The scope of the IA review was relevant	<b>3.48</b>	<b>3.2</b>	<b>+7%</b>
<b>Q3. Conduct:</b> The IA review was conducted in a highly professional manner	<b>3.73</b>	<b>3.2</b>	<b>+13%</b>
<b>Q4. Timing:</b> The IA review was carried out in a timely manner	<b>3.59</b>	<b>3.1</b>	<b>+12%</b>
<b>Q5. Report:</b> The IA report was presented in a clear, logical and organised way	<b>3.50</b>	<b>3.2</b>	<b>+8%</b>
<b>Q6. Recommendations:</b> The IA recommendations were constructive and practical	<b>3.50</b>	<b>3.1</b>	<b>+10%</b>
<b>Q7. Value:</b> The IA review added value to your service area	<b>3.28</b>	<b>3.1</b>	<b>+4%</b>
<b>Q8. Overall:</b> I look forward to working with IA in future	<b>3.40</b>	<b>3.4</b>	<b>0%</b>

- 6.2.5 From the 41 CFQs returned in 2014/15, IA has received a range of formal client comments on IA performance, a mixed selection of which is highlighted below:

#### Chantry School

- *"Muir and his team were totally professional throughout. The Audit gave the IEB and staff a very clear perspective on the changes in practice that were required, whilst recognising that the staff in place had done the best they could with little or no direction from the head. It was a pleasure working with them".*

#### Schools Budgetary Control

- *"It was good to get confirmation that the strategies we have in place are considered effective and even in places 'examples of good practice'. The only reason I only identified 'agree' for No.8 is that all are a little fearful of an audit or inspection process. However I would say that this approach greatly reduces the tension in such a process and further, from what has been seen from completed focused reports, given significant material for future consideration".*

Schools Payroll

- "We all agree that the IA Team were very professional and did their very best not to infringe on the running of the school whilst carrying out this important role".
- "The different approach that IA now use is much more straightforward - especially as they send immediate feedback and a general overview for all schools to benefit from. The fact they concentrate on particular areas reinforces the strengths in schools and allows best practice to be shared".

Capita Income ICT System

- "As discussed with Internal Audit the original Audit review by Baker Tilly did not adequately cover the scope of an Application audit. Key areas were missed whilst other areas were focused on that were irrelevant to a software Application audit.

The auditor herself did not seem to understand the Application itself and its use within the Council even after sitting with team members in both ICT and Finance

Internal Audit did agree on this though, and a second Audit took place that revisited areas that had been missed for example user security, validation of interfaces etc - The second report provided a more accurate review of the system and its processes."

IAS Data Quality

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

Council Tax and NNDR Inspections

- "Carmen provided a professional service which was delivered in a way that all parties involved could comfortably contribute towards the content of the Audit. The recommendations were constructive and practical and will ensure that we maintain an efficient service to our residents. Please pass on my thanks to Carmen from me and my team".

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 **high completion rate of CFQs** will help IA continue to improve as a service.

## 7. Forward Look to 2015/16

- 7.1 Looking ahead to 2015/16, a **new IA Strategy** document is now fully in place that has a five-year time horizon and a road map based on the Council's overall strategy, changing stakeholder expectations, regulatory requirements and the role of the other risk and assurance functions across the Council. In line with our new strategy, the focus of the IA service will be on delivering consistently high quality value added IA reviews to help services to succeed.
- 7.2 As a result of the fast changing control environment we have introduced a **quarterly approach to IA planning in 2015/16**. Specifically, as well as providing a high-level estimation of where we expect to utilise our resources over the year, we now produce quarterly detailed operational IA Plans in liaison with management. The quarterly IA Plans are agreed by CMT and Audit Committee as part of the quarterly progress reports. This should help ensure that IA resources are directed in a more flexible and targeted manner to maximise the benefit to our stakeholders.
- 7.3 IA software (TeamMate) will continue to help **improve the monitoring, follow-up and tracking of IA recommendations** by management. After a successful pilot within the Finance Group, recommendation tracking has now been rolled out in all Groups and IA will need to ensure that these new processes become embedded across the Council.

- 7.4 Appropriate TeamMate training has been provided to the relevant Council staff and this enhanced process will allow IA and senior management to more easily monitor the progress and status of all IA recommendations and the action plans established. The new process will also place greater responsibility on management, as owners of the risks, to provide progress updates on their recommendations.
- 7.5 IA would like to take this opportunity to formally thank all staff throughout Hillingdon Council with whom it had contact during the year. There has been an increased collaborative approach in IA's relationship with staff and management who have generally responded very positively, to IA findings. 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 FCCA, CMIIA  
**Head of Internal Audit**

24<sup>th</sup> June 2015

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

Key:	
IA = Internal Audit	NP = Notable Practice
H = High Risk	CFQ = Client Feedback Questionnaire
M = Medium Risk	
L = Low Risk	

**2014/15 IA Assurance Reviews:**

IA Ref.	IA Review Area	Status as at 24 <sup>th</sup> June 2015	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
A36	Chantry School	Final report issued 3 <sup>rd</sup> September 2014	No	15*	7	4	-	
A8	Corporate Construction	IA assurance review not undertaken	No	-	-	-	-	N/A
A17	Housing Repairs	IA assurance review not undertaken	No	-	-	-	-	N/A
A30	Housing - Planned Maintenance Work	IA assurance review not undertaken	No	-	-	-	-	N/A
A16	Planning Applications - Community Infrastructure Levy (CIL) (formally titled Planning Advice and Appeals)	Final report issued 18 <sup>th</sup> September 2014	Limited	1	5	3	-	
A40	Schools - Governance Arrangements <u>Schools visited:</u> Deansfield Primary, Grange Park Junior, Heathrow Primary, Lady Bankes Infant, Lady Bankes Junior, Whitehall Junior & William Byrd Primary.	Final report issued 23 <sup>rd</sup> April 2015	Limited	7	21	13	14	
A37	High Level Mileage Users	Final report issued 22 <sup>nd</sup> May 2015	Limited	-	2	2	-	Not Due
A21a	Data Protection	Final report issued 28 <sup>th</sup> May 2015	Limited	1	3	6	-	
A14	Software Licensing	Final report issued 30 <sup>th</sup> July 2014	Reasonable	-	1	2	-	

\* = Chantry School 3 **HIGH** risk recommendations raised on 23<sup>rd</sup> March 2015 were previously raised on 3<sup>rd</sup> September 2014



**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Assurance Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 24 <sup>th</sup> June 2015	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
A1	<b>Schools – Safer Recruitment</b> Harlington School, Grange Park Infant School, Grange Park Junior School, Heathrow Primary School, St. Bernadette Catholic Primary School, West Drayton Primary School.	Final report issued 3 <sup>rd</sup> September 2014	Reasonable	6	17	-	6	
A9	<b>Schools - Budgetary Control</b> <u>Schools visited:</u> Abbotsfield School, Breakspear School, Hillingdon Tuition Centre, Holy Trinity Church of England Primary School, McMillan Early Childhood Centre, Meadow High School, Minet Junior School.	Final report issued 5 <sup>th</sup> September 2014	Reasonable	-	5	-	7	
A10	Business Continuity	Final report issued 24 <sup>th</sup> September 2014	Reasonable	-	3	4	1	
A7	Housing - Temporary Accommodation	Final report issued 19 <sup>th</sup> November 2014	Reasonable	-	1	2	-	
A18	<b>Schools - Payroll Arrangements</b> <u>Schools visited:</u> Harmondsworth Primary School, Hayes Park Primary School, Hedgewood School, Hillside Infant School, St Swithun Wells Catholic Primary School, Whitehall Infant School, Whiteheath Junior School, Yeading Infant School.	Final report issued 28 <sup>th</sup> November 2014	Reasonable	3	10	8	2	
A24b	Mental Health Residential Placements	Final report issued 23 <sup>rd</sup> January 2015	Reasonable	-	3	1	2	
A24a	Learning Disabilities Residential Placements	Final report issued 29 <sup>th</sup> January 2015	Reasonable	-	2	2	1	
A35	<b>Schools - Contracts &amp; Procurement</b> <u>Schools visited:</u> Bishop Winnington-Ingram CoE, Colham Manor Primary, Glebe Primary, Grange Park Junior, Newnham Infant, Oak Farm Infant, Oak Farm Junior, Ryefield Primary, William Byrd and Yeading Junior.	Final report issued 30 <sup>th</sup> January 2015	Reasonable	-	24	-	-	
A20	Capita Income ICT System	Final report issued 5 <sup>th</sup> February 2015	Reasonable	-	6	5	-	

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Assurance Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 24 <sup>th</sup> June 2015	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
A5	IAS Data Quality (Adult Services)	Final report issued 10 <sup>th</sup> February 2015	Reasonable	1	3	-	-	
CF4	Housing Benefits	Final report issued 13 <sup>th</sup> February 2015	Reasonable	-	3	2	1	
A38	Chantry School (Follow-up)	Final report issued 23 <sup>rd</sup> March 2015	Reasonable	3*	-	-	-	N/A
CF7	Council Tax and NNDR Inspections	Final report issued 13 <sup>th</sup> April 2015	Reasonable	-	2	2	-	
CF5	Budgetary Control	Final report issued 23 <sup>rd</sup> April 2015	Reasonable	-	-	3	1	
A19	Leisure Services Contract Management	Final report issued 23 <sup>rd</sup> April 2015	Reasonable	-	4	7	-	
A21b	Freedom of Information	Final report issued 20 <sup>th</sup> May 2015	Reasonable	-	3	4	-	
CF1	Payroll	Final report issued 21 <sup>st</sup> May 2015	Reasonable	-	2	2	-	Not Due
A34	Risk Management (Follow-up)	Final report issued 20 <sup>th</sup> May 2015	Reasonable	-	2	2	-	N/A
A33	Corporate Governance (Follow-up)	Final report issued 27 <sup>th</sup> May 2015	Reasonable	-	3	-	-	N/A
A15	Members' Declarations of Interests	Final report issued 30 <sup>th</sup> July 2014	Substantial	-	-	1	-	
A28	Imported Food Office	Final report issued 13 <sup>th</sup> February 2015	Substantial	-	2	2	1	
CF6	Treasury Management	Final report issued 13 <sup>th</sup> February 2015	Substantial	-	-	2	-	
CF10	Capital Accounting	Final report issued 27 <sup>th</sup> March 2015	Substantial	-	-	1	1	
CF8	Pensions (Investments)	Final report issued 31 <sup>st</sup> March 2015	Substantial	-	-	2	-	
A6	Ofsted Improvement Action Plan	Final report issued 29 <sup>th</sup> May 2015	Substantial	1	10	-	-	
CF12	Creditors ( <b>Follow-up</b> )	Final report issued 26 <sup>th</sup> March 2015	N/A	-	1	-	-	N/A
CF14	Cash and Bank ( <b>Follow-up</b> ) [formerly Cash Collection Services]	Final report issued 30 <sup>th</sup> March 2015	N/A	-	-	1	-	N/A

\* = Chantry School 3 **HIGH** risk recommendations raised on 23<sup>rd</sup> March 2015 were previously raised on 3<sup>rd</sup> September 2014

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Assurance Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 24 <sup>th</sup> June 2015	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
A5	IAS Data Quality (Adult Services)	Final report issued 10 <sup>th</sup> February 2015	Reasonable	1	3	-	-	
CF15	Housing Rents ( <b>Follow-up</b> )	Final report issued 31 <sup>st</sup> March 2015	N/A	-	-	-	-	N/A
CF13	Debtors ( <b>Follow-up</b> )	Final report issued 22 <sup>nd</sup> April 2015	N/A	-	1	-	-	N/A
CF3	E-Invoices ( <b>Follow-up</b> )	Final report issued 5 <sup>th</sup> May 2015	N/A	-	1	-	-	N/A
<b>Total number of IA Assurance Recommendations raised in 2014/15</b>				<b>35*</b>	<b>147</b>	<b>83</b>	<b>37</b>	
<b>Total percentage of IA Assurance Recommendations raised in 2014/15</b>				<b>13</b>	<b>56</b>	<b>31</b>	<b>-</b>	

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\* = Chantry School 3 **HIGH** risk recommendations raised on 23<sup>rd</sup> March 2015 were previously raised on 3<sup>rd</sup> September 2014

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Consultancy Reviews:**

IA Ref.	IA Review Area	Status as at 24 <sup>th</sup> June 2015
C1	Domestic Violence Homelessness Process	Final IA consultancy memo issued 11 <sup>th</sup> April 2014
C2	Purchase Requisitions - Chargeable Reactive Maintenance Works under £250	Final IA consultancy memo issued 15 <sup>th</sup> April 2014
C4	Cemeteries Process	Final IA consultancy memo issued 18 <sup>th</sup> June 2014
C6	Ruislip High School	Final IA consultancy memo issued 5 <sup>th</sup> August 2014
C5	Planning Applications - prior approvals and low fee income generation	Final IA consultancy memo issued 6 <sup>th</sup> October 2014
C7	Primary Care Contracts	Final IA consultancy memo issued 28 <sup>th</sup> October 2014
CF2	Asset Register	Final IA consultancy memo issued 9 <sup>th</sup> December 2014
C17	Transitional Arrangements (Preparation for Peer Review)	Final IA consultancy memo issued 6 <sup>th</sup> February 2015
C3	Standby Payments	Final IA consultancy memo issued 24 <sup>th</sup> February 2015
C14	SFA Mock Audit - Hillingdon Adult & Community Learning	Final IA consultancy memo issued 24 <sup>th</sup> March 2015
C18	Review of Children's Contact Centre and Residential Units	Final IA consultancy memo issued 8 <sup>th</sup> May 2015
C16	Northgate Contract Management (previously an assurance review)	Final IA consultancy memo issued 22 <sup>nd</sup> May 2015
C8	Hillingdon in Bloom Gift Vouchers content and terms and conditions	Verbal consultancy advice provided
C9	Charville Children's Home – security of key safes	Verbal consultancy advice provided
C10	Young People's Centres, cash collection arrangements	Verbal consultancy advice provided
C11	Early Intervention Services for Children and Young People	Verbal consultancy advice provided
C12	Theatre Service cash collection	Verbal consultancy advice provided
C13	Journal analysis for finance	Verbal consultancy advice provided
C15	IRT Supply Chain	Verbal consultancy advice provided
C19	Telecare Third Party Payments	Verbal consultancy advice provided
C20	Establishment Voluntary Funds	Verbal consultancy advice provided
C21	Capital eSourcing	Verbal consultancy advice provided

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Consultancy Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 24 <sup>th</sup> June 2015
C22	Implementation of system for managing DBS Checks	Verbal consultancy advice provided
C23	Work Orders for Street Scene Maintenance	Verbal consultancy advice provided
C24	Contact Centre Card Payments	Verbal consultancy advice provided
C25	Caretaker record retention	Verbal consultancy advice provided
C26	Imprest Account Signatories	Verbal consultancy advice provided

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Grant Claim Reviews:**

IA Ref.	IA Review Area	Status as at 24 <sup>th</sup> June 2015
GC1	Troubled Families Grant Claim – Quarter 1	IA memo issued 29 <sup>th</sup> April 2014
GC2	Adoption Reform Grant	IA memo issued 27 <sup>th</sup> May 2014
GC4	Troubled Families Grant Claim – Quarter 2	IA memo issued 5 <sup>th</sup> August 2014
GC5	Bus Subsidy Grant	IA memo issued 30 <sup>th</sup> September 2014
GC6	Troubled Families Grant Claim – Quarter 3	IA memo issued 9 <sup>th</sup> October 2014
GC3	Housing Benefits Subsidy Grant	Work for External Audit completed 17 <sup>th</sup> October 2014
GC7	Troubled Families Grant Claim – Quarter 4	IA memo issued 12 <sup>th</sup> January 2015

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

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

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

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

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

**RISK RESPONSE DEFINITIONS**

<b>RISK RESPONSE</b>	<b>DEFINITION</b>
<b>TREAT</b>	The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action.
<b>TOLERATE</b>	The risk is accepted by management and no further action is proposed.
<b>TRANSFER</b>	Moving the impact and responsibility (but not the accountability) of the risk to a third party.
<b>TERMINATE</b>	The activity / project from which the risk originates from are no longer undertaken.



**APPENDIX D**

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

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

All IA KPIs Target Performance for 2015/16 are the same as 2014/15, except for:

1. **KPI 7** where Target Performance for 2014/15 was 90% (**15% decrease**); and
2. **KPI 8** where Target Performance for 2014/15 was 80% (**5% increase**).

Key for above:

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

Key for future reporting on actual KPI performance:

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

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## Internal Audit - Effectiveness of Internal Audit

**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'. If the Effectiveness of IA is not measured then the IA service will not know where to improve or how efficient and effective the service is.

IA conducts an annual review which assesses the effectiveness of the IA function and provides assurance over IA's compliance with the UK Public Sector IA Standards (PSIAS). 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 an appropriately qualified and experienced senior member of staff in the IA team 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 9<sup>th</sup> June 2015.

Audit Committee 2 July 2015

PART I – MEMBERS, PUBLIC & PRESS

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# INTERNAL AUDIT

## Final Assurance Report 2015/16

### Effectiveness of Internal Audit

9<sup>th</sup> June 2015

#### Overall IA Assurance Opinion:

**REASONABLE**

#### Recommendation Overview:

High Risk	0
Medium Risk	3
Low Risk	6
Notable Practice	0

#### Review Sponsor:

Paul Whaymand

Corporate Director of Finance

#### Final Report Distribution:

Fran Beasley

Chief Executive (& Corporate Director of Administration)

Rajiv Vyas

Independent Chair of Audit Committee

Muir Laurie

Head of Internal Audit

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.



## 1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review was identified as part of the 2015/16 annual IA plan presented to the Council's Corporate Management Team (CMT) and Audit Committee on 17<sup>th</sup> March 2015. **The purpose of this review is to provide assurance to management and to the Audit Committee over the following key risks surrounding the Effectiveness of 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 Heads of Service. Namely that the key risks associated with the achievement of the Council's vision and strategic priorities being managed effectively; and
  - The Council's IA function does not perform an annual review over its conformity with the PSIAS leading to non-compliance with regulations and have reputational and financial consequences.

## 2. Background

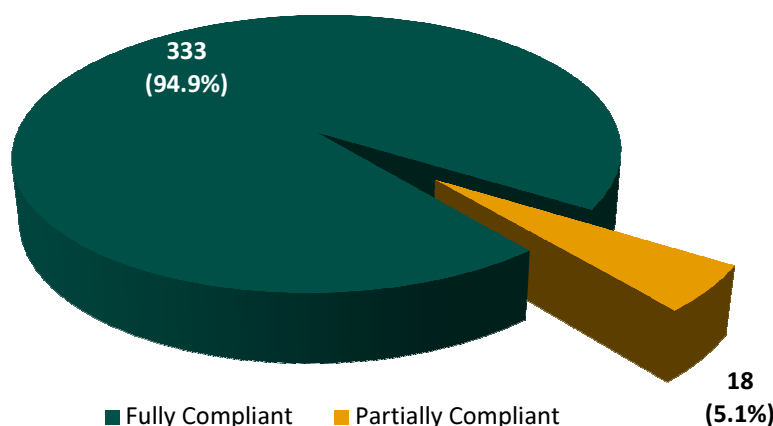
- 2.1 IA provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 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.
- 2.2 The UK Public Sector IA Standards (PSIAS) came into force on 1<sup>st</sup> April 2013 and were introduced with the intention of promoting further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement (AGS).
- 2.3 The effectiveness of IA is a key cornerstone of corporate 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 or how efficient and effective the service is.
- 2.4 IA conducts an annual review which assesses the effectiveness of the IA function and provides assurance over IA's compliance with the 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.

## 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 Internal Audit. Definitions of the IA assurance levels and IA risk ratings are included at **Appendix C**.
- 3.2 I found there to be a strong control environment and robust governance arrangements in place within the IA service with sufficient evidence to support 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. This has included two significant staffing restructures which have generated financial savings for the Council whilst at the same time improving the overall effectiveness of the IA service.

- 3.3 The key priority for 2014/15 has been the completion of the 2014/15 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, following a significant improvement in the delivery of IA reports, with 96% of audit engagements within the 2014/15 IA Plan delivered to draft report status by the 31<sup>st</sup> March 2015. This is a significant achievement when compared to prior years. Furthermore, there is evidence that the IA staff have 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.
- 3.4 There is a clear increase in the level of consultancy work that IA has undertaken within the 2014/15 year and this, in addition to the enhanced role that IA have in the improvement of Council services, is a sign of the success of the collaborative approach that IA strive to deliver to help services to succeed. However, during the course of this review it was noted that the approach to consultancy reviews could be further enhanced and formalised. Further, through review of the 2013/14 Annual HIA Report (in addition to the IA Plan for 2015/16) it is clear that the HIA has considered sources of assurance as part of the production of these documents. However, no formal assurance mapping exercise has been undertaken across the Council to enable reliance to be placed on other forms of assurance and thus focus IA resource on assurance gaps across the Council.
- 3.5 The implementation of IA software (TeamMate) from 1<sup>st</sup> April 2014 has brought considerable benefits to the IA service and the Council, including the risk based IA approach whilst improving consistency of quality across the team. However, I found that TeamMate is sometimes being used inconsistently within the IA Service therefore in order to provide greater assurance that the IA processes are being consistently followed, I have recommended that a suitably experienced staff member, independent from the audit under review, conducts quarterly sample based reviews of finalised audits. This, in addition to implementing a more formalised management review process, should help ensure that the full benefits from the TeamMate software are realised and embedded.
- 3.6 As part of this review I have scored the performance of the Council's IA Service against CIPFA's Local Government application note and checklist for assessing conformance with the PSIAS. This best practice checklist builds upon the Institute of Internal Auditor's (IIA) mandatory guidance, as documented within the IIA's International Professional Practices Framework (IPPF) and PSIAS. The checklist contains 351 best practice questions and we are pleased to report that, of the 351 best practice lines within the checklist, IA are **fully compliant with 333 (94.9%)** of the requirements. In my opinion IA were partially compliant with 18 (5.1%) of requirements within the checklist. Recommendations have been raised to address areas of partial or non-compliance, with these detailed at **Appendix A** and **Appendix B** respectively. A detailed breakdown of compliance against the checklist is provided at **Appendix D**, whilst the results are depicted below:

**Graphical representation of Conformance:**



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- 3.7 Due to the dynamic changes that have taken place in IA this year, it is clear that the service has made great strides and continues to move forward in a positive direction. The recommendations raised in this report are designed to help the IA service further build on its strategic plan and service priorities. The detailed findings and conclusions of my testing which underpin the above IA opinion have been discussed at the exit meeting and are set out in section four of this report. The key IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions and notable practices are set out in **Appendix B** of the report.

## 4. Detailed Findings and Conclusions

### 4.1 Overall conformity to the PSIAS as per the definition of Internal Auditing and the Code of Ethics

- 4.1.1 The IIA's IPPF is the conceptual framework that organises authoritative guidance promulgated by the IIA. The IPPF consists of three mandatory elements and three strongly recommended elements. The three mandatory elements of the IPPF are:

- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for the Professional Practice of Internal Auditing (Standards).

Conformance with the principles set forth in mandatory guidance is required and essential for the professional practice of internal auditing. Mandatory guidance is developed following an established due diligence process, which includes a period of public exposure for stakeholder input.

- 4.1.2 The IIA Standards (which provide authoritative guidance for the IA profession) consist of Attribute, Performance and Implementation Standards. Attribute Standards address the attributes of organisations and individuals performing IA services. The Performance Standards describe the nature of IA services and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance Standards apply to all IA services. The UK PSIAS, which came into force on 1<sup>st</sup> April 2013, build upon the IIA's IPPF but provide tailored requirements and guidance to the Internal Audit Activity (IAA) within the Public Sector. Hereafter, where I have referred to "the Standards" within this report we are referring to compliance with the UK PSIAS, and the specific public sector requirements, unless otherwise explicitly stated.

- 4.1.3 The Standards provide a definition of Internal Auditing as follows:

*"Internal auditing is an independent, objective and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

- 4.1.4 Through my assessment of performance against the Attribute and Performance Standards, discussed under paragraphs 4.2 and 4.3 below, I am pleased to report that **the IA function is meeting the IIA's definition of Internal Auditing and was found to comply with the IIA's Code of Ethics**. We have raised no recommendations in relation to the overall conformance with the Standards.

### 4.2 Conformity to the Attribute Standards of the PSIAS

- 4.2.1 Attribute Standards address the attributes of organisations and individuals performing IA services. My assessment of the Council's IAA against Section 3 of CIPFA's PSIAS conformance checklist established that 91.2% (104 of the 114 elements in this section) were adjudged as fully compliant with 8.8% (10 of the 114 elements in this section) deemed



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partially compliant when assessed against the Attribute Standard criteria detailed within the CIPFA conformance checklist. Areas with partial compliance are discussed in further detail below.

- 4.2.2 There have been no reports that the Bribery Act has not been followed by the IA Service and no related issues have been raised over the past year, however, the Bribery Act is not covered in the Council's Anti-fraud and Anti-corruption training. It is known that the IA Team do cover aspects of fraud as part of their professional training; however, it may prove beneficial to further enhance and develop a greater knowledge and understanding of Council processes through the completion of the Council's Anti-Fraud and Anti-corruption training in addition to greater alignment and working arrangements with the Council's Corporate Fraud Investigations Team (CFIT). As this training is not currently mandatory, I have raised a best practice recommendation in this area (refer to **Recommendation 4** in the Management Action Plan at **Appendix B**).
- 4.2.3 Attribute Standard 1000 states that the purpose, authority and responsibility of the IAA be formally defined in an IA Charter. The IA Charter establishes the IAA's position within the organisation, including the nature of the HIA's functional reporting relationship with the board (Audit Committee); authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of IA activities. My review of the Council's IA Charter highlighted that whilst the term 'the board' was clearly defined, the term 'senior management' for the purposes of IAA was not explicitly defined as required by the Standards. The CIPFA checklist also requires that IA reporting lines and relationships are clearly defined within the IA Charter and, in my opinion, this aspect requires greater clarity. I have raised a recommendation in this area aimed at strengthening compliance with this Standard (refer to **Recommendation 5** in the Management Action Plan at **Appendix B**).
- 4.2.4 Attribute Standard 1000-C.1 requires that the nature of consulting services must be clearly defined in the IA Charter, which I found to be the case. Attribute Standard 1200 - Due Professional Care states Internal Auditors need to exercise due professional care during a consulting engagement by considering the requirements and expectations of clients, including the nature, timing and communication of engagement results. We established that whilst a formal consultancy engagement process is in place, this process is not formalised when compared to the detailed and documented approach for undertaking assurance reviews.
- 4.2.5 As part of my review I sample tested 15 audit engagements (12 assurance and 3 consultancy), primarily to assess compliance against the Performance Standards. As part of this testing it was established that, in two of the consultancy reviews sampled, a terms of reference (ToR) had not been produced to formally document the scope of the consultancy activity. In contrast each of the 12 assurance reviews sampled had a ToR produced which sought approval of the objectives of the review. I have raised a recommendation in this area aimed at strengthening compliance with the Attribute Standard 1200-C1 (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).
- 4.2.6 The HIA, in accordance with Attribute Standard 1300, is to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the IAA. Results of the ongoing assessment are captured within a Quality Assurance and Improvement Programme (QAIP). A QAIP is designed to enable an evaluation of the IAA's conformance with the *Definition of Internal Auditing* and the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The QAIP also assesses the efficiency and effectiveness of the IAA and identifies opportunities for improvement.
- 4.2.7 My testing confirmed that a QAIP has been developed and includes tasks, including recommendations arising from the 2013/14 Effectiveness of IA review, to facilitate full conformance with the PSIAS. The IIA's Attribute Standard 1320 states that the HIA must communicate the results of the QAIP to senior management and the board. I established that work carried out throughout the year on the QAIP is communicated to stakeholders.

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4.2.8 However, upon review I was unable to fully confirm compliance with the public sector requirement of this Standard to *"report results of the QAIP and progress against any improvement plans within the annual report"*. As a result, a best practice recommendation has been raised aimed at strengthening alignment of the QAIP to the PSIAS (refer to **Recommendation 6** in the Management Action Plan at **Appendix B**).

### 4.3 Conformity to the Performance Standards of the PSIAS

4.3.1 The Performance Standards describe the nature of IA services and provide quality criteria against which the performance of these services can be measured. My assessment of the Council's IAA against Section 4 of CIPFA's PSIAS Conformance Checklist established that 96.4% (213 of the 221 elements in this section) were adjudged as fully compliant, with 3.6% (8 of the 221 elements in this section) deemed partially compliant. when assessed against the Performance Standard's criteria. Areas with partial or non compliance are discussed in further detail below.

4.3.2 An area identified with partial compliance relates to Performance Standard 2010, whereby the public sector requirement states that the risk-based plan must take into account the requirement to produce an annual IA opinion and the assurance framework. Through review of the 2013/14 Annual HIA Report as well as the IA Plan for 2015/16 it is clear that the HIA has considered other sources of assurance as part of the production of these documents. However, I noted that no formal assurance mapping exercise has been undertaken across the Council. This would help enable formal reliance to be placed on the other forms of assurance and focus IA resource on any assurance gaps across the Council. I have therefore raised a recommendation in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).

4.3.3 In accordance with Performance Standard 2500.A1, the HIA has established a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. This method was reported to have achieved extremely positive results for the Council's overall control environment in the last 12 months, with the vast majority of high and medium risk IA recommendations raised now promptly implemented by management. In fact, the quarterly IA progress report to the Audit Committee in March 2015 reported that only 3% of high and medium risk IA recommendations were outstanding. By comparison, in June 2013 this figure was 47% and in the last 3 years this figure has been as high as 69%.

4.3.4 The implementation of recommendations raised by IA continues to be monitored by the IA team whilst TeamCentral (a module of the IA software TeamMate), is embedded across the Council. TeamCentral was confirmed to have been rolled out to four of the five Groups (Directorates) within the Council. Training for the final Group, Residents Services, is scheduled for Q1 of 2015/16. Verification of management's assertion of implemented action is conducted through selected follow up audits. It was noted that not all follow up audits were carried out as anticipated during 2013/14. This was as a result of changing priorities and a revised risk focus within the 2013/14 IA plan. This has been remediated within 2014/15 with numerous detailed follow-up reviews undertaken. However, a more formal process for the selection of follow up audits could aid consistency in this area and therefore a recommendation has been raised in respect of this (refer to **Recommendation 7** in the Management Action Plan at **Appendix B**).

4.3.5 In accordance with Performance Standard 2340 IA engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff are properly developed. We found that established and effective management review and supervision is in place and undertaken throughout the audit process for all IA engagements. Typically this includes management providing direction and advice to team members during the course of the engagement. The scope of this supervision is dependent on the proficiency and experience of the auditor as well as the complexity and nature of the IA engagement being undertaken.

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- 4.3.6 We established that formal feedback is provided to staff via the Council's performance management cycle. Further, audit reports are reviewed utilising tracked changes to provide staff with coaching and development on their report writing skills. There is, however, an inconsistent approach undertaken to the review of IA working papers to seek to continually drive up quality as well as satisfy all the requirements of Performance Standard 2300 - Performing the Engagement. A recommendation has been raised in respect of this aimed at evidencing compliance with this Performance Standard (refer to **Recommendation 3** in the Management Action Plan at **Appendix A**).
- 4.3.7 In addition to testing compliance with the Standards, I sample tested 15 IA engagements (as discussed in para. 4.2.5) to confirm adherence to the processes documented within the IA Manual with the objective to highlight specific areas where processes could be further enhanced.
- 4.3.8 As part of my testing I reviewed the usage of the Electronic Working Papers (EWP) module of TeamMate for each of the 15 engagements sampled, with the EWP module found to have been used during the course of the engagement in 8 of the 15 engagements sampled. In the six of the exception cases it was identified that whilst the EWP module had been completed in full, this was undertaken following the issue of the draft report/consultancy memo. The one remaining case sampled related to an audit completed under the contract for the provision of IA services to the West London Waste Authority (WLWA); it has been agreed that due to limited access to TeamMate whilst working offsite, TeamMate update could be completed following the fieldwork and therefore I deemed this case satisfactory.
- 4.3.9 Examination of the detail within the TeamMate EWP files identified that the documentation of risk, control and testing methodologies was inconsistent. Further, functionality within the risk and control evaluation is not being fully utilised with the ability to link controls to testing activities not effectively embedded, resulting in manual input and the potential for duplication of effort.
- 4.3.10 I further tested TeamMate EWP for compliance with Performance Standard 2330, to ensure that relevant information is in place to support the conclusions and engagement results. My testing identified that 3 of the 15 engagement working papers sampled required further explanation of tests conducted to enable another auditor to re-perform the audit testing, as per best practice guidelines. I have raised a recommendation in this area aimed at strengthening controls in this area (refer to **Recommendation 3** in the Management Action Plan at **Appendix A**).
- 4.3.11 In accordance with Performance Standard 2440, the HIA must communicate results to the appropriate parties. We confirmed that appropriate and effective communication methods are in operation within the Service. It was established, via discussion with the HIA, that IA does not directly release engagement results (IA reports) to parties outside of the organisation. If they did, a disclaimer on the limitations on the distribution and use of the results (within the IA report) would be included. However, it was noted that the quarterly progress reports to Audit Committee are made available to the public. Therefore, in order to satisfy Performance Standard 2440.A, a disclaimer should be included on these reports and I have raised a recommendation to strengthen compliance with the Performance Standards (refer to **Recommendation 8** in the Management Action Plan at **Appendix B**).

#### **4.4 Follow up recommendations made in the 2013/14 Effectiveness of IA review**

- 4.4.1 The 2013/14 review Effectiveness of IA review provided a **REASONABLE** assurance opinion, with **3 MEDIUM** and **7 LOW** risk recommendations raised. As part of this review we have verified the implementation of the medium risk recommendations confirming that two have been fully implemented and one has been deemed as partly implemented. This relates to the HIA performing quality checks on IA files on a quarterly basis. I confirmed that a formal process has been set up, but so far this has been performed annually rather than quarterly. I have therefore raised this as a good practice suggestion (refer to **Recommendation 9** in the Management Action Plan at **Appendix B**).

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## 5. Acknowledgement

5.1 I 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

This audit was led by: Elaine Portess  
**Principal Internal Auditor**

This audit was reviewed by: Martyn White, CIA  
**Senior Internal Audit Manager**

Thank you,



Elaine Portess  
**Principal Internal Auditor**

**Management Action Plan**

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
1	Management should review and formalise the process for the undertaking of consultancy work. This should include the requirement for a terms of reference, to agree the objectives and scope of each review, with the IA Manual/Process documents updated accordingly (para ref 4.2.5).	<i>Where procedures are not clearly documented, there is the risk that work is undertaken in an ad hoc fashion, resulting in inconsistent working practices and standards, which may in turn impact upon the reputation of the IA service.</i>	<b>MEDIUM</b> ●	<b>TREAT</b>	The process for undertaking consultancy reviews has been the subject of a great deal of discussion within the IAMT over the last few months. The process will be reviewed and updated and ToRs will be produced where the updated process requires it. However, some advisory work (i.e. verbal advice, a quick document review, etc) will likely be carried out without the need for a formal ToR to be issued.	<b>Muir Laurie,</b> Head of Internal Audit  31 <sup>st</sup> October 2015
2	A formal assurance mapping exercise should be undertaken across the Council to enable reliance to be placed on other forms of assurance and focus IA resource on assurance gaps across the Council (para ref 4.3.2).	<i>There is an increased likelihood that sources of assurance are not identified resulting in gaps in assurance arising with increased potential for risks materialising. Further, there is an increased likelihood that duplication of effort arises, reducing the efficiency of the Council's sources of assurance.</i>	<b>MEDIUM</b> ●	<b>TREAT</b>	The idea of conducting a formal assurance mapping exercise already features in the IA Quality Assurance and Improvement Programme and is something the IAMT have discussed. It is also something that the HIA is very keen to see carried out, but in the longer term as part of a wider LBH move to Control Risk Self Assessment and an Enterprise Risk Management Framework.	<b>Muir Laurie,</b> Head of Internal Audit  1 <sup>st</sup> July 2016

## APPENDIX A (cont'd)

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
3	The use of TeamMate should be further embedded within the IA Team to become business as usual and to utilise the full benefits of the system. This should include the use of the risk and control evaluation to focus audit time and resource on risks and mitigating key controls. A file review sheet should be formally implemented to provide formal and constructive development to IA staff whilst enhancing quality across the service. A plan document should also be developed and utilised for each engagement which assists in time allocation and management (para ref 4.3.6 and 4.3.10).	<i>Where audit working paper software is not used as intended, working papers reviews are not formally documented and planning documents are not utilised there is an increased likelihood that the quality and efficiency of Internal Auditor's work is negatively affected or further team efficiencies are not achieved.</i>	<b>MEDIUM</b> ●	<b>TREAT</b>	Improving the use of TeamMate has been the subject of a great deal of discussion within the IAMT over the last few months. IA processes in this area will be updated and improved and communicated effectively to all of the IA team. The IAMT will ensure they and the rest of the IA service fully comply with the updated procedures in relation to the use of TeamMate, subject to potential ICT restrictions i.e. where IA staff are unable to access TeamMate due to a lack of internet connection.	<b>Muir Laurie,</b> Head of Internal Audit  31 <sup>st</sup> March 2016

**Good Practice Suggestions & Notable Practices Identified**

No.	Observation/ Suggestion	Rationale	Risk Rating
4	The IA team should undertake training on the UK Anti Bribery Act in addition to the Council's Anti Fraud and Anti Corruption Training to enhance their understanding of the Council's anti-fraud arrangements (para ref 4.2.2).	<i>Where staff are not up to date with latest guidance, there is an increased likelihood that staff do not perform their duties to the standard that is required, potentially lacking conformance with the PSIAS in relation to having sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation.</i>	LOW ●
5	At the next review of the Internal Audit (IA) Charter, management should further define 'senior management' in addition to providing greater clarity on IA's reporting lines and relationships with management, the board and other areas of the organisation (para ref 4.2.3).	<i>Where the IA Charter is not explicit in its description of senior management, reporting lines and relationships, there may be confusion over the level of independence that IA operates, which may impact negatively upon the reputation of IA.</i>	LOW ●
6	The Quality Assurance and Improvement Programme (QAIP) should include direct links to the Public Sector Internal Audit Standards (PSIAS) and thus be used to demonstrate the conformance with PSIAS. Progress against the QAIP should be explicitly referred to in the Annual Report, with consideration of appending the QAIP to quarterly progress reports to the Audit Committee (para ref 4.2.8).	<i>Where the QAIP is not clearly and directly linked to the PSIAS there is an increased likelihood that the Council do not fully conform to the requirements of the PSIAS. Where the progress made against the QAIP is not clearly communicated to the Audit Committee, within the Annual Report, the board (Audit Committee) may not be fully aware of areas of non conformance and unable to challenge and monitor areas for improvement.</i>	LOW ●
7	To further enhance the follow up of recommendations, a consistent process should be applied such as detailed follow up of all limited or no assurance audits in the subsequent year and full verification of all high risk recommendations. (para ref 4.3.4).	<i>Where a consistent and formal process is not applied to the follow up of recommendations, there is a risk that not all recommendations are followed up by the time they fall due. Further, where recommendations have been implemented but not verified, there is an increased likelihood that incorrect implementation of recommendations goes undetected and the risk remains unmitigated.</i>	LOW ●

**Good Practice Suggestions & Notable Practices Identified**

No.	Observation/ Suggestion	Rationale	Risk Rating
8	<p>In order to satisfy Performance Standard 2440.A, IA should seek advice from Legal Services regarding the inclusion and wording of a disclaimer on IA reports within the public domain such as those presented to the Council's Audit Committee. This should include detail around the limitations of the report, its distribution and content within the report (para ref 4.3.11).</p>	<p><i>Where disclaimers are not included on reports within the public domain, there is an increased likelihood that IA results are used for unintended purposes. This may incur reputational damage on both the Council, and the IA Service.</i></p>	<p><b>LOW</b> ●</p>
9	<p>Quarterly quality checks of TeamMate EWP files should be undertaken by the HIA to ensure high standards are continually achieved. The results of these checks should feed into the Quality Assurance and Improvement Programme (QAIP) (para ref 4.4.2).</p>	<p><i>Where quality checks do not take place throughout the year, there is an increased risk that standards may not be achieved and are unidentified, preventing continued improvement of the audit process and a negative impact upon the IA team's effectiveness and reputation.</i></p>	<p><b>LOW</b> ●</p>



**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

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





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

## APPENDIX C (cont'd)

### RISK RESPONSE DEFINITIONS

RISK RESPONSE	DEFINITION
<b>TREAT</b>	The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action.
<b>TOLERATE</b>	The risk is accepted by management and no further action is proposed.
<b>TRANSFER</b>	Moving the impact and responsibility (but not the accountability) of the risk to a third party.
<b>TERMINATE</b>	The activity / project from which the risk originates from are no longer undertaken.

### INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

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

## APPENDIX D

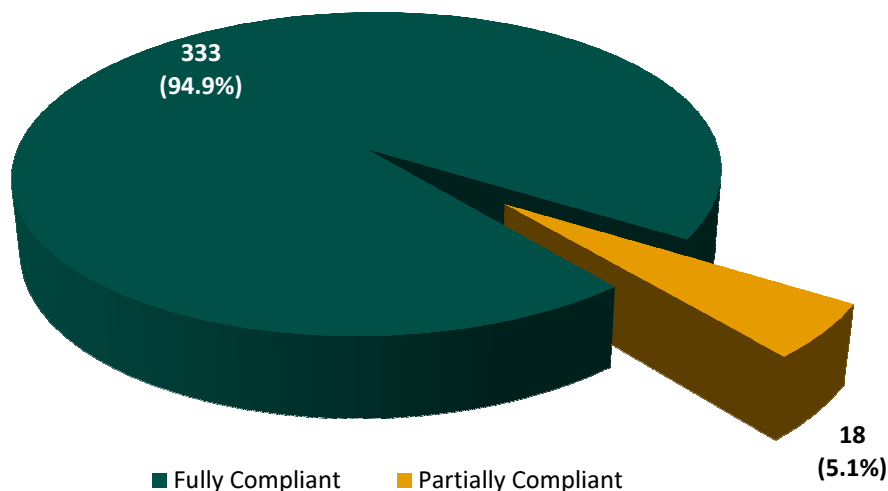
### Summary of conformance with CIPFA's Public Sector Internal Audit Standards (PSIAS) checklist:

PSIAS Conformance Area	Compliant	Partially Compliant	Non Complaint	Total
<b>1 Definition of Internal Auditing</b> The Definition of Internal Auditing is the statement of fundamental purpose, nature and scope of internal auditing.	3	0	0	3
<b>2 Code of Ethics</b> The Code of Ethics is a statement of principles and expectations governing behaviour of individuals and organisations in the conduct of internal auditing.	13	0	0	13
<b>3 Attribute Standards</b>				
<b>3.1 1000 Purpose, Authority and Responsibility</b> The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.	20	3 (para ref 4.2.3)	0	23
<b>3.2 1100 Independence and Objectivity</b> The internal audit activity must be independent and internal auditors must be objective in performing their work.	34	1 (para ref 4.2.2)	0	35
<b>3.3 1200 Proficiency and Due Professional Care</b> Engagements must be performed with proficiency and due professional care.	19	2 (para refs 4.2.2 and 4.2.5)	0	21
<b>3.4 1300 Quality Assurance and Improvement Programme</b> The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.	31	4 (para ref 4.2.8)	0	35
<b>Attribute Standard Sub Total</b>	<b>104</b>	<b>10</b>	<b>0</b>	<b>114</b>
<b>4 Performance Standards</b>				
<b>4.1 2000 Managing the Internal Audit Activity</b> The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.	46	1 (para ref 4.3.2)	0	47
<b>4.2 2100 Nature of Work</b> The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.	31	0	0	31

## APPENDIX D (cont'd)

PSIAS Conformance Area	Compliant	Partially Compliant	Non Complaint	Total
4.3 2200 <i>Engagement Planning</i> Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.	56	2 (para ref 4.2.5)	0	58
4.4 2300 <i>Performing the Engagement</i> Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.	21	1 (para ref 4.3.6)	0	22
4.5 2400 <i>Communicating Results</i> Internal auditors must communicate the results of engagement.	54	3 (para refs 4.2.8, and 4.3.11)	0	57
4.6 2500 <i>Monitoring Progress</i> The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.	3	1 (para ref 4.3.4)	0	4
4.7 2600 <i>Communicating the Acceptance of Risks</i> When the chief audit executive concludes that senior management has accepted a level of residual risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management.	2	0	0	2
<b>Performance Standard Sub Total</b>	<b>213</b>	<b>8</b>	<b>0</b>	<b>221</b>
<b>Total</b>	<b>333</b>	<b>18</b>	<b>0</b>	<b>351</b>
<b>Percentage</b>	<b>94.9%</b>	<b>5.1%</b>	<b>0.0%</b>	<b>100%</b>

### Graphical representation of Conformance:



## Internal Audit - Effectiveness of the Audit Committee

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

### REASON FOR ITEM

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

CIPFA best practice guidance for local authorities states that in order for the AC 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 AC 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 AC should have clear reporting lines and unrestricted rights of access to other Council committees and managers (as required/ appropriate). The AC 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 AC final report.**

### INFORMATION

The report aims to provide independent, objective assurance to the Council over the Effectiveness of the AC. Specifically IA reviewed the following key areas:

- AC Terms of Reference;
- AC Independence and Membership;
- AC Members' relevant experience, training and development;
- Review of key AC documents including (but not limited to) Statement of Accounts and the Annual IA Report; and
- AC meeting agendas and minutes.

### LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

### BACKGROUND PAPERS

None

Audit Committee 2 July 2015

PART I – MEMBERS, PUBLIC & PRESS

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# INTERNAL AUDIT

## Final Assurance Report 2015/16

### Effectiveness of the Audit Committee

24<sup>th</sup> June 2015

#### Overall IA Assurance Opinion:

**REASONABLE**

#### Recommendation Overview:

High Risk	0
Medium Risk	2
Low Risk	3
Notable Practice	0

#### Review Sponsor:

Paul Whaymand

Corporate Director of Finance

#### Final Report Distribution:

Rajiv Vyas

Chairman of the Audit Committee

Fran Beasley

Chief Executive and Corporate Director of Administration

Lloyd White

Head of Democratic Services

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.



## 1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review was identified as part of the 2015/16 annual IA plan presented to the Council's Corporate Management Team (CMT) and Audit Committee (AC) on 17<sup>th</sup> March 2015. **The purpose of this review is to provide assurance to management and to the AC over the following key risks surrounding the Effectiveness of the AC:**
- The AC does not effectively support the Council by reviewing the completeness of assurances to satisfy their needs, and by reviewing the reliability and integrity of these assurances. As a result, the Council may be in breach their statutory obligations which could cause reputational damage or financial loss for the Council;
  - The AC is not suitably independent and objective. Each Member may not have a good understanding of the Council's objectives, priorities and risks. Members may be unaware of their roles and responsibilities in relation to the AC. Therefore there is an increased likelihood of not achieving the Council's strategic priorities;
  - The AC does not contain or have at its disposal an appropriate mix of skills or its Members may not have been adequately trained. Consequently, there is a risk that Members may not be able to perform their duties effectively and fulfil the requirements of their role;
  - The scope of work to be performed by the AC is not suitably defined, therefore it may not encompass all the assurance needs of the Council and the Cabinet; and
  - The AC does not engage effectively with financial and performance reporting issues, and with the work of key stakeholders, primarily IA and External Audit. Furthermore, the AC may not communicate effectively with the Council's CMT, Cabinet and other stakeholders. This may result in a loss of public money resulting in adverse public reaction and reputational loss.

## 2. Background

- 2.1 An effective and independent AC is a key element in the Council's corporate governance and risk management framework. An effective AC 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 CIPFA best practice guidance (A Toolkit for Local Authority ACs) states that in order for the AC to be fully effective and therefore able to provide meaningful advice to the Council, its Members need to be independent, diligent, knowledgeable, and receive relevant, timely and reliable information. The guidance also indicates that AC Members must be in a position to provide robust challenge to all Corporate Directors and Members of the Cabinet and draw attention to any governance weaknesses. Further, the guidance states the AC should have clear reporting lines and unrestricted rights of access to other Council committees and senior managers (as required). In addition, the AC should have sufficient administrative support as well as access to 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 AC. Definitions of the IA assurance levels and risk ratings are included at **Appendix C**.
- 3.2 We confirmed that during 2014/15 the AC has provided challenge and generally operated effectively. Key documents, such as the IA Annual Opinion Statement, the Annual Governance Statement and the Statement of Accounts have been reviewed during the year, in line with the AC Work Programme and the AC Terms of Reference (ToR).



- 
- 3.3 However, based on a benchmarking exercise performed as part of our testing, we have identified there are some areas for the AC to improve in terms of functionality and best practice, which we believe should be incorporated into an annual review of the AC ToR.
- 3.4 There was a successful appointment of a new Independent Chairman during the year which should enhance the independent standing of the AC. We concluded that whilst AC Members inherently possess key attributes required of committee Members, there is still a requirement to understand relevant service areas across the Council where further specific AC related training is necessary. AC Members are currently being consulted on a draft Skills Matrix which has been developed by the Head of Internal Audit (HIA). Once finalised and completed the Skills Matrix will help identify the specific AC training requirements to inform a tailored Training and Development Plan (T&DP) for AC Members. However, it was noted at the time of this audit that further engagement from some AC Members is required in order to ensure the Skills Matrix provides sufficient value to the process of compiling the AC T&DP.
- 3.5 The recommendations raised in this report are designed to help the AC further develop the foundations in place and enhance the overall effectiveness of the AC. The detailed findings and conclusions of my testing which underpin the above IA opinion have been discussed at the exit meeting and are set out in section four of this report. The key IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions are set out in **Appendix B** of the report.

## 4. Detailed Findings and Conclusions

### 4.1 Audit Committee Terms of Reference

- 4.1.1 The purpose of an AC is to provide to those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment, the integrity of the financial reporting and annual governance processes. The AC'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 We reviewed the ToR and established that it is included in the Council's Constitution and that it clearly outlines its role and responsibilities in relation to IA, External Audit (EA), the governance framework, accounts and annual review/reporting. It was noted that there was no formal review of the ToR undertaken during 2014/15, with the last review taking place in May 2013. Examination of the May 2013 review process established that the amendments to the ToR had been presented to Full Council prior to review by the AC.
- 4.1.3 We also reviewed the ToR in relation to best practice guidance and current AC duties. By cross referencing the ToR with the AC Work Programme 2014/15 we identified that the committee's standard duties, in relation to Treasury Management and Investment Strategy, were not included in the latest ToR. Further comparison of the ToR against best practice highlighted that certain elements were absent from the ToR, including the ability to call senior managers to attend meetings, to enhance accountability and understanding of issues. Our recent benchmarking exercise of ACs via London Audit Group (LAG) highlighted that the London Borough of Hillingdon (LBH) AC was the only one out of the eight local authorities benchmarked, that did not have the power to call senior managers to meetings. We understand that this a policy decision that has been made by the Council.

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4.1.4 In addition, we identified that the AC ToR contained out of date terminology. Specifically it refers to the "Statement of Internal Control" which was actually replaced in 2008 by the Annual Governance Statement (AGS). If the AC ToR is not formally reviewed annually, there is a risk that mandatory requirements of the AC may not be picked up. An annual review is also an opportune time for any best practice changes to the roles and responsibilities of the AC to be formally considered for adoption. As a consequence we have raised a recommendation aimed at strengthening arrangements in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

4.1.5 We evidenced that the ToR is presented on the front sheet of every AC meeting agenda, with declarations of interests a standing agenda item to help ensure the continued objectivity of the AC.

## **4.2 Independence and Membership**

4.2.1 A key requirement for AC Members is independence which is the cornerstone of their effectiveness. Generally, best practice guidance states that an AC Member should possess certain characteristics such as integrity, consistently uphold ethical standards, be proficient in communicating, have the time and personal commitment to perform effectively and be ready to ask challenging questions about the Council's risk management and internal control systems and processes.

4.2.2 We reviewed the membership of the Council's AC and confirmed it complies with the political balance rules, reinforcing its independent nature, and that it is comprised of five Members;

- One Independent Member;
- Three Members from the Conservative Party; and
- One Member from the Labour Party.

4.2.3 This political balance is in accordance with best practice and helps to ensure that no political agenda is given a priority at AC meetings and that decisions made by the Committee are free from political influence.

4.2.4 In June 2014, the Independent AC Chairman stepped down from his role after seven years in post having overseen a successful tenure. During the interim period, two AC meetings took place without an Independent Chairman or any other Independent Member. Since the appointment of the new Independent AC Chairman in July 2014, two meetings have taken place, one of which the Independent Chairman was absent. As a result, only one of the four AC meetings in 2014/15 was chaired or attended by an independent Member. Although this matter will need to be reflected in the 2014/15 AGS, this should no longer be an issue going forward as an independent Chair is now in place.

4.2.5 As part of our testing we noted that Conservative and Labour Party Members were all found to have a reserve member available to cover absences. The AC requires four members to achieve quorum as per the Council's Constitution. We noted that on two of the last four AC meetings the meeting was at the minimum level of Members to meet the Council's quorum requirements. In fact only two of the five AC Members achieved 100% attendance during 2014/15. With only five Members on the AC in total, there is a high dependency on regular Member attendance as well as an effective substitution process, in order for the AC to operate in an effective manner.

4.2.6 In addition, the LAG benchmarking exercise highlighted that LBH's AC had the lowest number of committee Members out of the eight LAG ACs reviewed. Most authorities in the sample have six AC Members, although we noted some have as many as ten. Given there is no political appetite to have a reserve Independent Member and the high reliance on the substitutions process, we believe there is benefit in considering increasing the AC Membership.

- 
- 4.2.7 An increase in membership would help reduce the risk of the meeting having to be delayed or cancelled due to being unable to meet the Council's quorum requirements of four Members. We have therefore raised a good practice suggestion in this area (refer to **Recommendation 3** in the Management Action Plan at **Appendix B**).
- 4.2.8 In order to maintain independence and objectivity, the Council's Constitution follows best practice and stipulates that Members of the AC should not hold an additional position in relation to Cabinet or Scrutiny functions. We identified that during 2014/15, a reserve AC Member held a position on the External Services Scrutiny Committee. As a result there is a minor risk that membership of the AC could breach the Council's Constitution. Therefore a recommendation in this area has been raised to help prevent a reoccurrence (refer to **Recommendation 4** in the Management Action Plan at **Appendix B**). We understand that the Head of Democratic Services has now taken action in this area.
- 4.2.9 In addition, we confirmed that in line with best practice AC Members declare any interests at the start of each AC meeting as a standing agenda item, maintaining an element of independence and transparency.

### **4.3 Members Experience, Training and Development**

- 4.3.1 The effectiveness of the AC in performing its duties is often dependent upon Member's experience, knowledge and competence in business matters, financial reporting, internal control and reporting. The AC should not be solely reliant upon management for this experience and skills.
- 4.3.2 Membership of the AC is made through selection by the Leader of the Council. In order to ensure that selected AC Members have the required knowledge, a Skills Matrix for them has recently been drafted by the Head of IA (HIA). This has been distributed to AC Members for comments, although we noted at the time of this review that further feedback is required to enable sufficient value to be provided by this initiative.
- 4.3.3 The LAG benchmarking exercise highlighted that LBH had the only AC from a sample of 8 London authorities that does not currently provide specific AC Member training. No specific AC training has been undertaken for over 3 years and although there is no formalised Training and Development plan (T&DP) in place for AC Members, in March 2014 a draft T&DP for AC Members was produced by the HIA. Following the review of the Effectiveness of the AC in 2013/14, the Head of Democratic Services agreed to form an AC Member T&D Plan by 30<sup>th</sup> November 2014 as part of the corporate Member Development Plan. However, we noted that to date a formal AC Member T&DP has not been produced or agreed. We understand that the delay was to enable the AC T&DP to be aligned to the requirements of the relatively recently appointed Independent AC Chairman.
- 4.3.4 The purpose of the T&DP is to provide a comprehensive record of training subjects to assist AC Members improve their understanding of core areas within their remit and the roles and responsibilities of the AC. This includes IA, EA, Anti-Fraud and Anti-Corruption, Corporate Governance (including the AGS), Risk Management and Financial Reporting requirements including Treasury Management. The idea behind the Skills Matrix which is currently being consulted on is to help inform the AC T&DP. As a consequence we have raised a recommendation in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).

### **4.4 Review of Key Documents**

- 4.4.1 The AC is stated as being responsible for reviewing and monitoring the Council's audit, governance, risk management framework and the associated control environment. The AC, 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 weaknesses in its control environment.

- 4.4.2 In order for effective review to take place, AC Members receive an agenda reports pack to review eight days prior to the AC meeting to allow sufficient time, as far as possible, to review reports prior to the meeting taking place. The AC meets on a quarterly basis in line with best practice, which is deemed adequate for LBH to allow discussion of relevant current issues. Historically, individual private meetings have been held between the AC and EA and IA without management present, to allow free discussion. However, it was noted that the private meeting between IA and the AC had not taken place during 2014/15 due to the requirement to swap suitable dates with EA. Nevertheless, we understand this has been rescheduled for the upcoming AC meeting due to take place on 2<sup>nd</sup> July 2015. In addition, we noted that the AC Work Programme (Forward Planner) now has slots set aside for private meetings between the AC and the Corporate Director of Finance and the Corporate Fraud Investigations Manager.
- 4.4.3 The AC Work Programme timetables the key AC activities for the year. Review of the Programme for 2014/15 against the activities minuted for each meeting confirmed that the AC's review of key documents was conducted as intended. We also verified that key activities took place including the review of EA and IA plans. The AC also considers the Effectiveness of IA and Effectiveness of the AC annual reviews to gain assurance over its own processes and the processes in which its assurance is obtained, as per best practice.
- 4.4.4 We reviewed the minutes of meetings held during 2014/15 and confirmed that key documents and their significant findings have been reviewed throughout the year. These have included the Statement of Accounts, AGS, Annual Grant Letter, Annual Audit Letter and the Annual IA Report. These key duties were incorporated into the AC's Work Programme for 2014/15 and are in the 2015/16 AC Forward Programme. Further, the AC reviews the internal controls and risk management systems at quarterly meetings via the Quarterly IA Progress report, which details key risks and findings for the quarter, and through Quarterly Risk Management and Corporate Fraud Investigation Progress reports.
- 4.4.5 The review of key documents, discussed above, and the Work Programme also highlighted that the AC obtains its assurances from only a few assurance providers including IA and EA. Local authorities are able to provide assurances from varying sources, including Health and Safety functions and Performance functions, which can further inform the AC's Annual Report to Full Council and the assurances it provides. We noted that an 'assurance mapping' exercise has not been carried out across the Council. The advantage of such an exercise would be to enable the AC to identify the sources of assurance across the Council and to help identify gaps in the assurance being provided, as well as reduce the risk of duplication of effort. Therefore, we have raised a best practice suggestion for the Council to consider (refer to **Recommendation 5** in the Management Action Plan at **Appendix B**).

## 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.

## 6. Internal Audit Contact Details

This audit was led by: Elaine Portess CIPFA, **Principal Internal Auditor**

This audit was reviewed by: Anthony Dean CMIIA, **Assistant Internal Audit Manager**

Thank you,



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

**Management Action Plan**

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
1	The Audit Committee (AC) Terms of Reference should be subject to annual review against relevant guidance to ensure that it is up-to-date and includes all mandatory responsibilities and considers any new best practice guidance. All changes proposed following the annual review should be formally approved (para ref 4.1.4).	<i>If the AC Terms of Reference have not been reviewed annually, there is a risk that mandatory changes required to the roles and responsibilities of the AC may go unidentified. This could potentially negatively impact the objectivity, independence and overall effectiveness of the AC, which ultimately could damage the Council's reputation.</i>	<b>MEDIUM</b> ●	<b>TREAT</b>	In future an annual review of the Audit Committee Terms of Reference will be conducted and any changes will be approved in line with Council policy.	Lloyd White,  Head of Democratic Services  <b>30<sup>th</sup> April 2016</b>
2	The Audit Committee (AC) Skills Matrix should be used to help inform an AC Training and Development Plan (T&DP). All relevant training should be included within the AC T&DP (para ref 4.3.4).	<i>Without a T&amp;DP for AC Members there is an increased risk that the AC may not be effective in discharging its statutory responsibilities.</i>	<b>MEDIUM</b> ●	<b>TREAT</b>	It has been agreed that the Head of Internal Audit will take responsibility for producing a rolling T&DP for AC Members. The T&DP will be produced to reflect the recent feedback from the draft Skills Matrix for AC Members.	Muir Laurie,  Head of Internal Audit  <b>30<sup>th</sup> September 2015</b>

**Good Practice Suggestions & Notable Practices Identified**

No.	Observation/ Suggestion	Rationale	Risk Rating
3	Consideration should be given to increasing Audit Committee (AC) Membership to reduce the risk of AC meetings being delayed or cancelled because they do not meet the quorum requirements of four members (para ref 4.2.7).	<i>If there are only five AC Members and regular reliance on the substitutions process, there is an increased risk that LBH AC meetings may have to be delayed or cancelled as they cannot go ahead if they do not meet the quorum requirements of four Members. Any AC meetings cancelled at short notice would increase the Council's administrative costs.</i>	<b>LOW</b> ●
4	Membership of the Audit Committee (AC) should be allocated to ensure that it is in accordance with the Council's Constitution, specifically in relation to AC Membership which requires independence from Cabinet and Scrutiny functions. The requirements for Member selection could be included in the list of discussions with the Chief Whip from each party (para ref 4.2.8).	<i>There is a minor risk that membership of the AC breaches the Council's Constitution and does not comply with best practice guidance.</i>	<b>LOW</b> ●
5	A formal assurance mapping exercise could be undertaken to identify the sources of assurance from across the Council, enabling reliance to be placed on other forms of assurance and direct the Audit Committee resources to any assurance gaps identified (para ref 4.4.5).	<i>There is a risk that that different sources of assurance are not identified resulting in gaps in assurance arising with increased potential for risks materialising. Further, there is an increased likelihood that duplication of effort arises, reducing the efficiency of the Council's sources of assurance.</i>	<b>LOW</b> ●

**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

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

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

**RISK RESPONSE DEFINITIONS**

RISK RESPONSE	DEFINITION
<b>TREAT</b>	The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action.
<b>TOLERATE</b>	The risk is accepted by management and no further action is proposed.
<b>TRANSFER</b>	Moving the impact and responsibility (but not the accountability) of the risk to a third party.
<b>TERMINATE</b>	The activity / project from which the risk originates from are no longer undertaken.

**INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

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



# Agenda Item 9

## **Internal Audit - Progress Report for Quarter 1 2015/16 (including the 2015/16 Quarter 2 IA Plan)**

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

### **REASON FOR ITEM**

The attached report presents the Audit Committee (AC) with summary information on all Internal Audit (IA) work covered in relation to the 2015/16 IA Plan and assurance in this respect during the Quarter 1 period (1<sup>st</sup> April to 24<sup>th</sup> June 2015). It also provides an opportunity for the Head of IA to highlight to the AC any significant issues that they need be aware of that have arisen.

It also enables the AC to hold the Head of IA to account on delivery of the 2015/16 Quarter 1 IA Plan and facilitates in holding management to account for managing risk and control weaknesses identified during the course of IA activity. The attached report also presents the AC with the Quarter 2 IA Plan which has been produced in consultation with senior managers. The Plan sets out the programme of IA coverage which is due to commence in the 1<sup>st</sup> July to 30<sup>th</sup> September 2015 period.

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

**The AC is asked to note the IA Progress Report for 2015/16 Quarter 1 and consider the Quarter 2 IA Plan for 2015/16 and, subject to any further minor amendments, approve it.**

**The Audit Committee should ensure that the coverage, performance and results of IA activity in Quarter 1 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.

The PSIAS, which came into force on the 1<sup>st</sup> April 2013, 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.

Audit Committee 2 July 2015

Audit Committee 2 July 2015

**Progress Report to Audit Committee  
for 2015/16 Quarter 1 (including the  
2015/16 Quarter 2 IA Plan)**

**24<sup>th</sup> June 2015**



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The Internal Audit key contacts in connection with this report are:

**Muir Laurie**

Head of Internal Audit

t: 01895 556132

e: [mlaurie@hillingsdon.gov.uk](mailto:mlaurie@hillingsdon.gov.uk)

**Martyn White**

Senior Internal Audit Manager

t: 01895 250354

e: [mwhite@hillingsdon.gov.uk](mailto:mwhite@hillingsdon.gov.uk)

**Sarah Hydrie**

Assistant Internal Audit Manager

t: 01895 277907

e: [shydrie@hillingsdon.gov.uk](mailto:shydrie@hillingsdon.gov.uk)

**Elaine Portess**

Assistant Internal Audit Manager

t: 01895 556128

e: [eportess@hillingsdon.gov.uk](mailto:eportess@hillingsdon.gov.uk)

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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 The UK Public Sector IA Standards (PSIAS) defines the nature of IA and set out basic principles for carrying out IA within the public sector. The PSIAS helps the Council to establish a framework for providing IA services, which adds value to the organisation, leading to improved organisational processes and operations.

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

- 1.2.1 This progress report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all 2015/16 IA assurance, consultancy and grant claim verification work covered during the period 1<sup>st</sup> April to 24<sup>th</sup> June 2015. In addition, it provides an opportunity for the Head of Internal Audit (HIA) to highlight any significant issues arising from IA work in Quarter 1. It also highlights to CMT, the Audit Committee and other IA stakeholders the revisions to the Quarter 1 IA plan since its approval in March 2015 (refer to **Appendix B**).
- 1.2.2 A new feature of the IA progress report is the inclusion of the Quarter 2 IA plan (refer to **Appendix C**). This has been produced in consultation with senior managers over the last few weeks and sets out the planned programme of IA coverage due to commence in the 1<sup>st</sup> July to 30<sup>th</sup> September 2015 period.

## 2. Executive Summary

- 2.1 Since the last IA Progress Report on 9<sup>th</sup> March 2015, **22 assurance reviews** have been completed to final report stage, **8 consultancy reviews** have been finalised and **1 grant claim** has been certified. However, as highlighted at **Appendix A** the vast majority of work finalised in Quarter 1, has been, as we would expect, in relation to the 2014/15 IA plan.
- 2.2 In fact **96%** of the revised 2014/15 IA plan was delivered to draft report stage by 31<sup>st</sup> March 2015 and **100%** of the plan was completed to final report by 29<sup>th</sup> May 2015. This is a major achievement for the IA service and Council when compared to previous years. Further details of this are included within the 2014/15 Annual IA Report and Opinion Statement, due to be presented to the Audit Committee at its planned meeting of 2<sup>nd</sup> July 2015.
- 2.3 IA work on the 2015/16 Quarter 1 IA plan commenced on 1<sup>st</sup> April and planning has now been initiated on all Quarter 1 pieces of IA work. Good progress has been made on the plan with **82%** of audits at an advanced stage of either testing or reporting.
- 2.4 Within the quarter we have finalised **3** 2015/16 IA assurance reviews including **the Effectiveness of IA** and **the Effectiveness of the Audit Committee** reviews. Both reviews resulted in **REASONABLE** assurance opinions being given (see **Appendix A** for analysis of recommendations raised). The full reports of each review are due to be presented to the Audit Committee at its planned meetings of 2<sup>nd</sup> July 2015. However, the key headlines from the Effectiveness of IA review found IA to be **fully compliant with 95%** of the PSIAS and 5% partial compliance. In the Effectiveness of the Audit Committee review, we noted some areas where currently the Committee does not currently conform with good practice i.e. there is currently no training and development plan in place and the Committee's Terms of Reference has not been subject to an annual review during 2014/15.

- 2.5 The other 2015/16 assurance review finalised this quarter related to the **Music Service**. Our recently issued final report provided a **LIMITED** assurance opinion and raised **8 MEDIUM** and **5 LOW** risk recommendations and **1 NOTABLE PRACTICE** observation. Our testing identified control weaknesses surrounding the inventory of musical instruments and gaps relating to some teachers providing tuition to pupils having not undertaken appropriate safeguarding training. Further, we identified that the designated safeguarding officer had not received advanced training (as required by the Children Act 1989 and 2004).
- 2.6 Further details of IA work carried out in the Quarter 1 period are included below at section 3 of this report.

### 3. Analysis of Internal Audit Activity in 2015/16 Quarter 1

#### 3.1 Assurance Work in Quarter 1

- 3.1.1 All IA assurance reviews carried out in Quarter 1 are individually listed at **Appendix A**. This list details the assurance levels achieved (in accordance with the assurance level definitions outlined at **Appendix E**) and provides an analysis of recommendations made (in accordance with the recommendation risk categories outlined at **Appendix E**).
- 3.1.2 On 1<sup>st</sup> April 2015, IA commenced work on the 2015/16 Quarter 1 IA plan. During the early part of the quarter, IA resource was focussed on finalising completion of the 2014/15 IA plan. Consequently, as at 24<sup>th</sup> June, only **3** 2015/16 IA assurance reviews have been completed to final report stage (although **4** other assurance reviews are at draft report stage). The 3 finalised 2015/16 assurance reviews relate to the **Music Service**, as well as the **Effectiveness of IA** and the **Effectiveness of the Audit Committee**, both of which are due to be presented to the Audit Committee as separate reports at its planned meeting of 2<sup>nd</sup> July 2015.
- 3.1.3 All IA Quarter 1 work is under way, with a further **6** Quarter 1 assurance audits in progress (refer to **Appendix A** for details). The summary results of these audits will be included in the Quarter 2 progress report due to be presented to Audit Committee at its planned meeting of 24<sup>th</sup> September 2015.

#### 3.2 Consultancy Work in Quarter 1

- 3.2.1 IA continues to undertake a variety of consultancy work across the Council. The consultancy coverage 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 continues to help increase IA's knowledge of corporate developments that feed into the risk based deployment of IA resource on assurance work. Also, participation in working and project groups continues to help individual IA staff develop, whilst at the same time increasing the value IA provides to the Council. Due to the nature of consultancy work, we do not provide an assurance opinion or formal recommendations for management action. However, as part of our advisory reports and memos we do provide specific observations and suggestions for senior management to consider.
- 3.2.2 Attached at **Appendix A** is a list of consultancy work carried out in Quarter 1. This highlights that **4** consultancy reviews have been completed and **9** other reviews are in progress. IA has recently begun providing consultancy advice to management in relation to **Corporate Construction, Housing - Planned Maintenance and Housing Repairs**. These areas were assessed as **HIGH** risk and were originally included in the 2014/15 IA plan as assurance reviews, but were deferred at the request of management to allow time for significant restructures to take place. IA advice in these areas is at a relatively early stage, but it is clear these services are going through a period of major transition and that it is going to take some time for the new operating model to become fully effective. IA will continue to liaise with management in an attempt to provide advice on the structure and processes being implemented.

- 3.2.3 We have also completed a piece of consultancy work this quarter for **Hillingdon Adult & Community Learning**. We conducted testing (in the form of a mock audit) on a sample of Individual Learner Records (ILRs) for learners funded by the Education Funding Agency (EFA) to ensure compliance with EFA Funding Regulations (FRs). We identified improvement suggestions for management to consider to help ensure that in future sufficient evidence is in place to meet the requirements of the EFA FRs. The Service Manager - Adult & Community Learning Service was grateful for the support provided by IA and has already begun to take positive action to address the gaps to meet EFA evidence requirements.
- 3.2.4 A consultancy review of **Children & Young People's Services financial control operations** is also in progress, which will incorporate the planned consultancy review of Looked After Children - Asylum & Indigenous. The scope for this review is focused on prepaid cards and payment of allowances relating to fostering, adoption and care leavers.
- 3.2.5 IA continues to provide advice in relation to the 2014/15 the **Annual Governance Statement (AGS)** which includes active participation in the AGS Group meetings. The HIA recently met with the Head of Policy & Partnerships to discuss the draft AGS in an attempt to ensure it reflects the results of IA coverage in 2014/15.

### 3.3 Grant Claim Verification Work in Quarter 1

- 3.3.1 As detailed at **Appendix A** (ref 15-GC1), IA continues to carry out quarterly verification work on the **Troubled Families Grant**. IA tested a sample of troubled families that had been identified as being 'turned around' by the Troubled Families Team. Our testing concluded there was sufficient evidence that improvement had been made in all of the troubled families in our sample and that each case tested had achieved the 'continuous employment' requirement.
- 3.3.2 There has been no other grant claim verification work carried out by IA this quarter.

### 3.4 Follow-up of Previous Internal Audit Recommendations in Quarter 1

- 3.4.1 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. Follow-up work within this quarter has been undertaken on all outstanding IA recommendations arising from 2012/13, 2013/14 and 2014/15 coverage.
- 3.4.2 The results from our follow-up work are reported in detail within the 2014/15 Annual IA Report and Opinion Statement, due to be presented to the Audit Committee at its planned meeting of 2<sup>nd</sup> July 2015.

### 3.5 Other Internal Audit Work in Quarter 1

- 3.5.1 During this quarter, IA held a team strategic planning day to reflect on the achievements of the IA service over the last 12 months. This provided an opportunity for the team to consider what we had learnt throughout the year and to think about the challenges ahead for the IA service. This day helped generate a number of improvement ideas for the IA service which we will be looking to take forward and implement during 2015/16.
- 3.5.2 As a result of the fast changing control environment we have introduced a **quarterly approach to IA planning in 2015/16**. Specifically, as well as providing a high-level estimation of where we expect to utilise our resources over the year, we now produce quarterly detailed operational IA plans in liaison with management. Over the last month we have produced the detailed operational IA plan for Quarter 2 (refer to **Appendix C**) in consultation with management. The quarterly planning cycle should help ensure that IA resources are directed in a more flexible and targeted manner to maximise the benefit to our stakeholders.

- 3.5.3 This quarter, two senior members of the IA team attended the Schools Forum meeting to briefly discuss the IA thematic reviews of schools that have been carried out during 2014/15. We also explained the areas we have identified as **HIGH** risk scheduled for coverage in 2015/16 and sought the views of the Forum on our planned coverage. We were informed that the issues we have highlighted in the thematic reviews over the last 12 months have been well received and have helped schools to improve their working practices. We also received positive feedback on our participation at the Forum meeting and on the planned IA coverage of schools in 2015/16.
- 3.5.4 In the early part of this quarter, three senior members of the IA team undertook the PRINCE2® (Projects in a Controlled Environment) Foundation training. They successfully passed the project management exams at the end of the course which further enhances the qualifications of the IA service. It also enables more of the IA team to offer project assurance and support to management, at a time when there is an increasing number of business critical projects going on across the Council.

#### 4. Analysis of Internal Audit Performance in 2015/16 Quarter 1

- 4.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. For the 2015/16 year, IA will report quarterly to CMT and the Audit Committee on the 9 KPIs listed at **Appendix D**. Previously, IA reported on 10 KPIs but one KPI has now been retired. This KPI was previously referred to as 'KPI 3 - **LOW** risk IA recommendations where positive management action is proposed'. The reason this KPI has been retired is because 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.
- 4.2 We believe that the 2015/16 IA KPIs are meaningful and will provide sufficient challenge to the IA service. 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 range of stakeholders. As at 24<sup>th</sup> June 2015, there have only been **3** 2015/16 IA assurance reports issued as final reports, therefore it would not be of sufficient value at this stage to report on 2015/16 performance against the IA KPIs. The analysis of IA performance for the 2014/15 period is reported in full within the **2014/15 Annual IA Report and Opinion Statement** which is due to be presented to the Audit Committee at its planned meeting of 2<sup>nd</sup> July 2015.

#### 5. Forward Look

- 5.1 The **Quality Assurance & Improvement Programme** (QAIP) developed in accordance with the IA Charter is in the process of being reviewed and updated, with improvement initiatives being formally assigned to members of the IA team. The QAIP is designed to provide assurance that IA work continues to be fully compliant with the UK PSIAS and also helps enable the ongoing performance monitoring and improvement of IA activity. The progress of the QAIP is highlighted in the 2014/15 Annual IA Report & Opinion Statement, due to be presented to the Audit Committee at its planned meeting of 2<sup>nd</sup> July 2015.
- 5.2 Following the closure of the Audit Commission on 31<sup>st</sup> March 2015, some functions have been transferred to **Public Sector Audit Appointments Limited** (PSAA). The PSAA will aim to ensure that public money continues to be properly accounted for and protected during the transition to the new local appointment regime to be established under the Local Audit and Accountability Act 2014. The PSAA will oversee the delivery of audit services provided to relevant authorities. From the 1<sup>st</sup> April 2015, PSAA have been tasked with ensuring External Audit is appointed to all relevant authorities. During quarter two, IA will be liaising with our new External Auditors (Ernst & Young) to ensure a dovetailed approach to audit coverage at Hillingdon continues.



- 5.3 A key member of the IA team has recently left Hillingdon to take up an IA Manager position with the Central Government's Internal Audit Agency. There is also a couple of other staff changes expected within IA during Quarter 2. As well as an external recruitment exercise, these changes will hopefully provide other members of the IA team with an opportunity to take on more responsibility, in line with the recently updated IA Strategy 2015-20.
- 5.4 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 Quarter 1. There are no other matters that the HIA needs to bring to the attention of CMT or the Audit Committee at this time.

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

24<sup>th</sup> June 2015

**APPENDIX A****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 ~ QUARTER 1**

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

**2015/16 IA Assurance Reviews - Quarter 1:**

IA Ref.	IA Review Area	Status as at 24 <sup>th</sup> June 2015	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
15-A6	Review of the Effectiveness of Internal Audit	Final report issued on 9 <sup>th</sup> June 2015	REASONABLE	0	3	6	0	N/A
15-A7	Review of the Effectiveness of the Audit Committee	Final report issued on 24 <sup>th</sup> June 2015	REASONABLE	0	2	3	0	Not yet due
15-A13	Music Service	Final report issued on 24 <sup>th</sup> June 2015	LIMITED	0	8	5	1	Not yet due
15-A2	Schools - Pupil Premium Funding	Draft report in progress						
15-CR1	Deprivation of Liberty Safeguards	Draft report in progress						
15-A11	Imprest Accounts	Draft report in progress						
15-A14	Purchasing Cards	Draft report in progress						
15-A1	Troubled Families Programme (TFP)	A TFP Project Group has now been formed and IA will be providing advice to the Project Group on a consultancy basis, rather than conducting an assurance audit as originally planned.	-	-	-	-	-	-
15-A3a	Personalised Budgets (Adults & Children)	Testing in progress						
15-A5	Absence Management	Testing in progress						
15-A10	Officers' Scheme of Delegations	Testing in progress						

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 ~ QUARTER 1 (cont'd)****2015/16 IA Assurance Reviews - Quarter 1 (cont'd):**

IA Ref.	IA Review Area	Status as at 24 <sup>th</sup> June 2015	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
15-A12	Corporate Procurement & Commissioning	Testing in progress						
15-A4	Schools - Use of Supply Teachers	Planning/ background research						
15-A9	Value Added Tax	Planning/ background research						
<b>Total Number of IA Recommendations Raised in 2015/16 Quarter 1</b>				<b>0</b>	<b>13</b>	<b>14</b>	<b>1</b>	
<b>Total % of IA Recommendations Raised in 2015/16 Quarter 1</b>				<b>0%</b>	<b>48%</b>	<b>52%</b>	<b>-</b>	

**2015/16 IA Consultancy Reviews - Quarter 1:**

IA Ref.	IA Review Area	Status as at 24 <sup>th</sup> June 2015
15-C4a	Data Protection Policy Review	Final consultancy memo issued 28 <sup>th</sup> April 2015
15-C4b	Information Governance Policy Review	Final consultancy memo issued 11 <sup>th</sup> May 2015
15-C8	Procurement Tender Evaluation Records (refer to <b>Appendix B</b> )	Final consultancy memo issued 29 <sup>th</sup> May 2015
15-C3	Education Funding Agency (EFA) Mock Audit - Hillingdon Adult & Community Learning	Final consultancy memo issued 5 <sup>th</sup> June 2015
15-C2	Review of Children & Young People's Services financial control operations (this review will incorporate the planned review of Looked After Children - Asylum & Indigenous)	Testing in progress
15-C5	First Aid Quality Assurance Review (refer to <b>Appendix B</b> )	Testing in progress
15-C6	Stores Management (refer to <b>Appendix B</b> )	Testing in progress
15-C9	Whistleblowing Investigation (refer to <b>Appendix B</b> )	Testing in progress
15-C10	Mortuary (previously planned to be an assurance review)	Draft consultancy memo being drafted
15-C11	Corporate Construction	Advice in progress
15-C12	Housing - Planned Maintenance	Advice in progress
15-C13	Housing Repairs	Advice in progress
15-C14	Textiles Recycling Processes (refer to <b>Appendix B</b> )	Planning/ background research underway

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 ~ QUARTER 1 (cont'd)****2015/16 IA Grant Claim Verification Reviews - Quarter 1:**

IA Ref.	IA Review Area	Status as at 24 <sup>th</sup> June 2015
15-GC1	Troubled Families Grant - Quarter 1	Memo issued 29 <sup>th</sup> May 2015

**APPENDIX B****REVISIONS TO THE 2015/16 INTERNAL AUDIT PLAN ~ QUARTER 1****IA reviews ADDED to the 2015/16 Operational IA Plan for Quarter 1:**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
15-C5	First Aid Quality Assurance Review	Consultancy	<b>Pauline Moore</b> , Head of Human Resources (HR)	Following a management request from HR, IA was asked to perform a consultancy review of first aid qualification procedures & processes that are accredited by Qualifications Network (QNUK) to help ensure compliance with the QNUK requirements.
15-C6	Stores Management	Consultancy	<b>Nigel Dicker</b> , Deputy Director - Residents Services	At the request of the Deputy Director, IA was asked to perform a consultancy review to confirm if the stocks and stores at Harlington Road Depot are being procured, managed and distributed in an efficient, effective and economical manner.
15-C8	Procurement Tender Evaluation Records	Consultancy	<b>Paul Whaymand</b> , Corporate Director of Finance	At the request of the Corporate Director, IA was asked to undertake a piece of work relating to evidencing tender evaluation records. The sample testing focussed on contracts and/ or projects that were valued above the procurement thresholds outlined by the Official Journal of the European Union (OJEU).
15-C9	Whistleblowing Investigation	Consultancy	<b>Tony Zaman</b> , Director of Adult Services and Interim Director Children & Young People's Services	We have been asked to independently investigate a Whistleblowing allegation received by the Council. Work on this is ongoing.
15-C14	Textiles Recycling Processes	Consultancy	<b>Paul Whaymand</b> , Corporate Director of Finance	At the request of the Corporate Director, IA was asked to review and provide some advice in relation to the robustness of the textiles recycling processes and procedures currently in operation.

**APPENDIX B (cont'd)****REVISIONS TO THE 2015/16 INTERNAL AUDIT PLAN ~ QUARTER 1****IA reviews DEFERRED from the 2015/16 Operational IA Plan for Quarter 1:**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
15-A3b	Financial Assessments	Assurance	<b>Tony Zaman,</b> Director of Adult Services and Interim Director Children & Young People's Services	At the request of the Director, this audit has now been deferred to the Quarter 3 IA plan. This review was originally planned to be conducted alongside the Personalised Budgets assurance review, however, both will now be audited separately, with the assurance review of Personalised Budgets currently in progress (refer to <b><u>Appendix A</u></b> ).
15-C7	24+ Advanced Learning Loans Mock Audit - Hillingdon Adult & Community Learning	Consultancy	<b>Andy Evans,</b> Deputy Director - Corporate Finance & Head of Operational Finance	This audit has now been deferred to the Quarter 2 IA plan (refer to <b><u>Appendix C</u></b> ).

**APPENDIX C****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 2****IA work scheduled to commence in the 1<sup>st</sup> July to 30<sup>th</sup> September 2015 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-A15	Performance Management	Assurance	<b>MEDIUM</b>	<b>Fran Beasley,</b> Chief Executive & Corporate Director of Administration	Our planning sources identified some concerns in relation to the performance management framework within the Council. This audit will review the 'Golden Thread' which links plans and targets together and how this thread runs through them, connecting the broad strategic objectives of the Council and its partners with the actions of managers and staff at service, team and individual level.
15-A16	Records Management and Document Retention Policy	Assurance	<b>MEDIUM</b>	<b>Fran Beasley,</b> Chief Executive & Corporate Director of Administration	Following the recent IA reviews of Data Protection and Freedom of Information, the Council would like assurance over its current document retention arrangements. This audit will consider if the current Records Management and Document Retention Policy is up to date, is in line with good practice, has been clearly communicated and is being operated effectively across the Council.
15-A17	Schools - Safeguarding	Assurance	<b>MEDIUM</b>	<b>Jean Palmer,</b> Deputy Chief Executive & Corporate Director of Residents Services	This audit was previously deferred as reported to the Audit Committee in the 2014/15 Quarter 4 Progress Report (dated 9 <sup>th</sup> March 2015). This audit will now be performed in 2015/16 Quarter 2.
15-A18	E-Invoices	Assurance	<b>MEDIUM</b>	<b>Paul Whaymand,</b> Corporate Director of Finance	These core financial system audits were deferred from 2014/15, due to delays caused by the Oracle upgrade from R11 to R12. The status of each these audits was reported to the Audit Committee in the 2014/15 Quarter 4 Progress Report (dated 9 <sup>th</sup> March 2015). These audits are now expected to commence at the end of September 2015, subject to agreement with the relevant managers.
15-A19	Main Accounting System				
15-A20	Creditors				
15-A21	Debtors				

**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 2 (cont'd)**IA work scheduled to commence in the 1<sup>st</sup> July to 30<sup>th</sup> September 2015 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-A22	Reablement Service	Assurance	<b>MEDIUM</b>	<b>Tony Zaman,</b> Director of Adult Services and Interim Director Children & Young People's Services	Reablement is a short and intensive service, usually delivered in the home, which is offered to people with disabilities and those who are frail or recovering from an illness or injury. This assurance audit will establish how well the Council is delivering this service, meeting the demands of service users and working to stringent budgetary constraints.
15-CR2	Child Sexual Exploitation (CSE)	RBIA - CYPS CRR	<b>As per Risk Register</b>	<b>Tony Zaman,</b> Director of Adult Services and Interim Director Children & Young People's Services	A risk in relation to Child Sexual Exploitation (CSE) is identified in the Children & Young People's Services Group Risk Register (ref: CYPS 152). There is an increased demand for specific CSE child protection services, an increase in costs of specialist therapeutic safe placements and risk to the Council's reputation from adverse media attention. Consequently, management would welcome a piece of consultancy work in this area.
15-C7	24+Advanced Learning Loans Mock Audit - Hillingdon Adult & Community Learning	Consultancy	N/A	<b>Andy Evans,</b> Deputy Director - Corporate Finance & Head of Operational Finance	IA will continue to undertake a mock audit of Individual Learner Records (ILRs) for a sample of learners funded by the 24+Advanced Learning Loans to ensure compliance with Skills Funding Agency (SFA) Funding Rules. Consultancy work of this nature will assist the Finance Group as well as the Children & Young People's Services and the Adult & Community Learning Service prepare for a formal audit of ILRs by the SFA during 2015/16 (if selected).



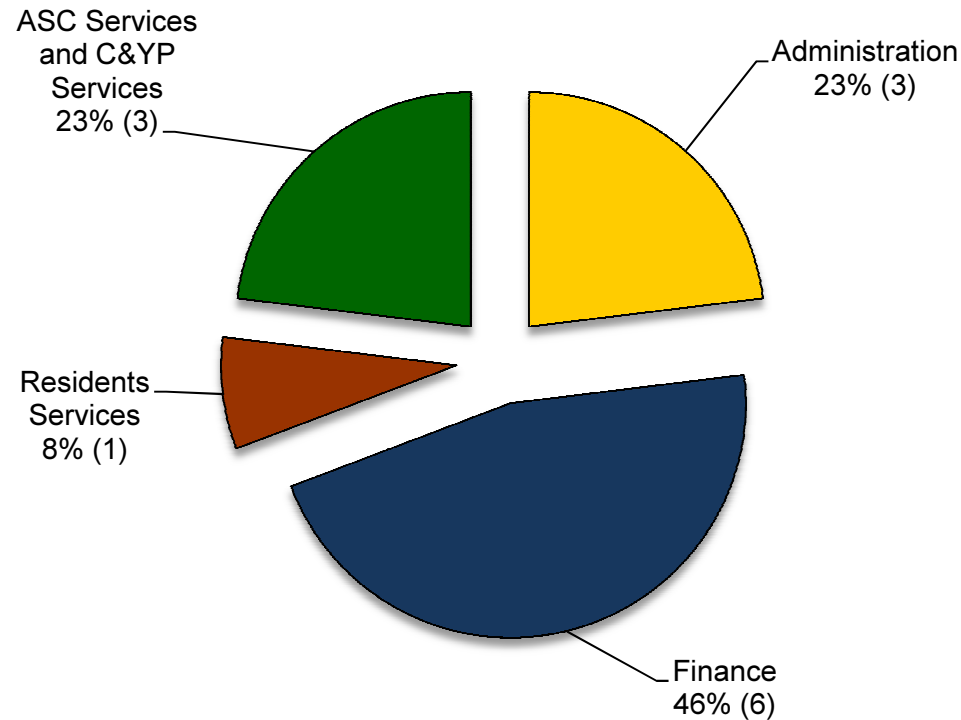
**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 2 (cont'd)**IA work scheduled to commence in the 1<sup>st</sup> July to 30<sup>th</sup> September 2015 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-GC2	Bus Subsidy Grant	Grant Claim	N/A	<b>Fran Beasley</b> , Chief Executive & Corporate Director of Administration	The Bus Service Operators Grant (BSOG) for both commercial and non-commercial bus routes is administered centrally by the Department for Transport. The BSOG is the partial refund on fuel duty received from the government by operators of local bus services in England. The grant claim requires Head of Internal Audit certification.
15-GC3	Housing Benefits Subsidy Grant	Grant Claim	N/A	<b>Rob Smith</b> , Head of Revenues and Benefits	Local authorities responsible for administering housing benefit claim subsidy from the Department for Work and Pensions in accordance with section 140 of the Social Security Administration Act 1992 and the Income-related Benefits (Subsidy to Authorities) Order 1998, SI 562 as amended. External Audit (Deloitte for the 2014/15 period) is required to certify the Council's claim. IA provides assistance to Deloitte by carrying out independent verification testing.
15-GC4	Troubled Families (Q2)	Grant Claim	N/A	<b>Tony Zaman</b> , Director of Adult Services and Interim Director Children & Young People's Services	The Council receives a payment-by-results grant from the Government for each identified 'turned around' troubled family. IA checks that the grant claim is only made for families where there was sufficient evidence of improvement in the last six months, as per the payment by results criteria.

**APPENDIX C (cont'd)**

**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 2 (cont'd)**

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



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

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

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

All IA KPIs Target Performance for 2015/16 are the same as 2014/15, except for:

1. **KPI 7** where Target Performance for 2014/15 was 90% (**15% decrease**); and
2. **KPI 8** where Target Performance for 2014/15 was 80% (**5% increase**).

Key for above:

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

Key for future reporting on actual KPI performance:

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

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

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

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

**APPENDIX E (cont'd)****INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

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

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## The Draft Annual Governance Statement 2014- 2015

Contact Officer: Kevin Byrne  
Telephone: 01895 250665

### SUMMARY

1. The Committee received an update on preparation of the Annual Governance Statement (AGS) for 2014/15 at its meeting on 17<sup>th</sup> March 2015. 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 2015.
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 the attached draft AGS (Appendix A).
3. A full draft 2014-15 AGS is attached for comment.

### REASON FOR REPORT

4. This briefing provides the Audit Committee with a progress update and presents a draft 2014-15 AGS for comment.

### RECOMMENDATION

5. **Members are invited to review the production of the draft 2014-15 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 2015.**

## London Borough of Hillingdon

### Annual Governance Statement 2014-15

#### 1 Scope of Responsibility

The London Borough of Hillingdon (LBH) 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. LBH 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, LBH 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.

LBH follows an approach to corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework *'Delivering Good Governance in Local Government'*. The authority's constitution is on its website at [www.Hillingdon.gov.uk](http://www.Hillingdon.gov.uk). This statement explains how the authority has met 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 LBH'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 LBH for the year ended 31 March 2015 and up to the date of approval of the Statement of Accounts.

#### 3 The Governance Framework

LBH 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, as required.

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- 2 Part 2 of the constitution outlines the **roles and responsibilities** of the Executive, Non-executive, Mayor, Overview and Scrutiny committees, Standards committee and officer functions. There is an ethical framework governing the conduct of members and co-opted members, introduced by the Localism Act 2011, which came into force on 1<sup>st</sup> July 2012. The governance arrangements for Hillingdon comprise:
- A structure of the Leader of the Council, a Cabinet and Policy Overview and Scrutiny Committees
  - A Corporate Management Team
  - Senior Management Teams
  - The Audit Committee, led by an independent chairman
  - Standards Committee and a Code of Conduct for Members and Co-opted Members
- 3 Part 2, article 7 of the Constitution sets out the '**Cabinet Scheme of Delegations**'. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet members. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Director's responsibilities. Executive decision-making is transparent and undertaken in accordance with regulations and the law, with flexibility for urgent decisions. Cabinet meetings are open to the public and media to attend and report on.
- 4 Part 2, articles 6 and 8 (including Part 4,E) set out how the Council's non-executive decisions by Members are taken. **Policy Overview and Scrutiny Committees** undertake regular monitoring of services, performance and the budget and an annual programme of major Member-led service reviews involving witness testimony aimed at influencing executive policy. Statutory scrutiny of health and police bodies is undertaken annually. Regulatory decisions on planning, licensing and related matters are undertaken judiciously by experienced and trained Elected Councillors, in accordance with the Council's high ethical standards. A new Major Applications Planning Committee established in 2013 has strengthened the way the Council determines major developments and commercial / business applications.
- 5 Part 2, article 8 also sets out how the Authority works with its partners in Hillingdon through the **Health and Wellbeing Board**, which is chaired by the Leader of the Council and meets the requirements of the Health and Social Care Act 2012. The Health and Wellbeing Board seeks to improve the quality of life of the local population and provide high-level collaboration between the Council, NHS and other agencies to develop and oversee the strategy and commissioning of local health services.
- 6 Part 3 of the Constitution sets out the '**Scheme of Delegations to Officers**'. This governs the responsibility allocated to officers of LBH to perform the authority's activities. These include the Chief Executive, Borough Solicitor and Head of Democratic Services and the schemes are regularly updated when required 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.
- 7 Part 5 of the Constitution sets out formal '**Codes of Conduct**' governing the behaviour and actions of all elected Council members and Council officers. A 'Code of Conduct for Members and Co-opted Members' was adopted in July 2012. 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. A revised Code of Conduct for Officers and Protocol for Member / Officer

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Relations were approved by full Council in February 2015.

- 8 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.
- 9 **A Member training programme** is devised for each municipal year. Training for all Members on the revised Code of Conduct took place after the local elections (May 2014), delivered by the Borough Solicitor and Head of Democratic Services. 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. Specific training for members of the Audit Committee is planned to be addressed during 2015/16.
- 10 **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.
- 11 **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 and was revised and re-adopted by Council in February 2015.
- 12 **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. An Internal Audit review in September 2014 identified some areas requiring improvements relating to the process surrounding the recording of whistle-blowing allegations to ensure the right officers are promptly notified and sufficient records are maintained. Work is ongoing to strengthen arrangements in this area.
- 13 **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).
- 14 **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

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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.

- 15 **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 £12.8 million were delivered in 2014-15 taking total savings over the last five years to over £80 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.
- 16 **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 issues are produced and communicated through the finance management team.
- 17 **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 9 priority areas for the focus of its work, with actions to address local priorities delivered through theme groups.
- 18 **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 Hillingdon's Joint Health and Wellbeing Strategy. 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.
- 19 **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'. During 2014/15, the Audit Committee continued to function effectively, whilst a replacement Chairman was appointed.
- 20 The **Performance Management Framework** is a Council-wide framework requiring service areas and teams to set annual 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. An ongoing Internal Audit of the Performance Management Framework is continuing into 2015-16 including a review of the effectiveness of the PADA process.
- 21 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 2014/15 Internal Audit highlighted a number of areas for further improvement including a gap in the identification of lower level, operational risks that may not be considered as much of a high priority as the group and strategic risks.

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- **A Corporate Risk Management Group (CRMG)**, chaired by the Corporate Director of Finance, reviews the corporate and group risk registers on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. The risk reporting arrangements are reported quarterly 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 via an e-learning training package and accessible for all staff and forms part of the induction programme for key new staff. Options for wider training for senior managers in the areas of risk will be considered during 2015-16.
- 22 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. Awareness within services of insurance risks and improving performance as a result of claims will be revisited as part of the tendering of a new insurance services contract during 2015.
- 23 **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.
- 24 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.
- 25 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. Work is underway to implement a new strategy by September 2015, which will ensure that all staff are made aware of their responsibilities and the procedures for reporting fraud or corruption.
- 26 **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: 'Horizon'.
- 27 The London Borough of Hillingdon **monitors legislative changes**, considers implications and opportunities and ensures that the authority is substantially compliant with laws and regulations. The Policy Team leads on briefing the Corporate Management Team on upcoming changes and agreeing actions, reporting to Cabinet on specific issues as required. Legal Services review Member and Cabinet decisions for legal compliance.
- 28 **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,

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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.

- 29 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. An ongoing internal Audit is reviewing the links between learning and development needs identified in the PADA and the delivery of training.
- 30 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
- 31 **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.
- 32 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 2015 and, except where identified in sections 3 and 5 the 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:

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- 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 2014-15.
- 5 Assurance Statements were received from all Deputy Directors and Heads of Service covering the financial year 2014-15. Statements provide confirmation that the control environment is operating effectively to safeguard the delivery of services and that control issues other than those identified in Section 5 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 **[£40.4] - TBC** million by 31 March 2015.
- 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.

## 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.

All internal control issues reported in the 2013-14 AGS and in previous years have been resolved, except that:

5.1 . The historical weaknesses in the monitoring and control of some construction projects led to new processes and procedures, including 'Gateway Sign Offs' being implemented with guidance from Internal Audit. This has been reflected across all Asset Management functions including Housing and Facilities Management. The restructure of Asset Management is underway.

5.2 The inadequate controls in place to scrutinise elements of the servicing and boiler replacement programme of works for HRA properties are being addressed during the Asset Management restructure. Poor practice has been addressed resulting in a new approach to the boiler servicing/replacement programme and ongoing monitoring is in place.

5.3 Systems and processes are being developed to bring improved value for money, probity and

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transparency, and better control of resources in Housing Repairs. This work continues and additional changes will be implemented to further increase productivity, value for money and to enhance customer service.

5.4 Good progress has been made in improving services following the Ofsted Inspection in December 2013. Service planning now embeds all actions in the “getting to good” plan with new approaches and stronger management of services leading to improvement, e.g. in reductions of social worker caseloads. Regular reporting to senior management and through overview and scrutiny ensures that this work remains a high priority and focus of attention across the Authority.

5.5 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. The Internal Audit follow up review in March 2015 concluded that all high and medium priority risks have been implemented with a much stronger control environment created.

Following a review of the effectiveness of the system of internal control, the following governance issues have been identified in 2014-15:

5.6 There is a need for a stronger, school-led, school improvement approach in Hillingdon. There are currently 20 schools out of 97 (including special schools) judged by Ofsted as “requiring improvement” including Academy schools. The Council is working closely with all schools to ensure all children in Hillingdon receive a “good” or better education by undertaking targeted reviews of schools, issuing warning notices to community schools which are a cause for concern, notifying the Regional Schools Commissioner and Ofsted where the Local Authority has concerns about an Academy School and undertaking thematic audits to share common themes for further improvement. A programme of follow-up, targeted reviews to check the progress community schools have made to address concerns is being undertaken to ensure schools improve.

5.7 An Internal Audit Assurance Report on the Council's Corporate Anti-Fraud and Anti-Corruption arrangements identified a number of governance issues requiring improvement. Positive action has been proposed by senior management and work is ongoing to strengthen the Council's arrangements in this area

5.8 Effective information governance remains a high priority for the local authority. Whilst, there have been a small number of Data Protection breaches during 2014/15 these have been quickly identified and addressed in line with expected procedures. During 2014/15, a programme of refresher data protection training has been rolled out to all staff to ensure standards in information governance remain high and key policies and guidelines have been reviewed. An internal audit has identified further to be undertaken during 2015/16 to embed the principles of data protection.

5.9 The need to continually review and transform services to drive improvements and efficiencies continues especially in light of the new government's proposed 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  
Chief Executive  
01 September 2015

Cllr Ray Puddifoot MBE  
Leader of the Council  
01 September 2015

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# Agenda Item 12

## Audit Committee Work Programme 2015/16

Contact Officer: Khalid Ahmed  
Telephone: 01895 250833

### REASON FOR ITEM

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

### OPTIONS AVAILABLE TO THE COMMITTEE

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

### INFORMATION

All meetings to start at 5.00pm

Meetings	Room
2 July 2015	CR4
24 September 2015	CR3
15 December 2015	CR4
15 March 2016	CR3

## AUDIT COMMITTEE

### Forward Programme 2015/16

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

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

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

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

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