



HILLINGDON

LONDON



Audit Committee

Members on the Committee

Date: TUESDAY, 15 MARCH 2016

Time: 5.15 PM OR AT THE FINISH
OF THE TRAINING ITEM,
WHICHEVER IS EARLIER

Venue: COMMITTEE ROOMS 3 &
3A - CIVIC CENTRE, HIGH
STREET, UXBRIDGE,
MIDDLESEX UB8 1UW

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

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

Published: Monday, 7 March 2016

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This Agenda is available online at:
<http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=256&MId=2355&Ver=4>



INVESTOR IN PEOPLE

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Terms of Reference

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

Introduction

The Audit Committee's role will be to:

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

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

Internal Audit

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

External Audit

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

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

Governance Framework

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

Accounts

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

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

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

Review and reporting

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

Agenda

- 1 Apologies
- 2 Declaration of Interest
- 3 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
- 4 Minutes of the Meeting held on 15 December 2015 for approval (**Pages 1-6**)
- 5 Annual Governance Statement 2015 - 16 (**Page 7-20**)
- 6 EY 2015/16 Annual Audit Plan and Pension Fund Audit Plan (**Pages 21-68**)
- 7 Balances and Reserves Statement 2016/17 (**Pages 69-76**)
- 8 Revisions to the Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2020/21(**Pages 77-98**)
- 9 Corporate Fraud Investigation Team Progress Report April 2015 - February 2016 (**Pages 99-112**)
- 10 Business Assurance - Draft Internal Audit Plan 2016/17 (**Pages 113-130**)
- 11 Business Assurance - IA Progress Report for 2015/16 Quarter 4 (including the 2016/17 Quarter 1 IA Plan) (**Pages 131-158**)
- 12 Audit Committee Forward Programme (**Pages 159-162**)

PART II

- 13 Business Assurance - Corporate Risk Register for Quarter 3 2015/16 (**Pages 163-182**)

Agenda Item 4

Minutes

Audit Committee

Tuesday 15 December 2015

Meeting held at Committee Room 4- Civic Centre,
High Street, Uxbridge UB8 1UW



HILLINGDON
LONDON

	<p>Members Present: Rajiv Vyas (Independent Chairman), Councillors Peter Davis, Tony Eginton, Richard Lewis and Susan O'Brien.</p> <p>Officers Present: Garry Coote (Corporate Fraud Investigation Manager), Sian Kunert (Chief Accountant), Muir Laurie (Head of Internal Audit), Christopher Norris (Investigations Team Leader - Corporate Fraud Investigation Team), Elaine Portess (Assistant Internal Audit Manager), Nancy Le Roux (Deputy Director of Strategic Finance), Paul Whaymand (Corporate Director of Finance) and Khalid Ahmed (Democratic Services Manager).</p> <p>Others Present: Jonathan Gooding (External Audit - Deloitte) and Alan Witty (External Audit - Ernst & Young)</p> <p>Prior to the meeting, the Committee was provided with a training session on the work of the Council's Corporate Fraud Investigations Team.</p>		
23.	<p>DECLARATION OF INTEREST</p> <p>Councillor Tony Eginton declared a Non-Pecuniary Interest in Agenda Item 8 - Internal Audit Progress Report for 2015/16 Quarter 3 (including Quarter 4 IA Plan) because he was a Member of the Schools Forum. He remained in the room during discussion on the item.</p>		
24.	<p>MINUTES OF THE MEETING HELD ON 24 SEPTEMBER 2015</p> <p>Agreed as an accurate record.</p>		
25.	<p>EXCLUSION OF THE PRESS AND PUBLIC</p> <p>It was agreed that all the items on the Agenda be considered in public with the exception of Agenda Item 10 - Risk Management Report & Quarter 2 Corporate Risk Register which was considered in private.</p>		
26.	<table border="1"><tr><td><p>DELOITTE - ANNUAL GRAND AUDIT LETTER</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 2015.</p><p>Members were informed that for this year Deloitte was</p></td><td><p>Action By:</p></td></tr></table>	<p>DELOITTE - ANNUAL GRAND AUDIT LETTER</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 2015.</p> <p>Members were informed that for this year Deloitte was</p>	<p>Action By:</p>
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	<p>responsible for only certifying the Housing Benefit Subsidy claim under the contract with the Public Sector Audit Appointments. This work had revealed a number of errors both in under and over payment of benefits and had resulted in a qualification letter being issued. The Committee was informed that given the nature of benefits processing and the high volume of transactions that there was a certain element of error in this area.</p> <p>Reference was made to the certified returns relating to Teachers' Pension Contributions and Pooling of Capital Receipts, which had been certified without qualification.</p> <p>RESOLVED –</p> <p>1. That the report be noted.</p>	Action By:
27.	<p>TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2016/17 TO 2020/21</p> <p>Members were reminded that the Annual Treasury Management Strategy was agreed by Council as part of the budget setting process in February. A draft of the strategy was brought before this Committee to enable greater scrutiny.</p> <p>Reference was made to the new banking reform legislation which had been taken into account of when producing the strategy. This legislation had removed government support to failing banks from 2015 because of the heightened risk to the Council's unsecured investments due to bail-in.</p> <p>RESOLVED -</p> <p>1. That the contents of the Treasury Management Strategy Statement and Investment Strategy be noted</p>	
28.	<p>CORPORATE FRAUD INVESTIGATION TEAM PROGRESS REPORT - APRIL-NOVEMBER 2015</p> <p>The Committee was provided with a report which provided details of the work undertaken by the Corporate Fraud Investigation Team from April to November 2015.</p> <p>Members were informed that Corporate Fraud Investigation Team activities since April 2015 included the following:</p> <ul style="list-style-type: none"> • Social Housing fraud • Council Tax/Business Rates inspections • Single Person Discount (SPD) • Temporary Accommodation and Housing Needs 	

	<p>Reception</p> <ul style="list-style-type: none"> • Right to Buy investigations • Proceeds of Crime investigations • Housing Waiting List • Enhanced Recruitment Verification • Blue Badge • Procurement fraud • Mobile working • Council Tax Reduction Scheme (CTR) <p>The Corporate Fraud Investigation Manager reported that in relation to Social Housing Fraud, since April 2015, the Team had recovered 56 properties which were now available to be re-let to residents in genuine housing need.</p> <p>RESOLVED –</p> <p>1. That the Committee considered and noted the Corporate Fraud Investigation Team report.</p>	Action By:
29.	<p>INTERNAL AUDIT - PROGRESS REPORT FOR QUARTER 3 2015/16 (INCLUDING THE 2015/16 QUARTER 4 INTERNAL AUDIT PLAN)</p> <p>The Head of Internal Audit presented the report which provided summary information on all Internal Audit work covered in relation to the 2015/16 Internal Audit Plan, together with assurance levels in respect of the quarter three period.</p> <p>Members were informed that since the last progress report, 5 assurance reviews had been completed to final report stage, 7 consultancy reviews had been finalised and 2 grant claims had been verified.</p> <p>Reference was made to key assurance reviews which had been finalised which included Corporate Procurement, Schools - ICT and Asset Management Arrangements and Domiciliary Care, with all reviews resulting in a Limited assurance opinion being given.</p> <p>Particular discussion took place on the thematic assurance review which had taken place on ICT and Asset Management Arrangements in schools, and Members were informed that the Schools Forum had taken a funding decision to reduce the Internal Audit coverage of schools to the statutory minimum. The Head of Internal Audit reported that this decision would be detrimental to the effectiveness of risk management and controls in schools and would impact upon the robustness of the control environment across all schools in the Borough.</p>	

	<p>Reference was made to the consultancy work which had been carried out in relation to assisting with stock checks at the Council's stores and providing security advice on Harlington Road Depot. The service had received positive feedback from the work carried out.</p> <p>The Committee was informed that in relation to the follow up of previous internal audit recommendations in Quarter 3, there were only 4 medium risks currently outstanding for 2014/15 and 2 medium risks currently outstanding for 2015/16. The Committee noted this excellent outcome.</p> <p>Discussion took place on the Key Performance Indicators for the service and reference was made to KPI 7 - Percentage of draft reports issues as a final report within 15 working days which was not within the target set. The Committee was provided with an explanation which referred to Internal Audit's reliance on timely management responses to reach this target.</p> <p>Assurance was given to Members that despite staff shortages there was sufficient coverage in the 2015/16 Internal Audit plan.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1. That the Internal Audit progress report for 2015/16 Quarter 3 be noted and approval be given to the Quarter 4 Internal Audit Plan for 2015/16. 2. That the coverage, performance and results of the Internal Audit activity in Quarter 3 be noted. 	
30	<p>WORK PROGRAMME 2015/16</p> <p>Noted.</p>	
31.	<p>RISK MANAGEMENT REPORT 2015/16</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 September 2015 and also provided a summary of changes in risks on the Corporate Risk Register during the previous 12 months.</p>	

	<p>Officers were reminded to send the Council's Risk Management Policy Framework to Members of the Committee as requested at the last meeting.</p> <p>The Head of Internal Audit reported that he would be taking over the responsibility for the production and facilitation of the Corporate Risk Register.</p> <p>Discussion took place on possible risks which should be included in the Corporate Risk Register and these were noted and would be actioned by officers.</p> <p>RESOLVED –</p> <p>1. That the Committee reviewed the Corporate Risk Register (as at the end of September 2015), as part of the Committee's role to independently assure the risk management arrangements in the Council.</p>	<p>Action By: Muir Laurie</p>
	<p>The meeting which commenced at 5.30pm, closed at 6.35pm</p> <p>Next meeting: 15 March 2016 at 5.00pm</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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Delivering the Annual Governance Statement (AGS) 2015-16

Contact Officer: Kevin Byrne
Telephone: 0665

SUMMARY

1. The London Borough of Hillingdon is required to prepare an Annual Governance Statement (AGS) to meet its responsibilities for safeguarding public money and managing business functions in accordance with the Accounts and Audit Regulations 2011. The Council also has a duty under the Local Government Act 2003 to conduct a continuous assessment and improvement of business functions and demonstrate Economy Efficiency and Effectiveness.
2. The Council is utilising the framework it has developed over recent years to evaluate the management of internal controls, risk and control assurances across all services. This will conclude with a formal statement outlining overall performance and any measures needed to address identified weaknesses as part of the Statement of Accounts. The Corporate Governance Working Group (CGWG) will provide leadership and support to compile the 2015-16 AGS.

REASON FOR REPORT

3. To provide Audit Committee with an update on the process to be adopted and approach to be taken in compiling the AGS 2015-16.

RECOMMENDATION

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

BACKGROUND INFORMATION

AGS Requirements

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

Progress on the AGS 2015-16

7. The AGS will combine a broad range of management information and assurances from across the council and external sources. The key sources contributing to the AGS include:
 - Performance management & data quality
 - Risk management processes
 - Improvement and transformation programme
 - Legal and regulatory assurances
 - Financial control assurances
 - Service delivery assurances from Directors and Heads of Service
 - Annual Internal Audit report and assurance
 - External inspection reports and assurances

8. The Corporate Governance Working Group has been set up by the Corporate Management Team to oversee the process and is made up of representatives from:
 - Policy and Partnerships
 - Internal Audit
 - Corporate Finance
 - Procurement
 - Legal Services
 - Democratic Services
 - Human Resources
 - Residents Services
 - Adult Social Care
 - Children's Social Care

9. The group guides and oversees the delivery of the AGS by ensuring that key changes to governance arrangements and control systems are reported, review actions against governance or control weaknesses identified in the AGS 2014-15 and highlight cross-council assurance sources.

10. Gathering management assurance statements is a central component of the AGS. In discharging this accountability senior officers are responsible for putting in place proper risk management processes and internal controls to ensure the right stewardship of resources. Deputy Directors and Heads of Service are required to submit management assurance statements by the 15th April 2016.

11. Senior Officer Briefing has already been held via a recent Senior Managers' Conference to outline the importance of strong corporate governance and the roles of Heads of Service, Deputy and Corporate Directors in the production of the AGS. Follow up briefings have been held with each Senior Management Team and formal guidance issued.

12. Any governance or control weaknesses identified in the management assurance statements will be reviewed by the Corporate Management Team in May 2016 with the draft AGS 2015-16 presented to the Audit Committee on 30th June 2016 for comment and approval.
13. The 2014-15 AGS is attached for information.

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. 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 2014/15 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.

- 2 Part 2 of the constitution outlines the **roles and responsibilities** of the Executive, Non-executive, Mayor, Overview and Scrutiny committees, Standards committee and officer functions. There is an ethical framework governing the conduct of members and co-opted members, introduced by the Localism Act 2011, which came into force on 1st July 2012. The governance arrangements for Hillingdon comprise:
- A structure of the Leader of the Council, a Cabinet and Policy Overview and Scrutiny Committees;
 - A Corporate Management Team;
 - Senior Management Teams;
 - The Audit Committee, led by an independent chairman; and
 - 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 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 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 requires 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 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 all members and relevant 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 is in place. This has been developed in consultation with the political leadership, all Council members and relevant senior officers. It was revised and re-adopted by Council in February 2015.
 - 12 **A formal whistleblowing policy**, which sets out how the Council complies with 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 assurance review in September 2014 identified some areas requiring improvements relating to the process surrounding the recording of whistleblowing 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 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 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 Internal Audit of the Performance Management Framework is due to be carried out in 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 group risks. The Corporate and Group Risk Registers enable the identification, quantification and management of strategic risks to delivering the Council's objectives. Group Risk Registers are updated quarterly, reviewed by each Senior Management Team and the most significant risks are elevated to the Corporate Risk Register. The Council's Risk Management 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.
 - **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 reports are presented to the Audit Committee in the following quarter. Where appropriate, the Medium Term Financial Forecast (MTFF) embraces the potential financial impact of significant risks.
 - **Risk management training** is available via an e-learning training package and accessible for all staff and forms part of the induction programme for specific 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, data protection training has been rolled out to 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 made available to all staff, although this is need of some updating. 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 the Whistleblowing Policy. Work is underway to implement a new Anti-Fraud and Anti-Corruption Strategy by December 2015, which will help 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 Group 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, 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 required to be 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. A planned Internal Audit review in 2015/16 will consider the links between learning and development needs identified in the PADA and the delivery of training to staff.
- 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:

- 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 Schemes of Delegation. 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 (Deloitte) as reported in their Annual Audit

Letter.

- 4 The work of the Internal Audit service, which develops its annual work plan after an assessment of risk. The Head of Internal Audit reported quarterly 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 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 groups, 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 is being addressed with a new approach to the boiler servicing/replacement programme and ongoing monitoring now in place.

5.3 Systems and processes are being developed to bring improved value for money, probity and 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 assurance 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 work is ongoing to strengthen controls in this area.

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 Hillingdon schools (including special schools and Academy schools) judged by Ofsted as “requiring improvement”. 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 staff to ensure standards in information governance remain high and key policies and guidelines have been reviewed. An Internal Audit assurance review has identified further work to be undertaken during 2015/16 to embed the principles of data protection.

5.9 The Council continues to operate in an environment of declining financial support from government while managing increasing demand for a broad range of services, which in the absence of any response would result in a rising annual deficit that would reach £63m by 2020/21. In response the Council continues to review and transform services to drive improvement and efficiency through initiatives such as the successful BID programme, which is on-track to bridge the budget gap by delivering £10m savings in 2015/16. This proven approach is set to be continued beyond 2015/16, enabling the Council to continue to 'put residents first' in challenging financial conditions.

Handwritten signature of Fran Beasley in cursive script.

Fran Beasley
Chief Executive
24 September 2015

Handwritten signature of Ray Puddifoot in cursive script.

Cllr Ray Puddifoot MBE
Leader of the Council
24 September 2015

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EY 2015/16 ANNUAL AUDIT PLAN AND PENSION FUND AUDIT PLAN

Contact Officer: Sian Kunert
Telephone: 01895 556578

SUMMARY

The attached documents set out the initial plans for the 2015/16 audit by the Councils new external auditors EY. The format of the plans follows that prescribed by the Audit Commission for external audit work. The plan sets out the approach to the audit and a broad timetable which should enable the whole process to be completed by early September. This also includes the audit of the Pension Fund which forms part of the Councils published Financial Statement of Accounts and a separate plan is attached for that audit.

EY have also produced a 'Local government audit committee briefing' which is attached for information.

RECOMMENDATIONS

The Committee is asked to note the report.

REASONS FOR OFFICER RECOMMENDATIONS

The Committee needs to be made aware of the plans for the audit of the 2015/16 accounts.

COMMENT ON THE CONTENT OF THE AUDIT PLAN

Materiality: The expected level of materiality, calculated on the basis of 2% of gross expenditure is £13.6m. EY plan to report on all uncorrected audit misstatements greater than £0.67m.

Key Financial Statement Risks: The plan highlights the key financial statement, these being the main areas on which specific audit work will focus. They are as follows:

- Risk or fraud in revenue and/or expenditure recognition
- Risk of management override
- Valuation of property Plant and Equipment

In addition the auditors' have a statutory duty to provide a value for money conclusion based on two main criteria. These are that the organisation has proper arrangements in place to secure economy, efficiency and effectiveness in the use of its resources.

Audit Committee 15 March 2016

PART I – MEMBERS, PUBLIC & PRESS

The external auditor is required to carry out work on behalf of the Audit Commission to certify certain grant claims. In 2015/16 EY will audit the Housing benefits subsidy claim under the requirements of section 28 of the Audit Commission Act 1998.

FEES

The proposed fees for the 2015/16 audit for the main accounts are £157,268, a reduction from £210,600 in 2014/15.

For grant certification work the proposed fee for Housing Benefit is £24,445. The fee for 2014/15 was £38,300.

COMMENT ON THE CONTENT OF THE PENSION FUND AUDIT PLAN

Materiality: Materiality is calculated on the basis of 1% of the net assets of the fund which for 2016 is estimated as £8.023m. Based on this amount, EY would expect to report on all unadjusted misstatements greater than £0.4m.

Key Financial Statement Risks: The plan highlights the key financial statement, these being the main areas on which specific audit work will focus. They are as follows:

- Risk of fraud in revenue recognition
- Risk of management override
- Risk of incorrect valuation of investments

FEES

The proposed fees for the 2015/16 audit are £21,000, no change from 2014/15.

TIMETABLE

The timetable for both audits remains unchanged with the deadline for draft accounts being 30 June and the audit opinion due by 30 September 2015.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

Audit Committee 15 March 2016

PART I – MEMBERS, PUBLIC & PRESS

London Borough of Hillingdon

Year ending 31 March 2016

Audit Plan

15 March 2016

Ernst & Young LLP



Building a better
working world

Members of the Audit Committee
London Borough of Hillingdon
Civic Centre
High Street
Uxbridge
UB8 1UW

15 March 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

2015/16 will be our first year as your external auditor. We are currently working through the transitional arrangements with our predecessors, Deloitte LLP, including a review of their files. This report therefore summarises our preliminary assessment of the key issues which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. We will present you with an update of our audit plan at a subsequent meeting when all transitional arrangements have been completed, and our interim planning work performed.

We welcome the opportunity to discuss this plan with you on 15 March 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King
Executive Director
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of London Borough of Hillingdon give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended; and
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

We will provide an update to the Audit and Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2016.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks) Our audit approach

Risk of fraud in revenue and/or expenditure recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.

In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We will

- ▶ Review and test revenue and expenditure recognition policies
- ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias
- ▶ Develop a testing strategy to test material revenue and expenditure streams
- ▶ Review and test revenue and expenditure cut-off at the period end date.

Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Our approach will focus on:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Reviewing accounting estimates for evidence of management bias, and
- ▶ Evaluating the business rationale for significant unusual transactions.

Valuation of Property Plant and Equipment

As at 31 March 2015, the total value of land and buildings was £1,068 million which represents 72% of the council's total assets. Land and buildings are initially measured at cost and then revalued to fair value.

Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period.

The valuations are based on a number of complex assumptions. Given the high value of these assets, a small change in these assumptions can lead to a material change in value.

We will obtain an understanding of and evaluate key controls over the valuation of PPE. We will:

- Agree the source data used by your valuer to supporting records;
- Assess the work of your valuer; and
- agree the outputs to your fixed asset register and statements.

Where the Council proposes significant changes to valuation bases we will evaluate the rationale.

We will review the Council's impairment assessment and consideration of whether the carrying value of these assets is appropriate.

In previous years, land and buildings were valued by an in-house team, but in 2015/16, the Council has commissioned an external valuer to carry out the work. A change in valuer may lead to a significant change in the value of assets depending on how the new valuer applies the valuation guidance and assumptions made. This could lead to a significant change in value.

There is also due to be a full valuation of council dwellings in 2015/16, also by external valuers.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and assumptions underlying fair value estimates to enable us to assess the appropriateness of the valuation figure in the financial statements.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. For 2015-16 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public".

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has not identified any significant risks which we view as relevant to our value for money conclusion.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

i Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement, and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- ▶ Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require; and
- ▶ Give a separate opinion on the part of the Council's financial statements that relates to the accounts of the pension fund.

ii Arrangements for securing economy, efficiency and effectiveness

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

Internal audit

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements.

Use of experts

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	EY valuations team/ Third party specialists
Valuations	EY Valuations team/ Third party specialists

We are planning to use EY valuation team specialists to assess whether the overall assumptions made by the Council's external valuer are reasonable and to determine the overall market conditions in the property market. The use of the EY valuation team will help us address our significant risk to the valuation of Property Plan and Equipment set out in section 2 of this document.

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

4.3 Mandatory audit procedures required by auditing standards and the Code

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;

- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Governance Statement.
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.
- ▶ Satisfying ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.3 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined the proposed overall materiality for the financial statement of the Council is £13,558,000 based on 2% of gross expenditure. We will communicate uncorrected audit misstatements greater than £677,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.4 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of the London Borough of Hillingdon is £157,268 with an estimated fee of £24,445 for the certification of the housing benefit subsidy claim.

4.5 Your audit team

The engagement team is led by Maria Grindley, who is currently on sabbatical. While she is on sabbatical she will be supported by another Executive Director from our Reading office, Paul King. Both Maria and Paul have significant experience of auditing local government clients. They are supported by Alan Witty as senior manager who is responsible for the day-to-day direction of audit work and is the key point of contact for the Deputy Director Strategic Finance.

Where appropriate we will also leverage wider expertise within the firm. For example: we have a firm wide Local Government audit network to share best practice, identify common issues and to develop a consistent audit approach.

4.6 Timetable of communication and deliverables

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit and Governance Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	April 2015	April 2015	Audit Fee letter
Risk assessment and setting of scopes	December 2015	March 2016	Audit Plan
Testing routine processes and controls	February-March 2016	June 2016	Progress Report
Year-end audit	July-August 2016		
Completion of audit	August 2016	September 2016	Report to those charged with governance via the Audit Results Report Audit report including our opinion on the financial statement and, by exception overall value for money conclusion. Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	By 31 October 2016	December 2016	Annual Audit Letter
Reporting on Housing Benefit	November 2016	March 2017	Annual Grant Claim Report

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Engagement and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed and analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the Audit Commission's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Paul King and Maria Grindley, the audit engagement directors and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 current year £	Outturn fee 2014/15 prior year £	Explanation
Opinion Audit and VFM Conclusion	£157,268	£157,268	£210,600	
Total Audit Fee – Code work	£157,268	£157,268	£210,600	
Certification of claims and returns ¹	£24,445	£24,445	£51,475	£38,300 Housing Benefit £8,500 Teachers Pension £4,675 Pooling of Housing Capital receipts
Non-audit work	0	0	£10,000	Deloitte Real Estate

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- ▶ We can rely on the work of internal audit as planned;
- ▶ The NAO making no significant changes to the final value for money guidance on which our conclusion will be based;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission and PSAA for the Housing Benefit Subsidy claim.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	<ul style="list-style-type: none"> ▶ Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This 	<ul style="list-style-type: none"> ▶ Report to those charged with governance

Required communication	Reference
<p>communication is subject to compliance with legislation on tipping off</p> <ul style="list-style-type: none"><li data-bbox="352 342 1155 465">▶ Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of.	

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement director’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
<p>Opening Balances</p> <ul style="list-style-type: none"> ▶ Findings and issues regarding the opening balance of initial audits 	<p>Report to those charged with governance</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Annual Report to those charged with governance summarising grant certification.</p>

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Hillingdon Pension Fund

Year ending 31 March 2016

Audit Plan

15 March 2016

Ernst & Young LLP



Building a better
working world

Members of the Audit Committee
London Borough of Hillingdon
Civic Centre
High Street
Uxbridge
Middlesex UB8 1UW

15 March 2016

Dear Committee Members

Pension Fund Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

2015/16 will be our first year as your external auditor. We are currently working through the transitional arrangements with our predecessors, Deloitte, including a review of their files. This report therefore summarises our preliminary assessment of the key issues which drive the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks

We welcome the opportunity to discuss this plan with you on 15 March 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King
Executive Director
For and behalf of Ernst & Young LLP
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the [PSAA website \(www.psa.co.uk\)](http://www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of Hillingdon Pension Fund (the Pension Fund) give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended; and
- ▶ our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2016.

Our process and strategy

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

Where we identify significant classes of transactions, we assess the controls over their initiation, recording, processing and reporting and determine whether we will rely on internal controls.

To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Pension Fund, identified through our knowledge of the Pension Fund's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We will</p> <ul style="list-style-type: none"> ▶ Review and test revenue and expenditure recognition policies ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ▶ Develop a testing strategy to test material revenue and expenditure streams ▶ Review and test revenue cut-off at the period end date ▶
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ Reviewing accounting estimates for evidence of management bias, and ▶ Evaluating the business rationale for significant unusual transactions
Risk of incorrect valuation of investments	
<p>Based on initial planning work on the Pension Fund and discussions with management we note that the Pension Fund holds a significant balance of investments in alternative investments. Some of these investments have money committed to them for a number of years.</p> <p>By their very nature, alternative investments are difficult to value and their valuation includes an element of judgement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reviewing and testing investment valuation policies ▶ Reviewing accounting estimates for evidence of management bias ▶ Obtaining third party confirmation for investment valuations ▶
Respective responsibilities in relation to fraud and error	
<p>We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p>	

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

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3. Our audit process and strategy

3.1 Objective and scope of our audit

Under the Code of Audit Practice (the 'Code') our principal objectives are to review, and report on, the Pension Fund's financial statements to:

- ▶ form an opinion on the financial statements under International Standards on Auditing (UK and Ireland); and
- ▶ form an opinion on the consistency of the financial statements within the pension fund annual report with the published financial statements.

3.2 Audit process overview

Our audit involves:

- ▶ identifying and understanding the key processes and internal controls;
- ▶ where relevant reviewing the work of your internal auditors;
- ▶ reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work; and
- ▶ substantive tests of detail of transactions and amounts.

Processes

Our initial assessment of the key processes across the Pension Fund has identified the following key processes where we will seek to understand key controls, both manual and IT:

- ▶ Benefits Payable
- ▶ Current assets
- ▶ Contributions Receivable
- ▶ Investments
- ▶ Investment income
- ▶ Management expenses

As investments are managed by contracted fund managers and overseen by the appointed custodian, we will also review the findings of independent ISAE 3402 assurance reports, for the custodian and fund managers, and assess if there are any issues reported that may impact on our testing strategy.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests, and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, if we identify any significant weaknesses or inefficiencies, and make recommendations for improvement to management and the Audit Committee.

Internal audit

We will review internal audit plans and the results of their work. We reflect on these when designing our overall audit approach and when developing in our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements.

Use of experts

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Investment valuation	The Pension Fund’s custodian and fund managers and the EY Pensions team
Pensions liability	The Pension Fund’s actuary and the EY Pensions team

In accordance with Auditing Standards, we will evaluate each specialist’s professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund’s environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ assess the reasonableness of the assumptions and methods used;
- ▶ consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ assess whether the substance of the specialist’s findings are properly reflected in the financial statements

3.3 Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section two, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;

- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

3.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Pension Fund is £8.023 million based on 1% of net assets. We will communicate uncorrected audit misstatements greater than £0.4 million to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

3.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Hillingdon Pension Fund is £21,000. The assumptions underpinning the fee are set out in Appendix A. In overall terms, the scale fee is set based on the expectation that there are no significant risks to our audit opinion on the financial statements, and no requirement to exercise any of our statutory powers under section 30 of the Local Audit and Accountability Act 2014.

3.6 Your audit team

The engagement team is led by Maria Grindley supported by Alan Witty a Senior Manager who will be responsible for the day-to-day direction of our audit and the key point of contact for the audit. Maria is currently on a 6 month sabbatical until early April 2016. Paul King is providing cover whilst Maria is away. Maria is the Executive Director leading our overall engagement with the Council. The audit opinion on the Pension Fund accounts will be signed by an Executive Director from the EY Pensions Team.

3.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit. The timetable includes the deliverables we have agreed to provide to the Pension Fund through the Audit Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Pension Fund and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Risk assessment and setting of scopes	February 2016	March 2016	Audit Plan
Testing routine processes and controls	March 2016	June 2016	Progress Report
Year-end audit	July/August 2016		
Completion of audit	August 2016	September 2016	Report to those charged with governance via the Audit Results Report Audit report , including our opinion on the financial statements Audit report on our opinion on the consistency of the financial statements within the pension fund annual report with the pension fund financial statements.
Conclusion of reporting	October 2016	December 2016	Annual Audit Letter

4. Independence

4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed and analysed in appropriate categories.

4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Pension Fund.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Pension Fund has approved and that are in compliance with the PSAA Terms of Appointment.

At the time of writing, there are no non-audit services provided by us to the Pension Fund.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Pension Fund. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of the Audit Engagement Director and the audit engagement team have not been compromised.

4.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £	Explanation
Total Audit Fee – Code work	21,000	21,000	21,000	
Non-audit work	0	0	0	

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 3.2 above;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Director of Finance in advance.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	▶ Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Report to those charged with governance
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Report to those charged with governance
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Report to those charged with governance
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	▶ Report to those charged with governance

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance

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Local government audit committee briefing

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Find out more

This sector briefing is one of the ways that we see as supporting you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the local government sector and the audits that we undertake.

The public sector audit specialists in EY's national Government and Public Sector (GPS) team have extensive public sector knowledge which is supported by the wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only

technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authorities.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local engagement team.



Government and economic news

EY Item Club forecast

In its latest quarterly forecast (Winter) the EY Item Club highlights that what it terms the UK consumer's "holiday" from inflation and austerity in 2015 is expected to continue well into 2016, aided by the sharp fall in oil and other commodity prices, and the Chancellor's change of heart on working tax credits.

Whilst the global situation is clearly fragile, the UK is seen to be well placed to ride out the storms. Growth is expected to increase from the revised 2.2% in 2015 to 2.6% this year, being supported by low inflation and interest rates. The CPI is forecast to increase by just 0.7% and they do not expect the Bank of England Monetary Policy Committee to increase bank rate until late in the year.

Looking further forward, the forecast is for inflation and austerity to return, with GDP growth of 2.3% in 2017 and 2.2% in 2018 and consumer spending growth dropping from 2.8% in 2016 of 2.1% in 2017 and 1.7% in 2018. Highlighted as impacting on this are the increasing taxes and levies on consumers and companies, and the roll-out of Universal Credit (which will claw back this Autumn's concessions to low earners). Inflation is expected to increase to 1.8% by 2018, remaining below the MPC target until 2019.

Continuing uncertainty over the EU Referendum could potentially hit business investment this year, as businesses wait to see the result, but momentum in the UK and other economies is seen as supporting capital spending this year.

Local Government Devolution

Towards the end of 2015, Birmingham and Liverpool each agreed devolution deals with Treasury which gives them control over infrastructure investment, transport and skills. This brings the total of devolution deals to 6:

- ▶ Birmingham
- ▶ Liverpool
- ▶ Greater Manchester
- ▶ Sheffield
- ▶ North East
- ▶ Tees Valley

Each area will need to elect a metro mayor, with elections expected to take place in 2017.

For Birmingham, £1.2bn of government investment is anticipated over the next 30 years, and for Liverpool the expectation is £30mn per year over the next three decades.

Read the government announcements in full at <https://www.gov.uk/government/news/historic-devolution-deal-to-power-the-midlands-engine> and <https://www.gov.uk/government/news/liverpool-devolution-deal-boosts-the-northern-powerhouse>.



Government and economic news

Spending Review 2015

Some headlines from the Spending Review 2015 include:

- ▶ The intention to be running a £10bn surplus by 2019/20.
- ▶ Tax credit taper rates and thresholds will remain unchanged.
- ▶ Council tax increases of 2% to support social care will be permitted. Local Police and Crime Commissioners will have the power to increase their share of council tax by 2% from April 2016.
- ▶ From 2020, local government will retain 100% of business rates collected. The system of top ups and tariffs redistributing revenues between local authorities will be retained. The uniform rate will be abolished; allowing local areas to cut business rates if they choose to do so in order to win new jobs and generate wealth.
- ▶ Police and schools funding will be protected in line with inflation.

Read more at:

<https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

The Government has also consulted on the 2016-17 settlement. Further details available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486730/Provisional_settlement_consultation_document.pdf.

Consultation: New Homes Bonus

In 2011 the New Homes Bonus was introduced to incentivise local authorities to encourage housing growth in their areas. Since 2011, £3.4bn has been allocated to support the delivery of 700,000 new homes and the return of 100,000 long term empty homes to use.

The Department for Communities and Local Government (DCLG) has released a consultation which seeks views on potential changes to the New Homes Bonus. The changes are intended to “better reflect authorities’ delivery of new housing”. Other proposed changes include introducing a reduction to the number of years in which current and future payments are made, from six years to four years.

See full details of the consultation as well as methods for responding at:

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

The deadline for response is 10th March 2016.



Government and economic news

Local Authority Revenue Expenditure and Financing

During November 2015, statistics for 2014-15 on revenue expenditure and financing with local government were released by the Department for Communities and Local Government.

Some highlights include:

Total revenue expenditure by local authorities in England reduced by 0.5% in 2014-15, from £96.4bn in 2013-14 to £95.9bn, however, excluding spend on Education (30.7% of total net current expenditure) there was an increase of 1.5% from £60.5bn in 2013-14 to £61.5bn.

Net current expenditure on education saw the largest decrease, which was largely driven by schools achieving academy status and therefore receiving central expenditure, and by the reclassification of some services to Children and Families Social Care services (which saw a £1.2bn increase for this reason).

Local Authorities added £0.9bn to reserves in 2014-15 as compared to £2.4bn in 2013-14. This takes total reserves to £22.5bn and means that the last 15 years has seen a significant increase in the amount held by local authorities in non-ringfenced reserves. Communities Secretary Greg Clark has noted this increase and said:

“With local government accounting for a quarter of all public spending, it is right that they are called on to play their part in dealing with the deficit.

Today’s figures show how they are well placed to do so, with local authorities holding £22.5bn held in non-ringfenced reserves – up 170% in real terms over the last 15 years.

As we continue to secure our country’s economic future and cut the deficit, now is the time to make efficient use of their assets and resources to provide the services local people want to see.”

Public Finance has published an article available at <http://www.publicfinance.co.uk/news/2015/11/mounting-reserves-leave-councils-well-placed-make-cuts-says-clark>, and the full publication is available at <https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-in-england-2014-to-2015-final-outturn>

Response to flooding

The Bellwin scheme, which compensates eligible authorities for exceptional costs incurred in incidents like flooding, has been opened for councils affected by floods resulting from storms Desmond and Eva.

Authorities are eligible for costs under the scheme when they have spent more than 0.2% of their calculated annual revenue budgets on works.



Government and economic news

Bellwin allows eligible authorities to apply to have 100% of their costs above threshold reimbursed by the government.

Eligible authorities include:

- ▶ Councils
- ▶ Policing bodies
- ▶ Fire and rescue authorities
- ▶ National Park authorities

For more information see <https://www.gov.uk/government/news/north-west-england-floods-2015-government-response>.

Council Tax support

A review into the effectiveness of Council Tax support schemes across the country has been initiated, led by Member of Parliament, Eric Ollerenshaw, OBE.

Council Tax Benefit was reformed from 2013-14 to give councils the power to design their own schemes and align them to local needs. This review is intended to examine the implementation of this change and to consider whether or not this support should be part of the Universal Credit payments in the future.

Further details of the review are available at:

<https://www.gov.uk/government/news/launch-of-review-into-council-tax-support>.

Public sector exit payment recovery regulations

The government is consulting on draft regulations that will give effect to the powers enacted in the Small Business, Enterprise and Employment Act 2015. These regulations allow for the recovery of exit payments following the return of a high earner to the public sector within a year of their initial departure.

Changes made to the policy since the previous consultation include:

- ▶ The minimum earnings threshold for individuals subject to the recovery provisions has been lowered from £100,000 to £80,000
- ▶ The policy has been extended to include qualifying returns to any part of the public sector, rather than only to the same part of the public sector
- ▶ Introduction of a tapered recovery period for 12 months from the exit date
- ▶ Recovery will now include employer funded pension 'top up' payments made under the Local Government Pension Scheme.

Public sector organisations that are in scope and those that are proposed to be exempt are included in the draft regulations.

Following this consultation, the regulations will go through Parliamentary scrutiny, and the intention is that the policy will take effect from April 2016.

Read more at <https://www.gov.uk/government/news/government-calls-time-on-public-sector-parachute-payments-for-boomerang-bosses>.



Accounting, auditing and governance

Faster Close update

Since our think piece 'accelerating your financial close arrangements' in the summer – we have worked together with our clients to successfully deliver another round of financial statements audits.

We have seen again a number of our clients achieve the earlier 31 July deadline – three years ahead of schedule. Nationally, 5% of opinions were issued by 31 July for 2014-15.

At other clients, we have seen a shortening of the actual audit window as both preparers and auditors refine the operational timetable in readiness for 2017-18 audits.

The think piece set out some areas where preparers can hone their closedown plans and work with their auditors in the run up to the revised timetable. Discussions with clients around the country are showing encouraging signs that finance teams are already grasping the issue and working on solutions to enable them to prepare and submit draft financial statements and supporting working papers to the auditor by 31 May. Twenty-one percent of our clients have committed to this earlier target for the 2015-16 audits.

On our side, as a firm, we are reviewing how we can streamline our audit approach, to provide maximum ability to undertake early substantive testing across a Month 8-10 window, thereby reducing some pressure in the key June – July audit window. This may not work in all cases, because of the budget setting process, so other ways of streamlining the audit approach are also being developed.

In addition, we are addressing the resourcing challenge that this presents to audit firms, with a significant recruitment campaign to enable us to continue to deliver exceptional client service across the entire sector. This will require us to phase our audits, at both an interim and final audit stage to allow us greater flexibility in resource deployment and audit clients should be prepared to have bigger audit teams on site for shorter periods of time, as running all audits concurrently is not likely to be possible.

A key issue arising from our recent discussions is dealing with the governance processes at councils for receiving the auditor's report and approving the accounts. There are a wide range of approval processes in place at councils as a result of custom and practice over the years, and some are more streamlined than others.

Councils will need to review their governance processes for approving the accounts with a view to making it as simple as possible to ensure the maximum amount of the nine week window for audit can be used for audit procedures. Under the Account and Audit Regulations 2015, it is only the responsibility of the committee 'charged with governance' to approve the financial statements ahead of final certification by the s151 officer. Adding additional layers of approval through to Cabinet or Full Council slows down the governance process and potentially adds to the audit burden.

For 2014-15 audits, 8% of our clients had Audit Committee meetings scheduled before September for approval of the financial statements. For 2015-16, in several instances Audit Committee timetables have not yet been finalised, however, currently 7% of our client base has already confirmed that their Audit Committee timetable would enable accounts authorisation before September, with 4% scheduled before 31 July 2016.



Accounting, auditing and governance

An effective Audit Committee is one which can appropriately scrutinise the financial statements and the auditor's results report prepared under International Standard on Auditing (UK&I) 260, and challenge officers about accounting policies and estimates in order to be able to approve the financial statements on behalf of the council.

Given the lead time for amending corporate governance processes, officers should review the approval arrangements, and schemes of delegation from Full Council, ensuring that the Audit Committee operates as effectively as possible and to the remit as set out by CIPFA in its guidance 'Audit Committees: Practical Guidance for Local Authorities and Police (2013 edition)'.

We are encouraged by the response of our clients to this challenge and the acceptance that it is a joint responsibility to achieve the faster close, and we will continue to work with you as we both prepare for the advanced deadlines.

For further information, please speak to a member of your engagement team.

Value for Money guidance

The Local Audit & Accountability Act 2014 Section 20(1) requires that: 'In auditing the accounts of a relevant authority other than a health service body, a local auditor must, by examination of the accounts and otherwise, be satisfied ... (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

The Act is implemented through the National Audit Office's 2015 Audit Code of Practice (the Code), which sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act.

Paragraph 3.14 sets out that 'the auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report as appropriate to audited bodies other than health service bodies, providing a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period'.

To support the Code, the NAO issues guidance to auditors. This is undertaken by preparing and publishing Auditor Guidance Notes (AGNs) which are publically available on its website. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

AGN 03 – Auditors' work on Value for Money Arrangements was published in November 2015 following a consultation period. It confirms the requirement is for auditors to issue a conclusion in respect of the single overall criterion that:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

To assist auditors the NAO provide three sub-criteria that are intended to guide auditors in reaching their overall judgement:

- ▶ Informed decision making
- ▶ Sustainable resource deployment
- ▶ Working with partners and other third parties

However, these are not separate and auditors are not required to reach a judgement against each one.

Underpinning these sub-criteria are the proper arrangements,



Accounting, auditing and governance

which are aligned to the scope of arrangements that are already required to be put in place and reported on through documents such as the annual governance statement.

Auditors are required to undertake a risk assessment to identify any significant risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.

The Code defines 'significant' as follows: **"a matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects."**

Where such a significant risk is identified, further audit work will be undertaken based on the auditor's professional judgement. If the auditor does not identify any significant risks, there is no requirement to carry out further work.

Full information on all of the above can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

New arrangements for the exercise of public rights

The Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015-16 onwards. In respect of principal bodies, paragraph 9(1) requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced. This is a change to previous arrangements where the local auditor notified the audited body of the appointed date on or after which local government electors could exercise their rights.

Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place until after the conclusion of the period for the exercise of public rights. For 2015-16, the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.

Paragraph 14(1) states that any rights of objection, inspection and questioning of the local auditor conferred by sections 26 and 27 of the Act may only be exercised within a single period of 30 working days. In effect this paragraph brings the period in which an elector can question the auditor into the inspection period, rather than immediately following the inspection period as per the previous regulations. As a result of this, auditors are unable to issue their audit reports until the 30 day period has been concluded.

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>.

Consultation: HRA accounting

The Department for Communities and Local Government is consulting on directions to replace the Housing Revenue Account (Accounting Practices) Directions 2011, which will cease to have effect in relation to Housing Revenue Accounts of local housing authorities in England from 1 April 2016. DCLG describes the replacement directions as essentially technical changes in order to bring the accounting requirements in line with proper practices under international accounting standards. They specify information to be disclosed in the notes to the HRA.

See full details of the draft direction at:

<https://www.gov.uk/government/consultations/housing-revenue-account-accounting-practices-directions-2015>



Regulation news

Report on the results of auditors' work 2014-15

Public Sector Audit Appointments (PSAA) have published their first report showing the results of auditors' work for 2014-15 covering 509 principal bodies and 9,755 small bodies.

The report includes information on timeliness of reporting, as well as the outcomes of those reports.

- ▶ Auditors were able to issue an early opinion (by 31st July 2015) for 5% of principal bodies.
- ▶ The auditor was unable to issue an opinion by the statutory deadline of 30th September at 15 bodies (3%), compared to 2% in 2013-14.
- ▶ Consistent with 2013-14, no non-standard opinions were issued.
- ▶ 20 non-standard value for money opinions were issued, including 1 adverse conclusion, 18 except-for conclusions, and one report on matters arising.
- ▶ Ten value for money conclusions were outstanding at the time of publishing the report.

Read the report in full at:

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>



Key questions for the audit committee

What questions should the Audit Committee ask itself?

Have we considered our responses to the key government consultations that affect us, including New Homes Bonus and HRA Accounting Directions?

Have we formulated a response to support the review of Local Council Tax Support Schemes? How effective have our council tax support arrangements been since 2013-14?

Are we monitoring our progress against the revised timetable for closing the accounts from 2017-18 onwards?

Have we considered amending governance arrangements to streamline the approval of the financial statements?



Find out more

Ey Item Club Summer 2015 forecast

For details of the EY Item Club's latest forecast, see <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

Local Government Devolution

Read the government announcements in full at <https://www.gov.uk/government/news/historic-devolution-deal-to-power-the-midlands-engine> and <https://www.gov.uk/government/news/liverpool-devolution-deal-boosts-the-northern-powerhouse>.

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Council Tax Support

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Public Sector Exit Payment Recovery Regulations

Read more at <https://www.gov.uk/government/news/government-calls-time-on-public-sector-parachute-payments-for-boomerang-bosses>

Faster Close update

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For more information, please contact a member of your engagement team.

Value for Money guidance

Full information on the new guidance can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

New arrangements for the exercise of public rights

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>

Consultation: HRA accounting

See full details of the draft direction at:

<https://www.gov.uk/government/consultations/housing-revenue-account-accounting-practices-directions-2015>

Report on the results of auditors' work 2014-15

Read the report in full at:

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

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2.

BALANCES AND RESERVES STATEMENT 2016/17

Contact Officer: Paul Whaymand

Telephone: 01895 566071

SUMMARY

The budget reported to Cabinet and Council in February 2016 contained an extract from the Balances and Reserves Statement 2016/17 which summarised the recommended range for unallocated balances. The attached Balances and Reserves Statement provides further detail on the Council's approach to the management and measurement of these, outlining technical accounting guidance used and analysis of specific risks that lead to a determination of a prudent reserves and balances range.

RECOMMENDATION

That the contents of the report are noted.

REASONS FOR OFFICER RECOMMENDATIONS

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

INFORMATION

- 1 The Corporate Director of Finance, as the Council's Section 151 officer has a legal duty to comment on the robustness of budget estimates for the forthcoming year including the adequacy of the Council's reserves as part of the statutory annual budget setting process. This duty stems from the financial governance framework established under the Local Government Act 2003.
- 2 For Hillingdon, this duty is exercised through an extract of the Budget Report to Cabinet and Council in February of each year. This statement expresses a prudent level of unallocated General Fund balances that the Council should hold as a range based on assessment of the key strategic, operational and financial risks faced by the Council.
- 3 The recommended range for unallocated balances has been increased from £15m to £30m in 2015/16 to £15m to £31m in 2016/17, with the overall upper limit for balances £14m higher, at £45m, to take account of the planning drawdown from reserves included in the Medium Term Financial Forecast from 2016/17.
- 4 The attached Balances and Reserves Statement contains an underlying assessment against CIPFA criteria considering both internal and external financial risks to determine an identifiable recommended range for unallocated balances contained within the Budget Report.

Audit Committee 15 March 2016

2.

LEGAL IMPLICATIONS

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

BACKGROUND PAPERS

The Council's Budget: Medium Term Financial Forecast 2016/17 - 2020/21 - report to Cabinet and Council February 2016

Local Authority Accounting Panel (LAAP) Bulletin 99 – Local Authority Reserves and Balances (July 2014)

STATEMENT ON 2016/17 ANNUAL REVIEW OF RESERVES

SUMMARY

The Council's Corporate Director of Finance has a duty under the Local Government Act 2003 to comment on the robustness of the Council's budget for the coming year. This comment is also required to consider the adequacy of the Council's reserves and balances. The Corporate Director of Finance has recommended that based on the 2016/17 budget an appropriate level of unallocated balances for the authority is in the range from £15m to £31m. In addition to these unallocated balances, further sums in the range from £4.5m to £14m are recommended to manage the impact of continued severe funding reductions.

1. BACKGROUND

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

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2. ADEQUATE LEVEL OF UNALLOCATED GENERAL FUND RESERVES

2.1 To determine the recommended level of reserves the Council has assessed the risks it currently faces. Criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 99 (July 2014) have been followed for this purpose, alongside more recently identified financial risks arising in the medium term as a result of specific government proposals and transfer of new responsibilities to the Council. Details of these are shown in Appendix 1 and include:

- The robustness of the financial planning process (including treatment of inflation and interest rates, estimates of locally raised income and timing of capital receipts);
- How the Council manages demand led service pressures;
- The treatment of planned savings / productivity gains and implementation of the Council's BID programme;
- The financial risks inherent in any major capital project, outsourcing arrangements or significant new funding changes;
- The strength of the financial monitoring and reporting processes;
- Cash flow management and the need for short term borrowing;
- The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions;
- The general financial climate to which the Council is subject and its previous record in budget and financial management.

2.2 Most of the Council's balances are held to deal with the common risks outlined above that most local authorities need to manage on an ongoing basis, however there are a number of key issues for Hillingdon that drive the need to hold additional balances.

2.3 Hillingdon has seen substantial and sustained population growth, evidenced by the latest population estimates, which is set to continue into a period of further central government funding cuts over the medium term. Continuing pressures arising from demographic growth will see increased demand for key services, including Social Care, Education, Housing and Waste Collection and Disposal. Secondly, a number of issues arise from the presence of Heathrow Airport within the borough. In particular this is the driver of the Council's exceptional asylum caseload, which has a fragile, unpredictable and inadequate funding stream attached to the support for asylum seekers.

2.4 In addition to these local issues, the 2012 Local Government Finance Act resulted in a significant transfer of risks from Central Government in relation to both the partial localisation of Business Rates Income and introduction of a local Council Tax Reduction (CTR) Scheme. No further transfers are planned for 2016/17, although the Government has stated their intention to increase the local share of Business Rates Income to 100% over the next four years. While such localisation is expected to provide a mechanism for the Council to benefit from local economic growth, the corresponding transfer of risk will continue to be reflected in the recommended level of balances.

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- 2.5 The array of risk factors that determine the need to hold balances and reserves have been reviewed since last year's budget setting process and the level of cover against each risk criteria refreshed, this has resulted in an increase in the maximum level of reserves by £1m to £31m in 2016/17. This additional provision has been made in respect of financial risk associated with externally contracted service provision, in particular reflecting the well publicised pressures on the social care sector.
- 2.6 The recommended range for unallocated balances is therefore £15m to £31m, an increase from the £15m to £30m range for 2015/16. The upper end of this range represents the highest level of unallocated balances that the Council could reasonably justify holding. As balances are above the upper level, the Corporate Director of Finance has recommended the use the excess balances in the Council's broader financial planning.
- 2.7 These excess balances will be required to support the Council's MTFF by smoothing the impact of substantial funding government funding cuts over the remainder of this parliament. A further £4.5m to £14m is included in the overall level of appropriate balances to support this strategy. Appendix 1 summarises the level of balances recommended to manage the criteria set out above, with the headline range for General Balances during 2016/17 being £19.5m to £45m.
- 2.8 The approved budget for 2016/17 includes a drawdown of £4.2m from balances, which are projected to reach approximately £37m by 31 March 2016 and therefore would result in excess of £32.8m by 31 March 2017. For the purposes of establishing a minimum level of balances, this drawdown has been rounded up to £4.5m.
- 2.9 The General Fund revenue budget proposals for 2016/17 also included a contingency of £18.4m which is identified against specific in year risks that are funded within the budget. Many of these risks, although not precisely quantifiable, have a high degree of certainty that they will be called upon in the year.

3. EARMARKED RESERVES

- 3.1 The Council has ring fenced earmarked reserves with balances as at 31 March 2015 Which are set out in the table below:

Reserves	Balance as at 31 March 2015 £000's
General Fund Reserves	
Earmarked Reserves	
- Grants Unapplied	6,005
- Member Initiatives	11,135
- Other Reserves	7,068
- Public Health Reserve	2,453
- Parking Revenue Account / New Roads & Street Works Act	633

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- PFI	485
Total General Fund Reserves	27,779
Schools Delegated funds Reserves	16,606
Total Reserves	44,385

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

4. UNFUNDED RESERVES

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

Risk Management

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

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

Assessment of General Fund Reserves Requirement

Appendix 1

Assessment of General Fund Reserves Requirement	Minimum Level 2016/17 (£ million)	Maximum Level 2016/17 (£ million)	Minimum Level 2015/16 (£ million)	Maximum Level 2015/16 (£ million)	Principal Reasons for Requirement
The general financial climate to which the Council is subject	1.5	4.5	1.5	4.5	Sustained reductions funding forecast over the medium-term with the austerity agenda set to continue over this parliament
The overall financial standing of the authority	1.0	2.0	1.5	2.0	To manage adverse movement in the Council's financial standing
Estimates of level of locally raised income	2.0	4.0	2.0	4.0	Locally raised income accounts for approximately 70% of corporate funding
The treatment of planned efficiency savings / productivity gains	2.0	4.0	2.0	4.0	To manage risk around slippage of the Council's major savings programme, in response to funding reductions
The treatment of inflation and interest rates	1.0	1.0	1.0	1.0	With limited exposure to changes in interest and inflation rates, MTFF assumptions have been refreshed to reflect latest intelligence.
The financial risk inherent in major contract arrangements	1.5	3.0	1.0	2.0	To manage any impact of services arising from supplier risk, particularly in respect of Social Care provision
The treatment of demand led pressures	2.0	4.0	2.0	4.0	Increased demand for services from an aging and increasing population
The financial risks inherent in any major capital developments	1.0	3.5	1.0	3.5	Inherent risks due to significant level of investment required for school places
Estimates of the level and timing of capital receipts	1.0	2.0	1.0	2.0	Slippage on asset disposal programme could lead to increased borrowing
The availability of reserves and other funds to deal with major contingencies and pressures	2.0	3.0	2.0	3.0	Cover for unforeseen events over and above £500k budgeted provision for General Contingency
Unallocated GF Reserves	15.0	31.0	15.0	30.0	
Planned drawdown from	4.5	14.0	5.0	15.0	To smooth the front-loading of funding

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Assessment of General Fund Reserves Requirement

Appendix 1

Assessment of General Fund Reserves Requirement	Minimum Level 2016/17 (£ million)	Maximum Level 2016/17 (£ million)	Minimum Level 2015/16 (£ million)	Maximum Level 2015/16 (£ million)	Principal Reasons for Requirement
balances 2016/17					reductions, a planned drawdown from reserves has been included in MTFF
Total GF Reserves	19.5	45.0	20.0	45.0	

REVISIONS TO THE TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2016/17 TO 2020/21

Contact Officer: Sian Kunert
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SUMMARY

Audit Committee considered the draft Annual Treasury Management Strategy Statement and Investment Strategy for 2016/17 to 2020/21 at the meeting on 15 December 2015. This was in advance of the final Statement being agreed at Cabinet and Council in February 2016.

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

RECOMMENDATIONS

That the contents of the report are noted.

INFORMATION

Amendments to the Annual Treasury Management Strategy Statement and Investment Strategy for 2016/17 to 2020/21

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

1. The Council's projection for its capital financing requirement has been updated to take into effect the final changes in the Capital programme. The expected opening CFR for 2016/17 has remained at £420m due to minimal change in the prudential borrowing requirements from the 2015/16 Capital programme. Future year projections have been revised as a result of amendments to the 5 year planned capital programme, this change is reflected Tables 1, 7 and 8.
2. As a result of final amendments to the Council's agreed Capital programme the Authorised Limit and the Operational Boundary, detailed in tables 3 and 4, have been updated. In addition the prudential indicators in Annex B have all been refreshed following these programme changes.
3. In addition there have been minor amendments to grammar.

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

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TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2016/17 to 2020/21

SUMMARY

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

Over the longer term, the Council considers the need to borrow money to fund its major capital projects and when the best time is to do this. The strategy aims to minimise borrowing and make use of internal funds where available. Currently, there is no expectation to take out new debt until 2017/18. As interest rates are expected to remain low in the near future this will keep investment returns low, so using internal funds rather than borrowing will reduce interest costs, lower credit risk, and relieve pressure on the Council's Counterparty List.

This report details the investment instruments and counterparties in which the Council can invest. All institutions on the Counterparty List are regularly monitored assessing risk and determining the duration and value of limits on investments with counterparties.

From 2016/17 the Treasury Management Strategy Statement (TMSS) proposes to increase the flexibility in the allowable exposure of secured deposit instruments, to improve the number of bail-in exempt investment opportunities available to the Council and so reduce the bail-in risk of the Council's investment portfolio. Secured deposit instruments available to the Council include Covered Bonds and Repurchase Agreements.

1. INTRODUCTION

- 1.1 Under the Local Government Act 2003 the Council has a legal obligation to have regard to both the CIPFA Code and DCLG Guidance on local authority investments in determining the Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Statement for the following financial year. The strategy is developed as part of the Council's MTFE process.
- 1.2 The Council has significant investments and borrowing and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. As such treasury management operations are fundamentally concerned with managing risk. Whilst there are regulations and controls in place designed to minimise or neutralise risk there is still some risk exposure due to the nature of managing loan and investment portfolios and cash flow activities. Active monitoring of both the economic outlook and changes in regulation is undertaken which define many of the changes in treasury management strategy and risk parameters.
- 1.3 It is expected that interest rates will remain low and will only slowly increase, with the first movement now pushed back into the second half of 2016. The change in interest forecasts have been triggered by a weakness in inflation, subdued global growth and uncertainty around the UK's position in Europe. Returns on investments during 2016/17

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are therefore forecast to remain subdued and as a result, internal resources will be used rather than taking out new debt to support the Capital programme as this will reduce risk in the cost of holding new debt with low returns on investment.

2. BALANCE SHEET AND TREASURY POSITION

- 2.1 The Councils borrowing strategy is led by the estimated Balance sheet position in the medium term and capital programme expectations. The underlying need to borrow for capital purposes is reflected by the Capital Financing Requirement (CFR) which measures the cumulative capital expenditure that has not been financed from other Council resources such as capital grants, revenue contributions or reserve financing. The CFR will generally be higher than the actual debt held due to timing requirements for cash flow purposes. This is called "internal borrowing".
- 2.2 Estimates of the CFR, based on the projected capital programme over the next five years are shown in table 1. The Council's opening CFR is estimated at £420m for 2016/17, based on the closing 2015/16 figures, outstanding loans £315m and other long term liabilities of £2m, resulting in a gross borrowing requirement of £103m. Existing borrowing is identified into separate loan pools for GF and HRA, debt is currently £79m and HRA £236m.

Table 1

	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
General Fund CFR	213	261	284	311	319	305
HRA CFR	207	214	205	196	187	178
Total CFR	420	475	489	507	506	483
Existing Borrowing *	317	309	292	274	257	222
Gross External Borrowing required to meet CFR	103	166	197	233	249	261
Projected Usable Reserves **	157	133	91	91	102	109
Projected Working Capital	40	40	40	40	40	40
Investments / (New Borrowing Required)	94	7	-66	-102	-107	-112

* Borrowing profile does not include potential calls on LOBO borrowing. Borrowing includes £191.6m paid to government by the HRA as settlement on the introduction of the self financing regime in March 2012.

** Council controllable reserves only

- 2.3 The increasing General Fund CFR is due to the Council's programme of capital investment funded by Council resources. The Capital programme continues to focus on provision of sufficient schools places to meet rising demand across the borough. In addition there is provision for major investment on the St Andrews Park site in Uxbridge. The reducing HRA CFR is as a result of repayment of debt transferred from central

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government. The Council is forecast to require borrowing from 2017/18 to meet the costs of the capital programme.

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

3. BORROWING STRATEGY

- 3.1 The Council's external debt at 31 March 2016 will be £315m, a decrease of £12.3m on the previous year as a result of debt maturing naturally. There were no opportunities to repay debt early in 2015/16 and £7.3m is scheduled for repayment in 2016/17. The Council's loan portfolio has average interest rate of 3.01% over 2015/16.
- 3.2 Projected capital expenditure levels, market conditions and interest rate levels are monitored throughout the year. This enables the Council to adapt borrowing strategies to minimise borrowing costs over the medium to longer term whilst maintaining financial stability. Table 1 above shows the Council does not expect to need to borrow before 2017/18. Taking new fixed rate borrowing in advance of need would not be cost effective when compared to utilising internal balances, due to the differential between debt costs and investment earnings, despite long term borrowing rates being at low levels. Delaying borrowing until required for cash flow purposes also reduces credit risk and takes pressure off the Council's Counterparty list.
- 3.3 If however market conditions change and the Council takes out new borrowing the Council will consider the following approved sources of borrowing:
 - Public Works Loan Board and its successor body
 - UK local authorities
 - Any other bank or building society authorised to operate in the UK
 - UK public and private sector pension funds (except Hillingdon Pension Fund)
 - Capital market bond investors
 - Municipal Bonds Agency (subject to Cabinet approval)
 - Other special purpose companies created to enable local authority bond issues
- 3.4 Although a mix of borrowing options will always be considered, the PWLB (or equivalent) will remain the primary source of long-term and variable rate borrowing whilst rates remain closely linked to government gilts. The Council currently has access to the preferential PWLB "certainty rate", which is 0.2% lower than normal PWLB lending rates. To cover unexpected cash flow shortages, the Council may borrow short term loans, which would mainly be sourced from other local authorities.

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- 3.5 Where borrowing is required this will be attributed directly to either the GF or HRA loan pools. Interest costs will be separated between the two pools and allocated accordingly.

Interest Rate Risk

- 3.6 The Council holds a mixture of loans, with £255m of fixed rate loans protected against interest rate rises and variable rate loans of £60m, which take advantage of favourably low rates and although exposed to increases in rates any additional costs would be offset by a corresponding increase in investment income. Additionally, the variable rate loans held can be prematurely repaid with minimal cost should the need arise.
- 3.7 Within the loan portfolio, the Council has £48m of Lender's Option Borrower's Option (LOBO) loans of which £14m will be in their call period in 2016/17 and so are reclassified for the period as variable. It is highly unlikely that the loans will be called given interest rates are now lower than those at the inception of the loan. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the new terms and also the option of repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan by borrowing from the approved sources. The default position however will be early repayment without penalty.

Debt Rescheduling

- 3.8 The PWLB allows authorities to repay loans before maturity at a premium or discount. The Council may take advantage of this and replace some loans with new loans or repay early without replacement. The rationale for rescheduling is to reduce interest costs with minimal risk; balance the volatility profile (i.e. the ratio of fixed to variable rate debt); or amend the profile of maturing debt to reduce any inherent refinancing risks.
- 3.9 Rates and markets are regularly monitored to identify opportunities for rescheduling and any borrowing and rescheduling activity is reported monthly to Cabinet. However, current market conditions are resulting in significant early redemption costs and unless these are significantly reduced, it is unlikely any debt rescheduling will be undertaken in 2016/17.
- 3.10 The Council may consider the transfer of debt between the HRA and GF. Transfer of debt will be undertaken at a zero premium, with the debt specified for transfer based on a "last in, first out" basis and matched to optimise maturity profiles and financing costs.
- 3.11 The Council will limit and monitor large concentrations of fixed rate debt needing to be replaced through the prudential indicator in table 2. The upper and lower percentage limits are intended to control excessive exposure to volatility in interest rates on refinancing of maturing fixed rate debt by setting a structure for borrowing maturity profiles. The first scheduled LOBO call option is included as the maturity date within this indicator.

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Table 2

Maturity structure of fixed rate borrowing	% PWLB maturity profile at 31/03/16 %	% Market LOBO 1st call option profile at 31/03/16	Lower Limit for 2016/17 %	Upper Limit for 2016/17 %
under 12 months	2.15	5.21	0	25
12 months and within 24 months	5.87	1.86	0	25
24 months and within 5 years	16.91	10.79	0	50
5 years and within 10 years	10.24	0.00	0	100
10 years and within 20 years	23.83	0.00	0	100
20 years and within 30 years	12.50	0.00	0	100
30 years and within 40 years	8.78	0.00	0	100
40 years and within 50 years	1.86	0.00	0	100
50 years and above	0.00	0.00	0	100
Total	82.14	17.86	0	100

3.12 Prudential indicators in relation to borrowing limits and interest rate exposure are shown in Annex A.

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4. INVESTMENT STRATEGY

- 4.1 In accordance with Investment Guidance from DCLG and best practice, the Council's primary objectives in relation to the investment of public funds remains:
- security of the invested capital;
 - liquidity of the invested capital; and
 - an optimum yield which is commensurate with security and liquidity.
- 4.2 When investing funds the Council looks to balance risk and return, minimising the risk of incurring losses from defaults, and the risk receiving unsuitably low investment income.
- 4.3 The Corporate Director of Finance under delegated powers will, on a daily basis, determine the most appropriate form of investments, in keeping with investment objectives, income and risk management requirements. Investments will also be with reference to the Prudential Indicators and from approved investments detailed in Annex B. Decisions concerning the core strategic investment portfolio will be reported monthly to Cabinet.

Bail-In Risk

- 4.4 Banking reform legislation was incorporated into UK law from January 2015 and exposes the Council to bail-in risk on all unsecured bank deposits. The risk of bail-in is effective at the point when banks are considered to be underperforming rather than once they have failed. With most large entities either exempt or not exposed, local authorities will be one of the primary bail-in targets with a potential loss of 100% of the deposit.
- 4.5 There are a number of secure deposits available to the Council to reduce bail-in exposure by reducing the use of unsecure bank deposits. Secure deposits include Covered Bonds (fixed and floating rate notes) and Repurchase Agreements (REPO's). Both of these investment vehicles were introduced in the 2015/16 TMSS. Secure deposits are longer in duration and an element of the councils investments must remain liquid to fund cash flow requirements, resulting in some bail in risk being inherent in the Council's investment portfolio.
- 4.6 Covered Bonds are bail-in exempt and are issued in their own right rather than in the name of the counterparty, with each issue having its own credit rating. The covered bond has security of underlying assets which can be called upon in the event of default of the issuing counterparty. The decision to invest in a covered bond will be based on the individual bond issue rather than an agreed list of specific counterparties as each bond is standalone from the issuing counterparty and should be assessed individually. Duration and exposure limits will be aligned with the credit rating of the bond issue with consideration to other investment factors. The council will only invest in a covered bond which is rated AA or above.

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- 4.7 Repurchase Agreements (REPO's) require the use of a tri-party facilitator to negotiate and hold the instrument, where it will be ring-fenced and not subject to the failure of the issuing counterparty, making them bail in exempt instruments; however unlike Covered Bonds REPOs are issued in the name of the counterparty.
- 4.8 Money Market Funds (MMF's) remain an important vehicle for instant access deposits. Money Market Funds reduce the risk of bail-in as the funds are diversified with limits on the exposure to any specific bank. The Council also utilises more than one MMF to diversify exposure. Where MMF's participate, the Council utilises the facilities of a MMF portal to make subscriptions and redemptions. The portal procedure involves the use of a clearing agent; however the Council's funds are ring fenced throughout the process.

Credit Risk

- 4.9 Credit ratings remain an important element of assessing credit risk but they are not the sole feature in the assessment of counterparties. The Council also considers alternative assessments of credit strength and information including corporate intelligence, market sentiment and pricing as well as any overriding doubts regarding security.
- 4.10 The Council's in-house investments are made with reference to the outlook for the UK Bank Rate, money market rates and other macroeconomic factors. In any period of significant stress in the markets or heightened counterparty risk, the fallback position is for investments to be placed with central government's Debt Management Office (DMO) or to purchase UK Treasury Bills. The rates of interest from the DMO are below the equivalent money market rates, but this is an acceptable counterbalance for the guarantee that the Council's capital is secure.

High Credit Quality

- 4.11 The Council has set a minimum long-term credit rating criterion of BBB+ for UK counterparties, A+ for Overseas counterparties and AA+ for non-UK sovereigns. Covered Bonds will be restricted to bond issues of AA or above.
- 4.12 In order to diversify investments within the portfolio, funds will be placed with a range of counterparties which meet agreed minimum credit risk requirements. Diversification will be achieved by applying individual limits with each counterparty; for unsecured deposits this is capped at 5% of the total portfolio. Varying instruments and investment periods will be utilised to meet liquidity requirements and mitigate risks. Annex B details counterparty Institutions, investment limits and allowable instruments.

Risk Assessment and Credit Ratings

- 4.13 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded resulting in it failing to continue to meet the approved investment criteria then:
- no new investments will be made;

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- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

4.14 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only new investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Liquidity Risk

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

Return on Invested Sums

4.16 As interest rates are forecast to remain unchanged until the second half of 2016, the investment strategy is aiming to lengthen investment periods, where cashflow and credit conditions permit, in order to lock in higher rates of acceptable risk adjusted returns. Longer term investments will typically be through deposits with local authority entities and use of secured deposits where available.

Council's Bank Account

4.17 The Council's bank account is held with Lloyds Bank Plc and is currently rated above the Council's agreed minimum BBB+ rating at A. Should the credit rating fall below BBB+ the Council may continue to deposit surplus cash providing that investments can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB-.

5. OTHER ITEMS

Policy on Use of Financial Derivatives

5.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). However, the general power of competence in Section 1 of the Localism Act

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2011 removed much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

- 5.2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks to which the Council is exposed. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 5.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

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

- 5.4 With the introduction of HRA self financing in March 2012 the Council allocated specific loans to both the General Fund and the HRA. Interest costs applicable to each loan are charged directly to the respective revenue account.
- 5.5 Interest earned on HRA balances will be calculated and distributed in accordance with DCLG guidelines and based on a DMADF risk free rate of return to match the risk free credit exposure applicable to the HRA.

Investment of Money Borrowed in Advance of Need

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

Balanced Budget Requirement

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

Investment Consultants

- 5.8 The Council has a contract in place with Arlingclose Ltd to provide treasury advisory services, which details the agreed schedule of services. Performance is measured

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against the schedule to ensure the services being provided are in line with the agreement.

Monitoring and Reporting

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

Training

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

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Prudential Indicators and Estimates of Capital expenditure

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

Table 3

Authorised Limit for External Debt	2015/16 Approved £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	502	535	536	536	536	536
Other Long term Liabilities	2	2	1	1	1	1
Authorised Limit	504	537	537	537	537	537

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

Table 4

Operational Boundary for External Debt	2015/16 Approved £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	472	505	506	506	506	506
Other Long term Liabilities	2	2	1	1	1	1
Operational Boundary	474	507	507	507	507	507

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

Upper Limits for Interest Rate Exposure

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

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Table 5

Upper Limits for Interest Rate Exposure	31/03/16 Estimate %	2015/16 Approved %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
Upper Limit for Fixed Interest Rate Exposure on Debt	81	100	100	100	100	100	100
Upper Limit for Fixed Interest Rate Exposure on Investments	(0)	(75)	(75)	(75)	(75)	(75)	(75)
Upper Limit for Variable Interest Rate Exposure on Debt	19	50	50	50	50	50	50
Upper Limit for Variable Interest Rate Exposure on Investments*	(100)	(100)	(100)	(100)	(100)	(100)	(100)

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

Upper limits for principal over 364 days

The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. Under the Council's strategy only investments where risk is minimised, as set out in the non-specified investments in table 13, would be placed for over 1 year and there is an upper limit of 3 years.

Table 6

Upper Limit for total principal sums invested over 364 days	2015/16 Approved £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
	32	45	35	35	35	35

Estimates of Capital Expenditure and other Prudential Indicators

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

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Table 7

Capital Expenditure	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
General Fund	97	65	101	73	61	54	23
HRA	26	30	52	57	15	9	10
Total	123	95	153	130	76	63	33

Capital expenditure is expected to be financed as follows:

Table 8

Capital Financing	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Prudential Borrowing	51	33	70	29	33	19	0
Capital Receipts	20	11	32	38	17	18	6
Community Infrastructure Levy	3	3	2	5	5	5	5
Government Grants & External Contributions	27	23	18	15	9	12	12
Revenue Contributions	22	25	31	43	12	9	10
Total Capital Financing	123	95	153	130	76	63	33

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

Table 9

Actual External Debt as at 31/03/2016	£m
General Fund Borrowing	79.1
HRA Borrowing	235.6
Other Long term Liabilities	2.0
Total	316.7

HRA Indebtedness: Following settlement and the introduction of the self-financing regime, a borrowing cap of £303.3m has been imposed by HM Treasury on HRA indebtedness. This gives the HRA potential headroom borrowing of up to £67.7m to finance future capital.

Incremental Impact of Capital Investment Decisions

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

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Table 10

Incremental Impact of Capital Investment Decisions	2015/16 Revised	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Increase in Band D Council Tax	-£9.35	-£32.98	£16.98	£7.20	£41.61	£9.86
Increase in Average Weekly Housing Rents	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00

The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of future revenue budgets required to meet borrowing costs. There is a zero increase in housing rents as a consequence of the fixed financing costs set within the HRA 30 year business plan which commenced in 2012. In terms of council tax, the incremental impact growth reflects the MTFP plan for priority growth projects in the Capital programme. In 2017/18 and 2019/20 there is an increase in financing costs due to the expectation of new borrowing mainly in support of school expansion projects which results in an increase in revenue costs that would ultimately fall on the local Council tax payer to fund.

Table 11

Ratio of Financing Costs to Net Revenue Stream	2015/16 Revised	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	4%	3%	4%	4%	6%	7%
HRA	25%	25%	25%	25%	25%	25%

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Specified Investments & Non-Specified Investments

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

The Council defines “high credit quality” for:

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

Specified Investments identified for use by the Council

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

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

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Table 12: Limits for Specified investments

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

Note: The above list and limits would be amended on notification of any potential risk concerns. Cabinet will approve any additions to the above list of counterparties or investment instruments. There is no upper limit for the total of specified investments.

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

Table 13

	Maximum maturity	Max % of portfolio
§ Deposits and Bonds with other UK Local Authorities § Deposits with UK Banks & Building Societies. § Money Market Funds § Pooled Funds § Gilts § Registered Secured Deposits (including Covered Bonds) AA rated or above	3 Years	40 In Aggregate

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

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2016/17 MRP STATEMENT

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

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

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

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

MRP in 2016/17: Options 1 and 2 are used for GF supported borrowing prior to 31 March 2008. For capital expenditure incurred after 31 March 2008, MRP will be generally be charged over the useful life of the assets, beginning in the year after the asset becomes operational. In all cases we will consider the most prudent method of providing for debt repayment. The HRA will make a form of MRP to pay down its self-financing settlement debt over the 30 year business cycle on which the settlement is based.

Capital expenditure incurred during 2016/17 is not subject to an MRP charge until 2017/18.

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Corporate Fraud Investigation Team Progress Report April 2015 - February 2016

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 February 2016.

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.

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
- Enhanced Recruitment Verification
- Blue Badge
- Procurement fraud
- Mobile working
- Council Tax Reduction Scheme (CTR)

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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 – February 2016

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 70 properties which are now available to be re-let to residents in genuine housing need. This compares to 56 re-covered properties for the full year 2014/15.

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 £1,260,000.. The target set by CFIT for 2015/16 is to recover 52 properties (1 a week). This target has been exceeded and the expectation is that more properties will be recovered by the end of the financial year.

In total since the commencement of this project in 2010 the CFIT have recovered 256 properties which using the Audit Commission calculation equates to savings of just over £4.6 million.



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

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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.

An example of this will be shown by an article which is due to appear in the March/April edition of Hillingdon People. This will inform residents of a recent case where Housing Investigation Officers identified that a tenant was not living in their 2 bed property and they had also put in an Right to Buy application for this address. As a result of this investigation the tenancy was terminated and the Right to Buy was cancelled. This property was then allocated to a tenant who wanted to downsize from a 4 bed property. This meant that a 4 bed property was then available to house a family in genuine need of this accommodation.

Table 1 shows the number of properties recovered monthly and the notional savings achieved based on the Audit Commission calculation.

Table 1

Social Housing Fraud – number of properties recovered and savings achieved												
2015/16												
	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Total
Number	6	8	2	9	7	10	6	4	6	7	5	70
Savings	£108k	£144k	£36k	£162k	£126k	£180k	£108k	£72k	£108k	£126k	£90k	£1,260k

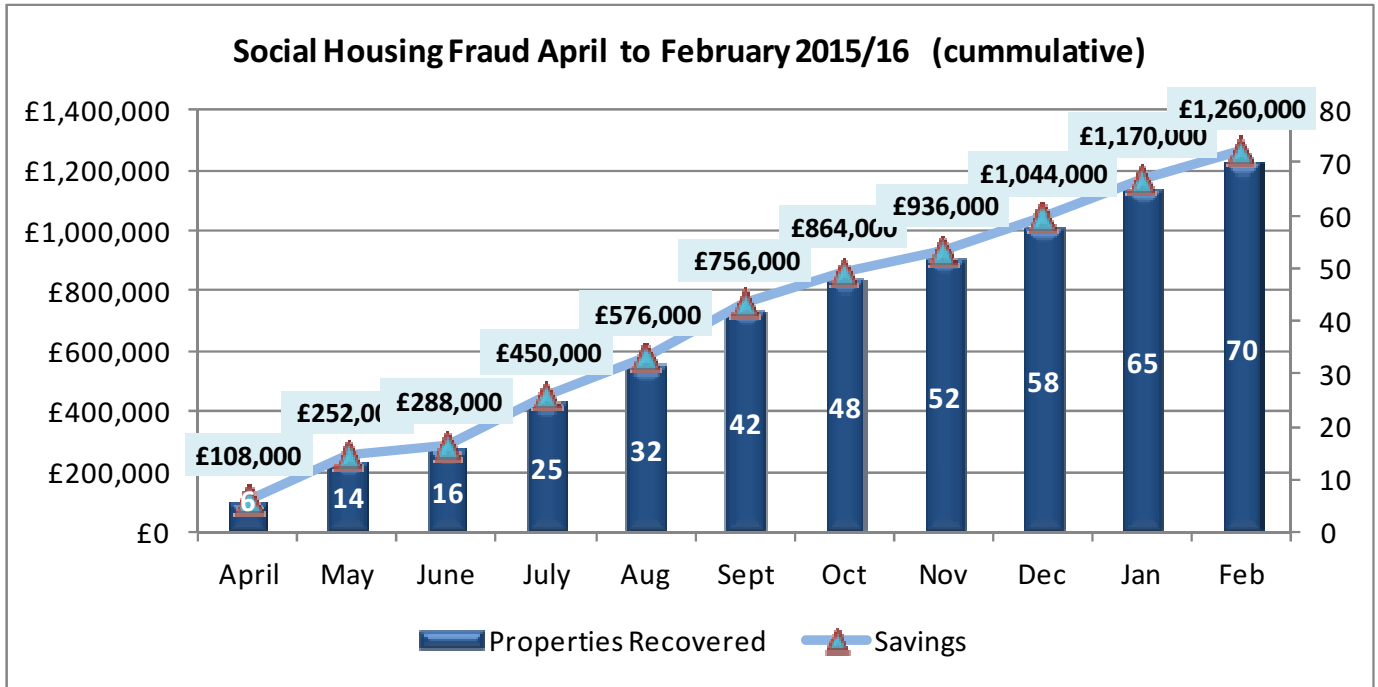
*The Audit Commission estimates that every property recovered represents a saving of £18,000

Chart 1 shows the cumulative properties recovered and saving since April 2015.

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Chart 1



The CFIT is currently gathering intelligence to pursue prosecution of 1 social housing fraud cases. The case was reported by a neighbour as a sub-letting referral, on investigation this information was substantiated.

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 financial year from April 2015 to February 2016 there have been 13,059 visits, this compares to 12,026 carried out for the whole year 2014/15, projected growth of 18%. 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. 8,287 Council Tax inspection visits have been made from April 2015 to February 2016.

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 from January 2016 to March 2017 there will be approximately 1,300 new build properties being developed in Hillingdon. This represents a

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significant amount of additional revenue. 4,772 visits have been made between April 2015 and February 2016 to check Business Rates and New Build Inspections.

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.

Table 2 and chart 2 show the number of visits carried out each month since April 2015.

Table 2

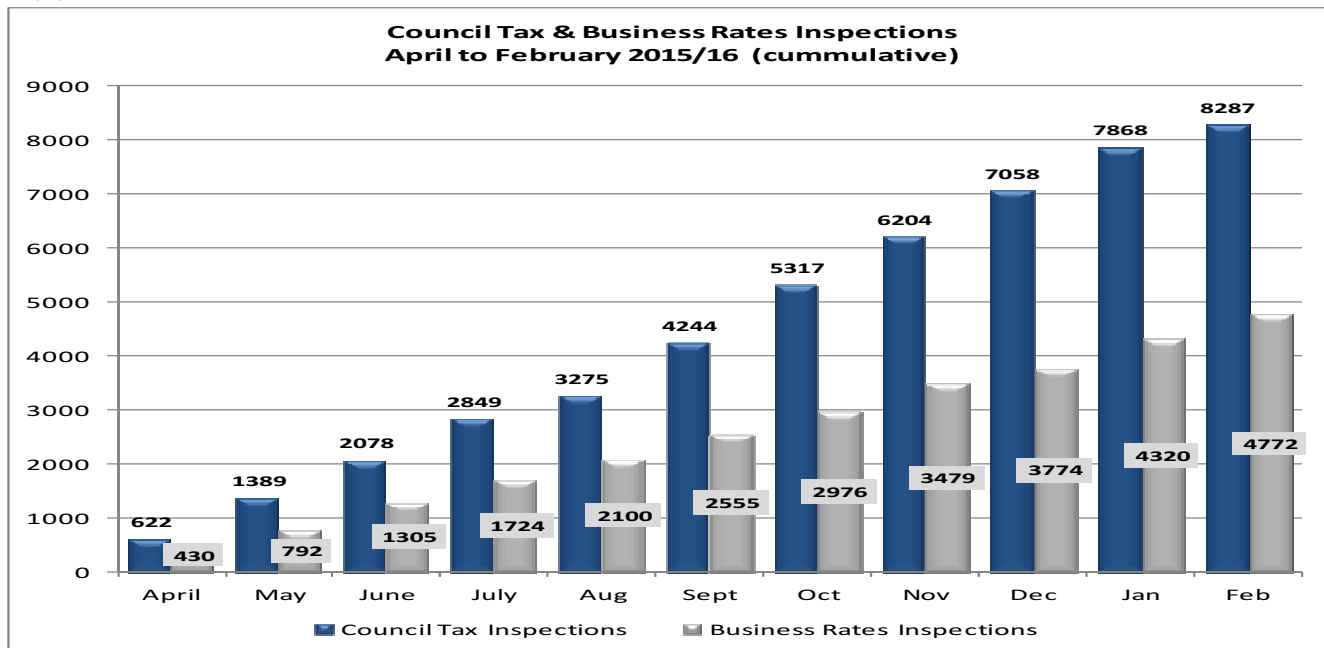
Council Tax and Business Rates Inspections			
	Number of Council Tax Inspections	Number of Business rates and New Build Inspections	
2015/16	April	622	430
	May	767	362
	June	689	513
	July	771	419
	August	426	376
	September	969	455
	October	1073	421
	November	887	503
	December	854	295
	January	810	546
	February	419	452
	YTD	8,287	4,772
	Income«	Increase in CT revenue	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.

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Chart 2



3.3 Single Person Discount (SPD)

The CFIT have been working on a project since January 2015 to identify incorrect claims for Single Person Discount. The project is producing very positive results in terms of reducing the number of SPD claims and generating additional income to the Authority. There are currently 29,947 SPD claims in Hillingdon. Since the commencement of this project SPD numbers are the lowest they have been for the last five years.

The CFIT are operating 4 work streams to match internal data sources against SPD claims.

Under the first work stream SPD records are being matched against Hillingdon First cards issued since April 2014. 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 135 SPD cases have been stopped resulting in an overpayment of £69k 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 56 cases have been identified resulting in an overpayment of £47k which will be recovered.

The third work stream involves data matching SPD records with the Electoral register. To date 264 cases have been identified resulting in an overpayment of £202k for recovery.

The fourth work stream commenced in November to match SPD claims against residents parking permits. The initial data matching has identified 278 matches which require further

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investigation. The investigations are likely to find that some of these matches are the result of poor data quality; however, any confirmed data matches will be processed for further investigation.

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.

Since April 2015 the CFIT team have commenced a significant data matching exercise with a credit reference agency called Experian. This exercise matches all our SPD claims with credit reference information to establish if applications for SPD are genuine. The matches have been rated into categories of high, medium and low depending upon the likelihood of an incorrect SPD claim. Officers from the CFIT are investigating all relevant cases. To date 97 SPD cases have been stopped resulting in a saving of £71k.

We have also run some additional in house reports to compare information on different systems and this has identified a further 189 cases resulting in savings of £82k.

Since January 2015/16 the CFIT have cancelled 767 SPD claims resulting in overpayments of £484k as shown in table 3.

Table 3

Council Tax - Single Person Discount – since January 2015		
Workstream	Number of claims stopped	Overpaid SPD
Hillingdon First Card data matching	135	£69k
Notices of intention to marry checks	56	£47k
Electoral registration data matching	264	£202k
Experian credit reference agency data matching	97	£71k
In-house data matching reports	215	£95k
Total	767	£484k

Charts 3 and 4 show summaries of the SPD overpayments and the number of households where claims have been cancelled from the intervention of the CFIT.

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Chart 3

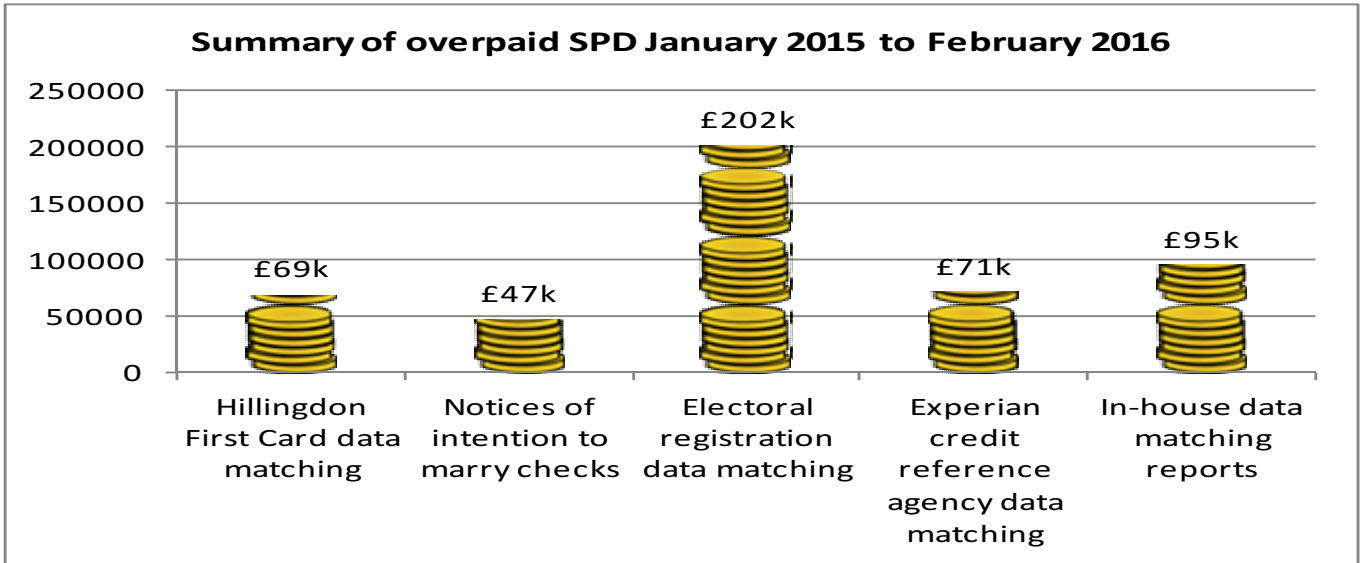
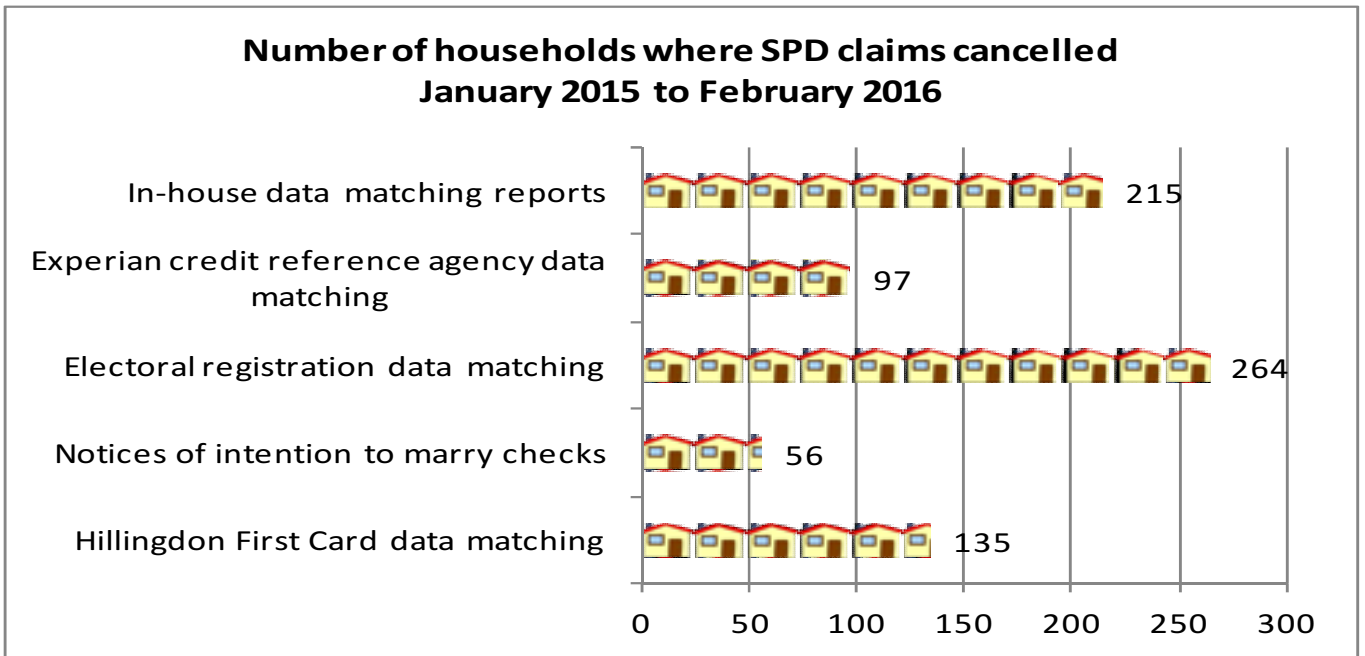


Chart 4



In cases where there is evidence of serious fraud the CFIT will look to pursue the prosecution of the claimant.

Are you receiving single person discount on your council tax?

The spotlight is on you if more than one adult is living at your address.

Don't wait for that knock on your door
Call us today ☎ 0300 123 1384

You can be prosecuted for a false claim

If you suspect someone of falsely claiming single person discount call ☎ 0800 389 8313 or email ✉ fraud@hillington.gov.uk. Your report will be treated in the strictest confidence and can be given anonymously.

HILLINGTON LONDON

www.hillingdon.gov.uk

The poster opposite appears in issues of Hillingdon People and notice boards around the

016

PRESS

Borough to raise the profile of Single Person Discount abuse.

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 10 cases have been cancelled, this represents a saving of approximately £2,870 a week. The average duration of a bed & breakfast placement is 13 weeks. Therefore on these 10 cancellations alone approximately £37,310 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 10 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 660 requests for verification visits have been passed to the CFIT. Of these 21 were found to not be eligible for housing support.

Table 4

Temporary Accommodation & Housing Needs Reception		
	YTD 2015/16	Savings per week
Temporary Accommodation Cancelled	10	« £2,870
Number of cases withdrawn after CFIT contact	10	
Applications not approved after CFIT verification visit	21	

« Average B&B placement = 13 weeks calculates to £37,310

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3.5 Right to Buy

Right to Buy applications are verified by the Corporate Fraud Investigation Team. Since April 2015 the CFIT have carried out 130 Right to Buy verifications, following CFIT involvement 7 applications have been rejected.

The CFIT found in one of these cases that the tenant was actually living in Birmingham and her son had sublet the property on her behalf to two families, the Right to Buy application has been cancelled, Two other cases concerned tenants who had applied for mortgages whilst still claiming housing benefit. The final four cases cancelled their applications following contact from the CFIT.

We have also introduced our own additional Right to Buy application form to ensure that the verification process captures all the available information.

Table 5

Right to Buy	2015/16	
	YTD	Savings
Number of Right to Buy verifications	130	
Number of applications rejected	7	£644,950 (discount)

3.6 Proceeds of Crime Investigations (POCA)

The role of the Accredited Financial Investigator (AFI) within the Corporate Fraud Team is crucial in the fight against crime. 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 12 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 1st April 2015, Hillingdon has received £38,076 in Incentivisation payments from the Home Office. A further Incentivisation payment of £50,700 is due on 31st March 2016.

Since the 1st June 2015 a Planning Enforcement Officer has been working with the AFI on a part-time basis to ensure effective identification of cases where planning regulations have been breached. Two cases are currently the subject of prosecutions for failing to comply with Planning Enforcement Notices. Both cases relate to the unlawful subdivision of properties into flats. The flats were subsequently rented out and therefore the landlords were obtaining rental income whilst in breach of the Enforcement Notice. It is estimated that each landlord obtained in

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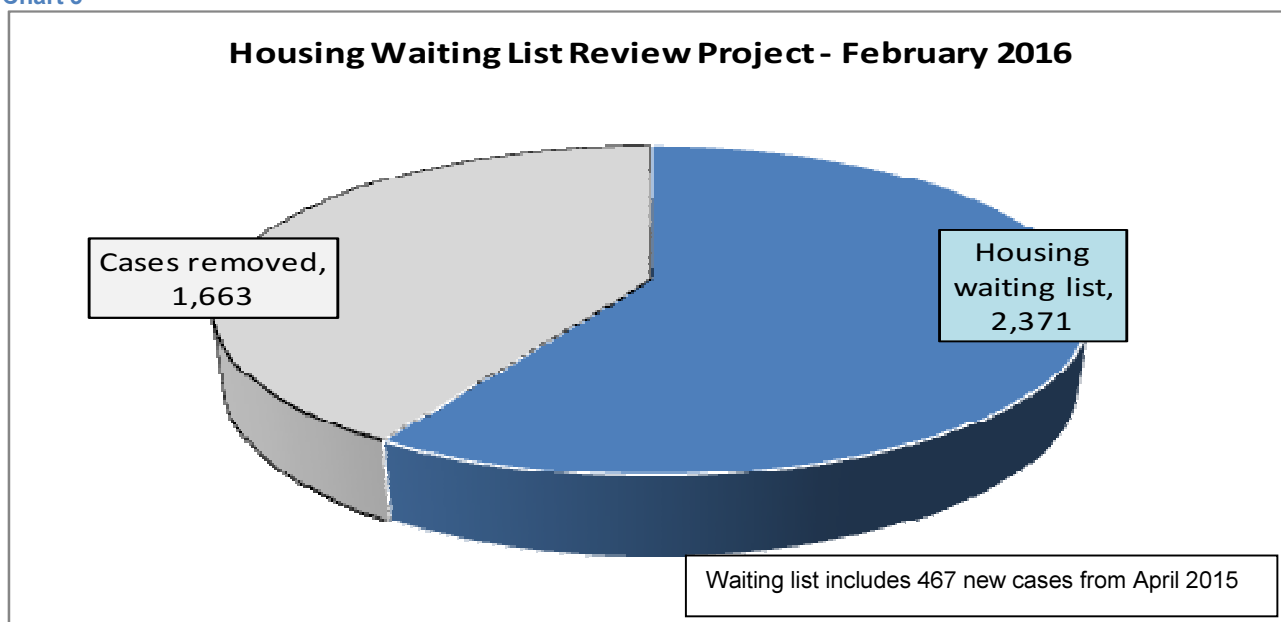
excess of £50,000 in rental income during this period. If criminal convictions are obtained confiscation proceedings will be instituted against the landlords. A third case also involving the subdivision of a property into flats is also being investigated..

A second Trading Standards Officer has now obtained Accredited Financial Investigator status meaning the Council now has increased capacity to carry out confiscation investigations. Work is underway to identify potential trading standards fraud and planning cases that may be suitable for confiscation under POCA.

3.7 Housing Waiting List

A project was set up by the CFIT in April 2015 to review the current Housing Register Waiting List, at that time there were 3,567 applications on the 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. Their circumstances had either 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.

Chart 5



Since the project commenced on 27th April 2015, the CFIT reviewed all cases. Cases where a change was readily identifiable were targeted for investigation and if they were no longer eligible they were removed. This has meant that 1,663 applications have been removed from the waiting list. In the process of this exercise the CFIT has also identified 26 cases where the household has been incorrectly claiming Single Person Discount for Council Tax which totals £13k. This review project will be ongoing in 2015/16 to carry out enhanced checks on the remaining cases on the waiting list. Currently there are 2,519 applications on the housing waiting list; this includes new people added to the list since the project began.

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3.8 Enhanced Recruitment Verification

HR have presented a report which was approved by the Corporate Management Team in December 2015. A pilot project will commence in April 2016, the CFIT will 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.

3.9 Blue Badge

In July we carried out an exercise with the Police to check the correct use of Blue Badges in Hayes Town Centre. Two cases were identified where the Blue Badge was being used by someone other than the Blue Badge Holder. Both of these cases have been prosecuted. One was a case of a mother misusing a badge which had been issued for her son. Her son was at school at the time she was using the badge. She was ordered to pay £300 in total for this offense. The other case concerned a son using his mothers badge and was ordered to pay £996 in total. These cases will be publicised in Hillingdon People. These prosecutions were a result of good collaborative work with the police.

On the day of the checks Residents thanked Officers for undertaking this exercise which they thought should be repeated. Further exercises are planned throughout the year.

3.10 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 was developed with the Police to establish methods to detect and investigate procurement fraud effectively to maximise results.

To date we have matched all our Procurement Supplier information with the Police suspicious activity reports, often referred to as SARs. This data holds records on people and companies where there would appear to be some suspicion on their creditability. This data match did not identify any cases that need to be investigated.

3.11 Mobile working

Mobile technology has been introduced to support CFIT operations. Under the new system verification visit requests are sent directly to CFIT Housing Inspection Officer's mailbox which they access through laptops. Information obtained during the visit is completed directly onto Hillingdon's operating system ensuring that information used by housing staff is accurate and up to date. The CFIT Housing Inspection Officers work across a 24/7 schedule and so accessing new visit requests whilst they are out in the field increases productivity with improved response rates. This produces cost efficiency in their time and reduces mileage costs by removing the need to return to the civic centre to collect work and update records.

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3.12 Council Tax reduction scheme (CTR)

The CFIT is currently reviewing CTR claims against the national fraud initiative data matches. All cases where anomalies are identified will be investigated and appropriate action taken. Results from this exercise will be reported in future CFIT performance reports.

3.13 Trading Standards

Following a BID review the responsibility for Trading Standards has been transferred to the CFIT from November 2015. This will enhance the opportunities for joint working and achieve efficiency of skills and resources.

In order to raise awareness of the work of the Trading Standards Team article is scheduled to appear in the March/April edition of Hillingdon People. This will inform residents the effectiveness of the Trading Standards Team and the specific areas they cover. It is anticipated that this article will promote the reporting of suspected breaches of Trading Standards legislation.

4. CFIT Work Plan for 2016/17

The work of the CFIT has consistently achieved successful results in 2015/16. Many of the currently projects will continue into the new financial year. These will carry on protecting the public purse through prevention and identification of fraud, increasing revenue for the Council and ensuring that resources are targeted to residents in most need.

Plans are already in place for the development of new projects during 2016/17 and other projects will be initiated as the year progresses and further opportunities for the prevention and detection of fraud arise.

The following Work Plan provides an indication of the planned work to date of the CFIT for 2016/17.

	What difference will this make
Housing	
Housing verifications	<ul style="list-style-type: none">• Allocation of housing to residents in genuine Housing need
Bed & breakfast checks	<ul style="list-style-type: none">• Ensure residents eligibility to the service
Temporary accommodation	<ul style="list-style-type: none">• Ensure residents eligibility to the service
Social Housing Fraud	<ul style="list-style-type: none">• Recovery of unlawful use of Council properties• Allocation of housing to residents in genuine housing need
Housing waiting list	<ul style="list-style-type: none">• Ensure residents eligibility to the service, reduction in waiting list
Housing applications	<ul style="list-style-type: none">• Ensure residents eligibility to the service• Allocation of housing to residents in genuine Housing need
Right to Buy	<ul style="list-style-type: none">• Ensure residents eligibility

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Council Tax Revenue	
Single Person Council Tax Discount	<ul style="list-style-type: none"> • Ensure residents eligibility to the discount • Increased revenue
Student Council Tax discount	<ul style="list-style-type: none"> • Ensure residents eligibility to the discount • Increased revenue
Council tax inspections	<ul style="list-style-type: none"> • Increased revenue
Business rates inspections	<ul style="list-style-type: none"> • Increased revenue
Targeted projects	
Blue Badge checks	<ul style="list-style-type: none"> • Reduction in misuse of scheme, increase parking availability to genuine badge holders
Enhanced recruitment verification	<ul style="list-style-type: none"> • Suitable qualified staff recruited • Protect Council reputation • Reduction in recruitment costs
Proceeds of Crime investigations	<ul style="list-style-type: none"> • Increase revenue • Prevents future abuse
Recovery of bad debts	<ul style="list-style-type: none"> • Increase revenue
Data matching	<ul style="list-style-type: none"> • Increase revenue • Ensure residents eligibility to services
Trading Standards investigations	<ul style="list-style-type: none"> • Reduction in abuse of legislation, eg selling of illegal tobacco or alcohol
Mobile working	<ul style="list-style-type: none"> • Improved efficiency, increased checks and investigation capacity
Cross departmental working	<ul style="list-style-type: none"> • Ensure residents eligibility • Increase revenue • Appropriate use of Council funds

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PART I – MEMBERS, PUBLIC & PRESS

Business Assurance - Draft Internal Audit Plan 2016/17

Contact Officer: Muir Laurie
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REASON FOR ITEM

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

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

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to consider the draft IA Plan for 2016/17 and, subject to any further minor amendments, approve it.

INFORMATION

The outcomes from the work proposed in the 2016/17 IA Plan underpin the Head of Business Assurance's statutory annual IA opinion statement. This opinion concludes on the overall adequacy and effectiveness of the Council's internal control, risk management and corporate governance arrangements. It also supports the Council's Annual Governance Statement which forms part of the statutory financial statements.

In 2016/17, the Business Assurance service at Hillingdon will continue to apply a fully risk-based approach to its IA coverage. This means that Business Assurance gives greater assurance to the Council because its IA coverage is closer aligned to the key risks to the achievement of the Council's objectives. As a result, Business Assurance will not just be commenting on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.

In order to deliver this assurance it is vital for the organisation to have a comprehensive IA Plan which gives sufficient risk-based coverage and support to management. To help meet this need, the risk-based IA Plan for 2016/17 has been linked to the organisational

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objectives and strategic priorities, whilst also taking account of the Council's wider assurance framework.

In preparing the draft 2016/17 IA Plan, we have carried out a risk assessment exercise which has involved consideration of risk registers, reviewing committee and HIP reports as well as reports from external inspectorates. Further, the IA Plan has been developed in accordance with the IA Charter and the IA Strategy. We have also consulted with External Audit and all senior managers in addition to considering legislative updates, as well as exercising our own professional judgement.

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

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

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

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BUSINESS ASSURANCE

Draft Internal Audit Plan 2016/17

4th March 2016

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Contents

1. Introduction

1.1 The Role of Business Assurance

- 1.1.1 The Business Assurance team 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 Internal Audit (IA) of its accounting records and of its system of internal controls in accordance with the proper practices.
- 1.1.2 Business Assurance gives an objective IA opinion to the Council on whether the control environment, corporate governance arrangements and risk management framework are operating effectively. In 2016/17 the Business Assurance service at Hillingdon will continue to apply a fully risk-based approach to its IA coverage (**on a quarterly basis**). This means that Business Assurance gives greater assurance to the Council because it is based on the key risks to the organisation's objectives. As a result, we will not just be commenting on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.

1.2 The Purpose of the Internal Audit Plan

- 1.2.1 The IA Plan is a crucial component of the annual assurance opinion statement provided by the Head of Business Assurance, as the Council's Head of Internal Audit (HIA), to those charged with governance. In order to deliver this assurance it is vital for the organisation to have a comprehensive IA Plan which gives sufficient risk-based coverage and support to management. Hillingdon, in common with all other councils, faces a number of challenges including increased demand for services in a number of key areas. The test for Hillingdon Council is therefore to continue to try to balance the needs of our most vulnerable communities with the continually decreasing financial resources.
- 1.2.2 To help meet this need, the risk-based IA Plan for 2016/17 has been linked to the organisational objectives and strategic priorities, whilst also taking account of the Council's wider assurance framework. In addition, the IA Plan for 2016/17 has been developed in accordance with the recently updated IA Charter and the five year IA Strategy.

2. The Internal Audit Planning Process

2.1 Skills and Resources

- 2.1.1 In line with the Public Sector IA Standards (PSIAS), the HIA is professionally qualified and suitably experienced. As part of a recent service review by the HIA, one f.t.e. senior IA post has been deleted to help the Council achieve its savings targets and to reflect the changing IA skills mix requirements of the Council. The skills mix within the rest of the in-house Business Assurance team has continued to evolve over the last 12 months, with **every IA member of the Business Assurance service now professionally qualified or actively studying for a relevant professional qualification**. In addition, two members of Business Assurance staff recently became Certified Information Systems Auditor (CISA) qualified.

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Whilst both these staff need to increase their practical experience in this specialist audit area, moving forward this will reduce our dependency on partnerships with external providers for support in this specific area.

- 2.1.2 Demand for IA assurance and consulting services usually exceeds available IA resources at local authorities. This means choices have to be made that will determine the impact IA has upon the organisation and the way key stakeholders perceive the value of IA. The starting point in the IA planning process at Hillingdon is therefore to **determine the total available IA staff resources**.
- 2.1.3 After deducting an appropriate amount of allocated time for IA planning, reporting, management review, staff training and other IA overhead time, the calculated **total available IA chargeable time for 2016/17** at Hillingdon is **1,150 IA Days**. This represents a further 150 day reduction on the 2015/16 IA Plan as a result of the recent IA staff restructure following the Schools Forum funding decision which resulted in a reduction of IA focus within Schools to that of a statutory minimum (refer to paras 2.1.1 and 3.8). Overall available IA resources fulfil the PSIAS requirements in terms of the combination of professionally qualified and experienced staff. As a result, there are currently sufficient IA resources available to meet the skills and resource requirements needed to deliver the 2016/17 risk-based IA Plan.

2.2 Planning Sources

- 2.2.1 Although the IA Plan for the year is determined by the number of days available, the primary purpose of the IA Plan is ensuring that the key risks facing the Council are given sufficient IA attention. Therefore the next step in developing the risk-based annual IA Plan has been to make reference to a variety of planning sources (as per the flowchart of the IA Process attached at **Appendix A**) including:
- **Team Plans** – We carried out a review of team plans where these could be traced, to help us confirm the strategic objectives of each service area;
 - **Corporate Risk Register** – We reviewed the Council's corporate risk register to establish those charged with governance's view of the most significant risks facing the Council;
 - **Group & Service Risk Registers** – We conducted a review of Group and Service risk registers (where they were in place), to help identify the key risks facing each service;
 - **Senior Management** – We have met or spoken with all senior managers across the Council including members of Corporate Management Team (CMT), to develop our knowledge of the risks and challenges facing their services;
 - **Key Documents** – We have carried out a desktop review of key Council documents including minutes and reports of Cabinet and various committee meetings, as well as recent Business Improvement Delivery (BID) and Hillingdon Improvement Programme (HIP) reports, in addition to the draft budget papers for 2016/17;
 - **Audit Committee** – We have invited comments from all members of the Audit Committee; the draft IA plan will be presented to the Audit Committee at its meeting on 15th March 2016 and will be subsequently updated to reflect any further comments and observations the Audit Committee members may have, before being formally finalised and circulated to all key stakeholders by 31st March 2016;
 - **Members** – We have consulted with the Leader of the Council to seek his views on the key risks facing the Council; we have invited comments from all Cabinet Members, in addition to providing training at the Member development day;
 - **External Audit** – We have liaised with Ernst and Young (EY) to discuss any matters of concern and to identify those areas where they are likely to consider IA work to inform their own risk assessment;

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- **External Inspections** – We have given consideration to any relevant external inspection or peer review reports; and
- **IA Cumulative Knowledge** – We also make reference to the cumulative knowledge of the Business Assurance service of known control weaknesses and risks facing the Council, including the wider strategic issues emerging elsewhere in local government.

2.3 Risk Assessment

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

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

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

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

3. The 2016/17 Internal Audit Plan

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- 3.1 The results of the **overall risk assessment** process are then used to determine IA priorities and produce the allocation of IA resources. Both the HIP and BID processes help the Council deal with the budget pressures and increasing demand for its services. However, this transformational work results in a fast changing control environment and we have therefore introduced a revised method to IA planning during 2015/16. This approach provides a **high-level estimation** of where we expect to utilise our resources over the coming year, with detailed operational IA Plans being produced and agreed by CMT and Audit Committee on a **quarterly basis**. During 2015/16 this revised approach has helped to ensure that IA resources were directed in a more flexible and targeted manner to maximise the benefit to our stakeholders. We will therefore continue to use this approach during 2016/17.
- 3.2 Attached at **Appendix B** is a pie chart which provides the IA Plan high-level estimation by audit type for 2016/17. We believe this allocation provides the best value to our key stakeholders, using a risk-based approach to internal control, risk management and corporate governance.
- 3.3 The relevant senior managers will be consulted with regards to the individual reviews that make up each of the high-level categories. Actual time spent on each category will be detailed in the quarterly IA progress reports.
- 3.4 The definitions of types of IA work and allocation (as detailed in the high-level IA Plan at **Appendix B**) are as follows:

Type of IA Work	Definition	% of IA Plan	IA Plan Allocation
Assurance	Work which provides comfort to CMT and the Audit Committee that risks to the achievement of objectives (including transformation projects) are being effectively mitigated and arrangements are operating as expected.	50%	575 Days
Consultancy & Advice	Work where the primary purpose is to advise and support management to improve systems and processes, mitigate risk and enable the achievement of objectives.	22%	253 Days
Core Financial Systems	Assurance coverage of the core financial processes that have a material impact on the financial position of the Council.	10%	115 Days
RBIA - CRR	<u>Risk-based IA</u> (RBIA) reviews that provide assurance on the Council's strategic risks identified in the <u>Corporate Risk Register</u> (CRR).	7%	81 Days
Grant Claims	Grant work on behalf of the Council including the Housing Subsidy and Troubled Families claims.	6%	69 Days
Follow Up	Activity which ascertains the implementation of agreed management actions.	3%	34 Days
Facilitation	Activity which supports CMT in their management of risk and the production of the Annual Governance Statement.	2%	23 Days
		100%	1,150 Days

- 3.5 However, as stated earlier, IA will **carry out a quarterly planning cycle** behind the high-level plan to ensure that we have the flexibility to respond to the dynamic environment in which the Council operates. As a result, formal updates of the IA Plan will be reported to CMT and the Audit Committee as part of the quarterly progress reports. This ensures that the risk-based IA approach is a continuous process in line with the PSIAS. This will also make sure that the IA Plan will be subject to quarterly review to ensure it remains aligned with the Council's objectives and the risks identified by management.
- 3.6 CMT and the Audit Committee should also note that **there are a significant number of audit areas identified in the audit universe which fall below the risk threshold**. These areas are therefore unlikely to form part of the detailed operational IA Plans produced each quarter, unless specifically requested by management.
- 3.7 Appended to the Quarter 4 Progress report, presented to the Audit Committee, is the detailed operational IA plan for **Quarter 1** as agreed with the relevant senior managers. The detailed IA Plan has a number **key features** including:
- **ICT Audit** – The IA Plan makes provision for specialised computer audit work to be undertaken by our external contractor with some support provided by the in-house team. The scope of this assurance work will be to assess and report upon the adequacy of the key ICT controls present within major Council systems.
 - **Projects** – Many local authorities have projects which struggle to deliver the benefits that are expected of them, often having major knock on effects with other projects and sometimes even conflicting with other projects. We can provide quality assurance on projects through the entire life cycle of change, from project identification through to final delivery.
 - **Contracts** – With the increasing number of contracts in operation across the Council, there will be an increased focus by IA on contract related 'assurance' audits. This will include reviews of the procurement process, as well as contract management arrangements for the significant / high value contracts.
 - **Consultancy** – In line with the PSIAS, IA coverage will include a range of consultancy work. The table at para 3.4 and chart at **Appendix B** highlights that 253 days has been allocated for IA consultancy which includes advice, training, facilitation or conducting specific consultancy reviews. Through participation in corporate project groups we will also provide insightful, independent and informed advice in order to reduce the risk of project failure.
 - **Anti-Fraud and Anti-Corruption** – Whilst the Corporate Fraud Investigation Team (CFIT) is the lead assurance provider for the Council on fraud and corruption, IA has a responsibility to give regard to the possibility of fraud and corruption as part of its coverage. As a consequence IA will review the Council's anti-fraud and anti-corruption key controls as part of its 'assurance' coverage whilst also continuing to work closely with the CFIT.
 - **Value for Money** – As part of our 'assurance' coverage, IA will conduct Value for Money (VfM) reviews on specific areas of expenditure and seek to reach a judgement on whether good VfM has been achieved by the Council. Good VfM is defined as the optimal use of resources to achieve the intended outcomes (i.e. economy, efficiency and effectiveness). Our role is not to question the Council's policy objectives, but to provide independent and rigorous analysis to CMT and to the Audit Committee on the way in which public money has been spent to achieve policy objectives. As well as reaching an overall conclusion on VfM, where applicable we will make recommendations on how to achieve better VfM and to improve the services under examination.

- **Core Financial Systems** – The table at para 3.4 and chart at **Appendix B** highlights that 115 days have been allocated for coverage of the core financial systems. This represents a significant reduction of the previous year's coverage (130 days in 2015/16 and 300 days in 2014/15 - see bar chart at **Appendix B**), which reflects the substantial assurance we can take from the results of our previous testing in this area.
- **Contingency** – An allocation for unprogrammed work will be included in each quarterly operational IA Plan. This will be used to respond to urgent requests for unplanned IA work. Where requests for work are not urgent, they will form part of the following quarter's operational IA Plan.

3.8 CMT and the Audit Committee should be aware that on 22nd October 2015, Schools Forum took a funding decision regarding the future of IA coverage of schools. Their decision has resulted in **IA coverage of schools being reduced to the statutory minimum** for the 2016/17 period onwards.

4. Internal Audit Reporting

- 4.1 Business Assurance reports the findings of its IA work in detail to key officers at the conclusion of each piece of its work. However, Corporate Directors would be immediately informed of any significant internal control weaknesses identified by Business Assurance.
- 4.2 With the exception of consultancy reviews (including grant claim audits), all IA reports issued by Business Assurance include an assurance rating based on the **IA Assurance Levels and Definitions** included at **Appendix C**.
- 4.3 A quarterly IA progress report is submitted to CMT and the Audit Committee, summarising IA performance and work carried out in the period. These reports provide an update on the progress made against the delivery of the IA Plan and provide details of IA work completed to date, the assurance opinions given and the number and type of recommendations made. These quarterly progress reports also include the detailed operational IA Plan for the following quarter, allowing the IA Plan to be more flexible and responsive to the dynamic level of change throughout the organisation.
- 4.4 In addition, an annual IA report is presented to CMT and the Audit Committee, providing the statutory HIA opinion statement on the Council's internal control, risk management and corporate governance arrangements. The individual assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations will have a bearing too. The annual IA report contributes to the assurances underpinning the Council's Annual Governance Statement.

5. The Internal Audit Follow Up Process

- 5.1 Business Assurance evaluates the Council's progress in implementing management agreed IA recommendations against set targets, although detailed follow up work will not be carried out by us for any **LOW** risk recommendations. The full definitions of all the **IA Risk Ratings** are included at **Appendix C**. If progress is unsatisfactory or management fail to provide a reasonable response to our follow up requests, we will implement the escalation procedure agreed with CMT, as clearly set out in our Management Protocol.
- 5.2 Linked to this, it is important that all key stakeholders are clear on our role; we do not tell management what to do; we identify internal control, risk management and corporate governance weaknesses along with notable practices for management's attention. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways (**the 4 T's**):

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- i) **Transfer** the risk i.e. insure against it;
 - ii) **Terminate** the risk i.e. stop carrying out the activity that creates the potential risk;
 - iii) **Treat** the risk i.e. take mitigating action to reduce the risk; and
 - iv) **Tolerate** the risk i.e. do nothing and accept that this risk could materialise.
- 5.3 Business Assurance support and advise managers in formulating a response to the risks identified. As an organisational improvement function, we will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Progress on the implementation of IA recommendations will continue to be formally reported to CMT and the Audit Committee on a quarterly basis.

6. Measuring Internal Audit Performance

6.1 The Public Sector Internal Audit Standards

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

6.2 Internal Audit Measures of Success

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

6.3 Reporting Internal Audit Performance

- 6.3.1 There are a wide range of Business Assurance stakeholders to satisfy, but the key stakeholders for the purposes of the IA progress reports are CMT and the Audit Committee. Further to this, attached at **Appendix D** are the agreed **IA KPIs** for use in 2016/17. We will continue to use the monitoring data maintained on our dedicated IA software system (TeamMate). A summary of actual IA performance against the targeted performance will continue to be reported to CMT and the Audit Committee as part of the quarterly IA progress reports. These results will allow all stakeholders to measure the performance and robustness of the IA service delivered by the Business Assurance team at Hillingdon.

6.4 Analysing Internal Audit Performance

- 6.4.1 All nine of the agreed IA KPIs (per **Appendix D**) need management co-operation to enable them to be achieved. In fact Business Assurance in isolation is unable to achieve any of these KPIs; they can influence the results but they cannot completely control them i.e. IA KPI 3 (**HIGH** risk IA recommendations where management action is taken within agreed timescale). Business Assurance influences this KPI by raising pragmatic recommendations and agreeing reasonable timescales with management, but ultimately the reliance is on management to strengthen the control environment in the agreed timeframe.
- 6.4.2 It is therefore important that interpretation of the IA KPIs is not taken in isolation, as other factors should be taken into account i.e. the increased risk focused IA approach being applied to the IA Plan in 2016/17 will potentially result in a greater number of **HIGH** risk recommendations and a greater number of **LIMITED** assurance reports. The IA KPI targets are ambitious, but they are achievable and realistic for a high performing Business Assurance service, which is what we strive to be at Hillingdon. In terms of KPI 8 (Client

9.

Audit Committee 15 March 2016

Satisfaction Rating), this is based on an average score of 3.4 out of 4.0 from the IA Client Feedback Questionnaires completed by management. KPI 9 (IA reviews compliant with the PSIAS and IIA Code of Ethics) is an internal quality check completed, as part of an annual independent audit of the service, to verify that all our IA work meets the required standards.

6.5 Individual Business Assurance Staff Performance

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

7. Acknowledgement

- 7.1 The draft IA Plan was formally considered by CMT at its meeting on 2nd March and is due to be presented to the Audit Committee at its meeting on 15th March. It will then be finalised by 31st March 2016 and be circulated to all key stakeholders including all senior managers across the Council.
- 7.2 Business Assurance would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the Council's management as part of the risk-based planning process.

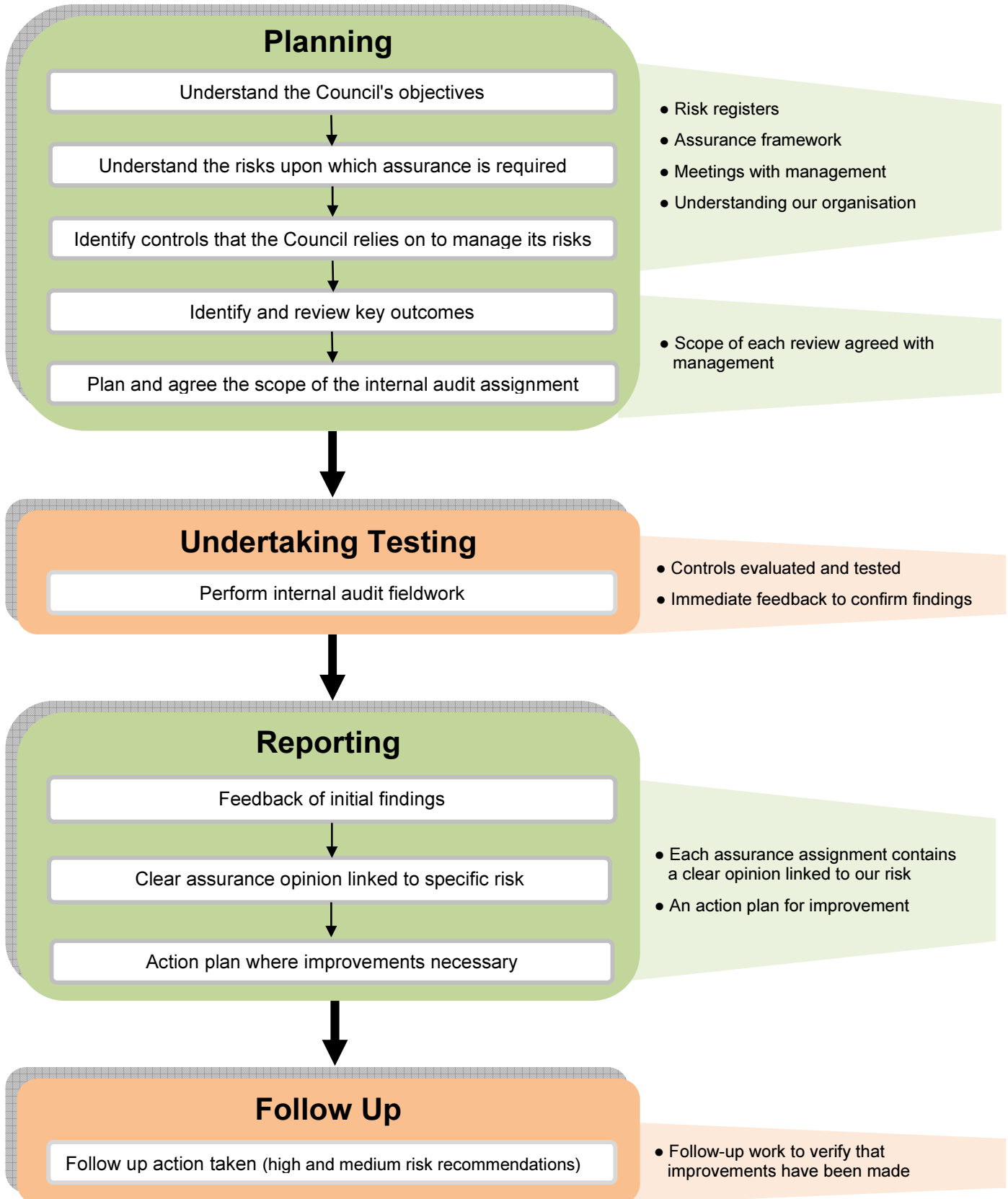
Muir Laurie ACCA CMIIA
Head of Business Assurance

4th March 2016

APPENDIX A

THE INTERNAL AUDIT PROCESS

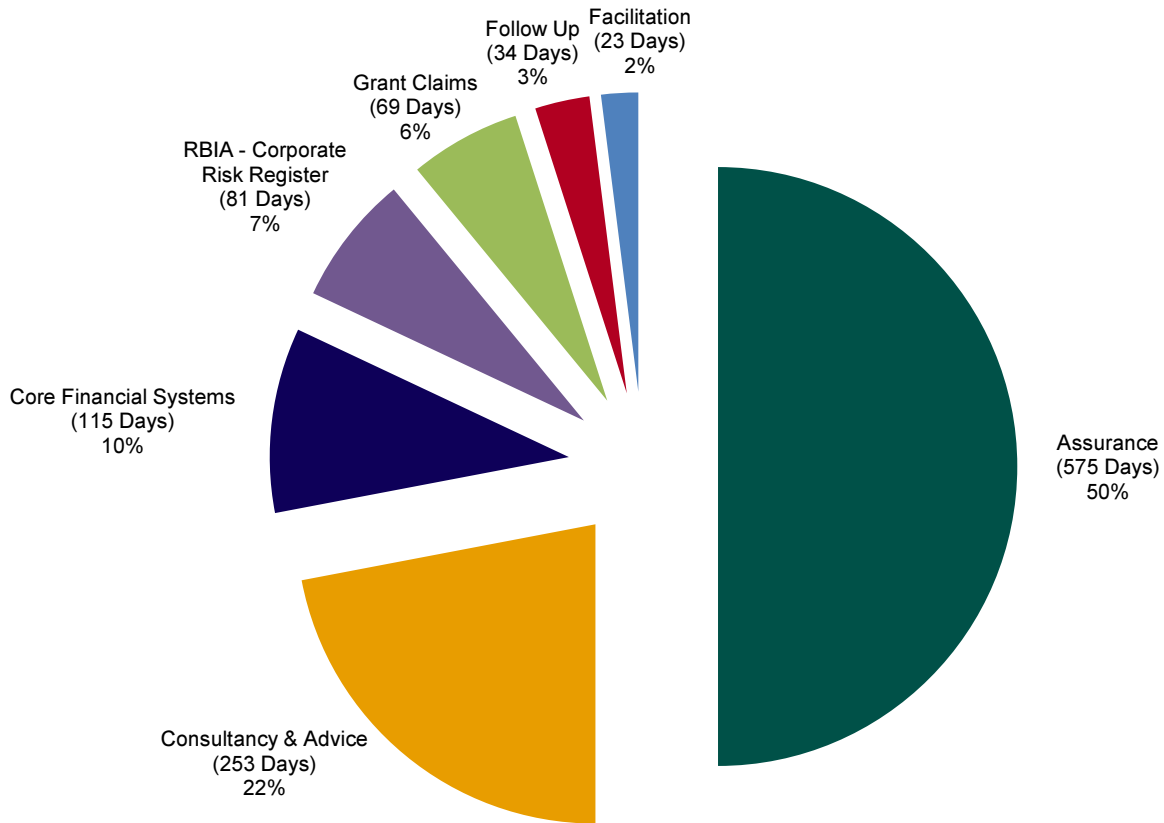
As per para 2.2.1, once total IA available IA resources have been determined, the overall IA process is summarised below:



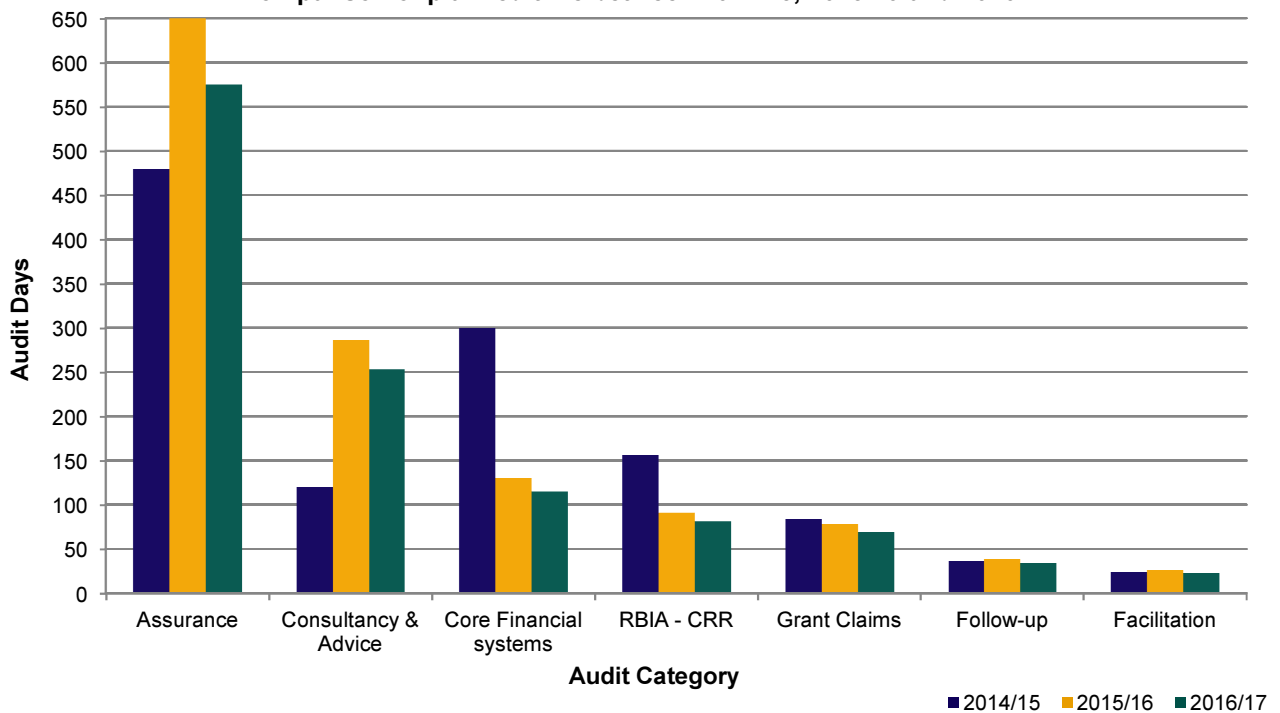
APPENDIX B

THE 2016/17 ANNUAL INTERNAL AUDIT PLAN ~ ESTIMATED ALLOCATION BY AUDIT TYPE

As per the **definitions at para 3.4**, the annual IA Plan estimated allocation by audit type is as follows:



Comparison of planned time between 2014/15, 2015/16 and 2016/17



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

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





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

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

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

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

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

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

INTERNAL AUDIT KEY PERFORMANCE INDICATORS 2016/17

The Key Performance Indicators (KPIs) for IA quarterly reporting to CMT and the Audit Committee in 2016/17 are set out below:

KPI Ref.	Performance Measure	Target Performance 2016/17
KPI 1	HIGH risk IA recommendations where positive management action is proposed	98%
KPI 2	MEDIUM risk IA recommendations where positive management action is proposed	95%
KPI 3	HIGH risk IA recommendations where management action is taken within agreed timescale	90%
KPI 4	MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%
KPI 5	Percentage of IA Plan delivered to draft report stage by 31 March	90%
KPI 6	Percentage of IA Plan delivered to final report stage by 31 March	80%
KPI 7	Percentage of draft reports issued as a final report within 15 working days	80%
KPI 8	Client Satisfaction Rating (from completed CFQs)	85%
KPI 9	IA work fully compliant with the PSIAS and IIA Code of Ethics	100%

All IA KPIs Target Performance for 2016/17 are the same as 2015/16.

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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Business Assurance - IA Progress Report for 2015/16 Quarter 4 (including the 2016/17 Quarter 1 IA Plan)

Contact Officer: Muir Laurie
Telephone: 01895 556132

REASON FOR ITEM

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in relation to the 2015/16 Quarter 4 period and assurance in this respect. It also provides an opportunity for the Head of Business Assurance to highlight to the Audit Committee any significant issues that have arisen which they need to be aware of.

Further, the report enables the Audit Committee to hold the Head of Business Assurance to account on delivery of the 2015/16 Quarter 4 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 Audit Committee with the 2016/17 Quarter 1 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 1st April to 30th June 2016 period.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the IA Progress Report for 2015/16 Quarter 4 and consider the 2016/17 Quarter 1 IA Plan and subject to any further minor amendments, approve it.

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

INFORMATION

Business Assurance 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 1st 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.

Audit Committee 15 March 2016

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

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

BUSINESS ASSURANCE

Internal Audit Progress Report to Audit Committee for 2015/16 Quarter 4 (including the 2016/17 Quarter 1 Internal Audit Plan)

4th March 2016



Contents

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1. Introduction

1.1 The Role of Business Assurance

- 1.1.1 Business Assurance 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 that the Council undertakes an adequate and effective Internal Audit (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 sets out basic principles for carrying out IA within the public sector. The PSIAS help 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

- 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 4th December 2015 to 4th March 2016. In addition, it provides an opportunity for the Head of Business Assurance to highlight any significant issues arising from IA work in Quarter 4. It also highlights to CMT, the Audit Committee and other Business Assurance stakeholders the revisions to the Quarter 4 IA plan since its approval in December 2015 (refer to **Appendix B**).
- 1.2.2 A key feature of the Quarter 4 IA progress report is the inclusion of the Quarter 1 IA plan for 2016/17 (refer to **Appendix C**). This has been produced in consultation with senior managers over the last two months and sets out the planned programme of IA coverage due to commence in the 1st April to 30th June 2016 period.

2. Executive Summary

- 2.1 Since the last IA Progress Report on 4th December 2015, **7 assurance reviews** have concluded, **4 consultancy reviews** have been finalised and **2 grant claims** have been certified. We are therefore nearing completion of the programme of IA work for 2015/16.
- 2.2 Our work on the 2015/16 Quarter 4 IA plan commenced on 1st January and work is now well underway on all Quarter 4 planned work including **3** additional requests for work (refer to **Appendix B**). Good progress has been made on the IA plan this quarter despite IA capacity during this period having been significantly reduced. The reduction in IA resource coupled with an increased request for IA advice has made Quarter 4 a very challenging period for the service as we strive to achieve our targets and deliver the 2015/16 IA plan.
- 2.3 Nevertheless, key assurance reviews finalised this quarter have included **Records Management & Document Retention, Officer's Scheme of Delegations, Housing Repairs and Housing Needs - Allocations & Assessments**. Four of the 7 assurance audits finalised in this quarter received a **LIMITED** assurance opinion over the management of the key risks. These results are in line with our expectations and risk-based approach. Specifically, IA resources have been targeted on the areas of the highest risk as part of a reduced IA assurance programme. Positive action has been proposed by management to address all of the **HIGH** and **MEDIUM** risk recommendations raised within each respective review and these recommendations will be followed-up by us in due course.
- 2.4 We continue to undertake a variety of advisory work across the Council and the feedback we have received is that this work is highly valued. The work on financial controls in Children & Young People's Service is ongoing and has remained a significant piece of work for us this quarter, including the **Looked After Children Savings** review.

- 2.5 Further consultancy work within the quarter has been provided to the Home to School Transport team, in addition to assisting the Council's Counter Fraud and Investigation Team on the National Fraud Initiative data matching exercise. Further details of all IA work carried out in this period are included section 3 of this report.

3. Analysis of Internal Audit Activity in 2015/16 Quarter 4

3.1 Assurance Work in Quarter 4

- 3.1.1 All IA assurance reviews carried out in the financial year to date are individually listed at **Appendix A**. This list details the assurance levels achieved (in accordance with the assurance level definitions outlined at **Appendix D**) and provides an analysis of recommendations made (in accordance with the recommendation risk categories outlined at **Appendix D**). During this quarter 7 2015/16 IA assurance reviews have been completed to final report stage, with 6 others progressed to draft report stage and the remaining reviews at planning or testing stage (refer to **Appendix A** for details).
- 3.1.2 Our assurance reviews finalised this quarter have included Officer's Scheme of Delegation, Records Management & Document Retention, Housing Repairs and Housing Needs - Allocations & Assessments. For **Officers Scheme of Delegation** we raised 2 **HIGH** and 2 **MEDIUM** risk recommendations. Our testing identified control weaknesses concerning the awareness and recording of Officer potential conflict of interests. Management has proposed to treat all the **HIGH** and **MEDIUM** risk recommendations raised.
- 3.1.3 Our assurance review of **Records Management & Document Retention** raised 1 **HIGH**, 4 **MEDIUM** and 2 **LOW** risk recommendations. Although records management at the Council is supported by a policy, from the results of our testing we concluded that there was a lack of ownership corporately and no co-ordinated approach in this area.
- 3.1.4 The Council has a contract in place with an external storage provider, who is tasked with the external storage, retention and destruction of Council records. It is evident that this contract is not being managed by the Council with over 1,000 boxes of unidentified records held. A further 300 boxes have passed their marked retention period and have been awaiting permission to destroy for a prolonged period. In addition, we found that internal document storage at the Council is poor, with unlocked rooms full of documents with minimal officer oversight. The lack of records management means that records are often retained longer than necessary, increasing the likelihood of data protection breaches. There is also a considerable variation in how different services manage their document retention arrangements.
- 3.1.5 For **Housing Repairs** we raised 4 **HIGH**, 6 **MEDIUM** and 1 **LOW** risk recommendation. The Housing Repairs function has been through a period of significant change since being brought back in-house in 2010, having previously been run by an arm's length management organisation. It is worth noting that this assurance review is on the back of a transformation review. As a consequence, during the period where the Service is busy restructuring, the key points in this IA review have been captured by the Service as part of a 70 point action plan which is actively being monitored by the Deputy Director Development, Assets and Procurement.
- 3.1.6 During our review we found that this period of change has resulted in some inefficient and inconsistent processes arising, in addition to out of date documentation including the tenants' handbook. Further, day to day repairs as well as void recharges were being processed in an inconsistent manner which has arisen due to poor communication between the two departments and systems concerned. The underlying cause for this was the three computer systems involved in the booking process and the varying knowledge in their functionality. This resulted in some non recovery of recharges in 8 of the 9 works sampled. Following our audit, and as part of the ongoing improvements to the service, Management have identified all recharges and are in the process of taking this matter forward.

- 3.1.7 Through an analytical review of the Service's workload, we established that the department currently has a backlog of repair jobs and are unable to fully meet demand for current repair work or clear the backlog. These issues are being actively progressed by Management.
- 3.1.8 For **Housing Needs - Allocations & Assessments** we raised **3 HIGH**, **7 MEDIUM** and **2 LOW** risk recommendations. We are aware that the service is currently in the process of a restructure and the team have been operating at a reduced staffing capacity, which has significantly affected performance and the internal control framework. The lack of governance, during a period of reorganisation and transformation, has led to inconsistent operations as a result of insufficient succession planning, and a limited staff induction process.
- 3.1.9 During our testing we found there were many inconsistencies in relation to the recording of evidence and assessment of applications. Several applicants were missing vital documentation to support their applications which, due to a lack of quality control throughout the assessment process, increases the likelihood of ineligible applicants joining the Locata Register or receiving some form of housing support from the Council.
- 3.1.10 In addition, employee 1 to 1 meetings and PADA's are not embedded within the service and have therefore not occurred. Such review methods form the basic foundations to evaluate, monitor and address employee and service performance concerns. We are pleased to report that service performance dashboards are created each week and communicated with management. At the time of our testing, there were no specific key performance targets in place to help measure and monitor performance and their absence limited the performance measurability and targeted improvement of the service. However, management are now aware of these issues and are actively taking each IA recommendation forward, with positive action proposed.
- 3.1.11 Other assurance reviews finalised this quarter included **Child Sexual Exploitation, Section 117 of the Mental Health Act 1983 - Aftercare and accommodation**, and a **follow-up review of Children's Centres**. Each of these three IA assurance reviews received **REASONABLE** assurance, as detailed at **Appendix A**.

3.2 Consultancy Work in Quarter 4

- 3.2.1 Business Assurance continues to undertake a variety of IA consultancy work across the Council. The consultancy coverage includes our 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 our knowledge of corporate developments that feed into the risk based deployment of IA resource on assurance work.
- 3.2.2 Also, participation in working and project groups continues to help individual Business Assurance staff develop, whilst at the same time increasing the value Business Assurance 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.
- 3.2.3 Attached at **Appendix A** is a list of all consultancy work carried out in 2015/16 to date. Following the Quarter 3 progress update to the Audit Committee on 15th December 2015, **5** further consultancy reviews have been completed and **4** other consultancy reviews are currently in progress.
- 3.2.4 A significant piece of consultancy work within the quarter comprised of the finalisation of the Looked After Children (LAC) Savings review. This forms part of the ongoing consultancy work in relation to Children and Young People's Services (CYPS) financial control operations. Our review established that there was a lack of robust controls over LAC savings causing a mixed approach which is leading to a situation whereby it is impossible to monitor if LAC are receiving the money earmarked for their savings.

- 3.2.5 This appears to be a particular internal control weakness when LAC move placements as it cannot be verified if this money is passed on. The Council will need to review its approach in this area in order to ensure better oversight and will also need to consider its wider role and approach to the financial education of LAC.
- 3.2.6 Business Assurance received a request by the Corporate Director of Social Care following concerns raised by the Council's Home to School Transport Team regarding the vetting, training and performance of agency Passenger Assistants. Towards the latter end of Quarter 3, Business Assurance undertook compliance checks on the agency Passenger Assistants, in cooperation with the Contractor, to ensure sufficient background checks and safeguarding training and reporting procedures were being undertaken in accordance with contractual requirements.
- 3.2.7 Whilst we found that contractor HR files were generally complete and in line with the conditions of the contract, we highlighted that the English assessments undertaken were far too basic to ensure sufficient communication skills. Due to concerns highlighted to IA regarding staff not having DBS and training prior to commencing work, we added a series of assurance audits within the Quarter 4 IA plan to look at these areas in more depth. The three resulting assurance reviews are currently at various stages in the audit process but each is planned for completion by the end of the current financial year.
- 3.2.8 Other consultancy reviews finalised include providing support to the Council's Counter Fraud and Investigation Team on the **National Fraud Initiative** data matching exercise. In addition, in preparation for a Local Authority Arrangements for Supporting School Improvement (LAASSI) inspection, we were asked by the Head of Business Performance, Policy & Standards (Education, Housing & Public Health) to review the Council's **LAASSI Self Evaluation Framework (SEF) 2015**. We have also been leading on two internal disciplinary investigations during this quarter.
- 3.2.9 There remains an increasing trend of management coming to us to request advice and support. We see this as an indicator of success for the Council that we can work with management collaboratively to help the organisation improve.

3.3 Grant Claim Verification Work in Quarter 4

- 3.3.1 During this quarter IA has also assisted the Council in certifying two grant claims. As detailed at **Appendix A**, IA continues to carry out verification work on the **Troubled Families Grant**. Phase 2 was introduced in quarter 2 and quarter 3 certification involved checking 7 families (100% sample) identified as 'turned around' against the expanded criteria for Phase 2.
- 3.3.2 The **Flood Support Scheme Repair and Renew Grant** was established to help homeowners and businesses recover from flooding due to adverse weather between 1st April 2013 and 31st March 2014. This grant provides eligible applicants up to £5k to implement flood resistance and resilience measures so as to minimise the impact of any future floods. During the quarter IA completed testing to confirm compliance with the conditions of the grant.
- 3.3.3 There has been no other grant claim verification work carried out by us in Quarter 4, nor is there any further IA grant claim work planned for the remainder of the 2015/16 audit year.

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

- 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, in part by using the IA software module 'TeamCentral'. We also escalate outstanding recommendations to Corporate Directors where it is necessary to do so.

- 3.4.2 For the year **2014/15** (excluding Schools) there was **19 HIGH** and **70 MEDIUM** risk recommendations raised by IA. **72** of these recommendations have reached their target date, of which **70** have been confirmed by management as implemented, leaving only **2 MEDIUM** risk recommendation currently outstanding (work is actively ongoing by management to address these risks). For the year **2015/16** so far (excluding Schools), there have been **12 HIGH** and **82 MEDIUM** risk recommendations raised by IA with one **MEDIUM** risk recommendation tolerated by management. A total of **32** of these recommendations, **1 HIGH** and **31 MEDIUM**, have reached their target date, each of which being confirmed by management as implemented.
- 3.4.3 Overall this is a very positive achievement by the Council in relation to managing these risks, whilst the results of our follow-up work demonstrate a very positive outcome for the Council regarding the management action taken in response to IA recommendations raised. Business Assurance continues to work collaboratively with management to improve the timely implementation of action to mitigate **HIGH** and **MEDIUM** risks.

3.5 Other Internal Audit Work in Quarter 4

- 3.5.1 In early 2015/16 we introduced a **quarterly approach to our risk based IA planning**. As a result, as well as providing a high-level estimation of where we expect to utilise our resources over the year, **the detailed operational IA plans are produced quarterly in liaison with management**. Over the last month or so we have produced the detailed operational IA plan for Quarter 1 of 2016/17 (refer to **Appendix C**) in consultation with management. The quarterly planning cycle continues to help ensure that our IA resources are directed in a flexible and targeted manner to maximise the benefit to our stakeholders.
- 3.5.2 Our Quality Assurance & Improvement Programme (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. During this quarter, the QAIP has been reviewed and updated, with improvement initiatives formally assigned to members of the Business Assurance team.
- 3.5.3 Following requests by the Corporate Director of Social Care and the Head of Business Improvement & HR, the IA team are providing support to assist with project work in these respective teams. This is proving valuable to the organisation with the Head of Business Assurance a member of the Council's Business Transformation Board (BTB) in addition to one of the Assistant IA Managers working on secondment with the CYPS senior management team. Further, this insight helps to ensure that our resource is targeted in the high risk/priority areas.
- 3.5.4 IIA Standard 1312-1 states that an IA service must undergo an external quality assessment (EQA) at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. In response to this requirement, most London authorities have signed up to a partnership arrangement whereby each HIA carries out an external review of another London authority. We are currently undertaking an EQA of London Borough of Hackney's IA service. These reviews are expected to take place over 5 days and will be conducted by each Council within existing IA resources. The EQA of Hillingdon IA service is scheduled for the 2016/17 financial year.
- 3.5.5 The results of the Business Assurance Quarter 4 work that is still in progress will be reported in the annual HIA report due to be presented to CMT and the Audit Committee in June 2016.

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

- 4.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and its stakeholders in helping measure how successful IA has been in achieving its strategic and operational objectives.

4.2 For the 2015/16 year, Business Assurance has reported quarterly to CMT and the Audit Committee on the 9 IA KPIs listed in the table below. We believe that the 2015/16 IA KPIs are meaningful and 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. Actual cumulative Business Assurance performance against the IA KPIs in the 1st April 2015 to 4th March 2016 period is highlighted in the table below:

KPI Ref.	Performance Measure	Target Performance	Actual Performance	RAG Status
KPI 1	HIGH risk IA recommendations where positive management action is proposed	98%	100%	GREEN
KPI 2	MEDIUM risk IA recommendations where positive management action is proposed	95%	99%	GREEN
KPI 3	HIGH risk IA recommendations where management action is taken within agreed timescale	90%	100%	GREEN
KPI 4	MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	85%	GREEN
KPI 5	Percentage of annual (Q1 to Q4) IA Plan delivered to draft report stage by 31 st March	90%	87%	AMBER
KPI 6	Percentage of annual (Q1 to Q4) IA Plan delivered to final report stage by 31 st March	80%	77%	AMBER
KPI 7	Percentage of draft reports issued as a final report within 15 working days	75%	61%	RED
KPI 8	Client Satisfaction Rating (from CFQs)	85%	85%	GREEN
KPI 9	IA work fully compliant with the UK PSIAS and IIA Code of Ethics	100%		

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.

- 4.3 IA KPIs 5 and 6 are not on track to be achieved as at 4th March 2016 due to a shortage of IA resource/capacity throughout the year. This is mainly as a result of a vacancy within the IA service as well as one other member of the IA team being on secondment to the CYPs Group. This is against a backdrop of IA receiving a significant number of requests for additional work during the year. Nevertheless, the backlog of audit reviews has been reduced within Quarter 4 and showing positive improvement. We hope to report further improvements against both of these KPIs within the Annual HIA report scheduled for June 2016.
- 4.4 Performance against KPI 8 is currently being reported as **RED**. We have seen an improvement in this indicator when compared to the previous quarter, although its status is due to seven instances where management responses to the draft reports have not been received within the set timescale. Whilst we facilitate this process, we are heavily reliant on timely management responses to achieve this indicator. On 5 of the 18 assurance reviews finalised to date we experienced significant delays in receiving management responses, each in excess of 25 working days (5 weeks).
- 4.5 Other than these five anomalies we are happy to report that the time taken to finalise final reports from draft stage is, on average, achieving the indicator at 15 working days. However, due to the continued poor performance against KPI 8 we are currently looking at ways to further enhance our existing reporting process. This should help speed up the time and effort spent on obtaining management responses, as part of the operational and strategic changes that continue to be implemented across the IA service.
- 4.6 We are currently exceeding several of our KPI targets including KPI 8 Client Satisfaction Rating. In particular, we continue to receive positive feedback in relation to a number of high risk, topical reviews.
- 4.7 KPI 9 refers to the IA process complying with the **PSIAS** and the **IIA Code of Ethics**. We have a duty to complete reviews within these statutory guidelines, which is encompassed in our IA and management review processes. We will report our progress against this KPI to the Audit Committee as part of our annual **Effectiveness of IA** review in June 2016.

5. Forward Look

- 5.1 There have been a number of staffing changes in the Business Assurance team during this quarter, including;
- Two of the Trainee Internal Auditors (TIAs) successfully attained their PIIA qualification and have both been subsequently been promoted to Internal Auditor;
 - An Assistant Internal Audit Manager (AIAM) left LBH in December 2015 due to relocation and following an internal promotion, a member of the IA team has been promoted into the AIAM vacancy, creating a vacant position at a more junior level;
 - As a result of the above vacancy, and following an external recruitment exercise, we have successfully recruited a new TIA into the team. This appointment also provides other members of the Business Assurance team with an opportunity to take on more responsibility, in line with the recently updated IA Strategy 2015-20; and
 - Due to the high calibre of an internal TIA candidate, we have offered that individual an internal secondment for a 3-month period. This will enable them to gain exposure to our work and to assist with their personal development, as well as increase available resource for delivery of the IA plan.
- 5.2 During the quarter the HIA (now Head of Business Assurance) has been promoted and taken on new areas of responsibility including Risk Management facilitation, Information Governance facilitation (including Chairing Hillingdon Information Assurance Group as the Council's Senior Information Risk Officer) and Business Continuity facilitation. These new responsibilities will help provide a more co-ordinated approach to managing risks at LBH.

- 5.3 Moving into 2016/17 financial year we plan to further enhance the utilisation of our TeamMate software. This includes plans to introduce a quarterly Group dashboard to each respective Senior Management Team meeting. This will align to our quarterly planning process and should provide further clarity on the work of Business Assurance throughout the year, as well as highlight any IA recommendations falling due or overdue.
- 5.4 Our Quality Assurance & Improvement Programme (QAIP) developed in accordance with the IA Charter is in the process of being reviewed and updated. The QAIP is designed to provide assurance that the work of IA continues to be fully compliant with the UK PSIAS and also helps enable the ongoing performance monitoring of IA activity. The progress of the QAIP is due to be highlighted in the HIA Annual IA Report & Opinion Statement, due to be presented to Audit Committee at its meeting in June 2016.
- 5.5 Business Assurance 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 4. 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 Business Assurance (& HIA)

4th March 2016

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

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 - Quarters 1, 2, 3 and 4:

IA Ref.	IA Review Area	Status as at 4 th March 2016	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
~ QUARTER 1 ~								
15-A6	Review of the Effectiveness of Internal Audit	Final report issued on 9 th June 2015	REASONABLE	0	3	6	0	N/A
15-A7	Review of the Effectiveness of the Audit Committee	Final report issued on 24 th June 2015	REASONABLE	0	2	3	0	Yes
15-A13	Music Service	Final report issued on 24 th June 2015	LIMITED	0	8	5	1	Yes
15-A2	Schools - Pupil Premium Funding <i>8 Schools visited: Cherry Lane Primary School, Field End Junior School, Frithwood Primary School, Highfield Primary School, Minet Infant School, St. Marys Catholic Primary School, Harlyn Primary School and Yeading Junior School.</i>	Final report issued on 26 th June 2015	REASONABLE	5	1	0	3	Yes
~ QUARTER 2 ~								
15-A4	Schools - Use of Supply Teachers <i>6 Schools visited: Abbotsfield School, Botwell House Catholic Primary School, Grange Park Junior School, Hillside Junior School, Rabbsfarm Primary School and Ruislip Gardens Primary School.</i>	Final report issued on 20 th July 2015	REASONABLE	3	0	5	3	Yes
15-CR1	Deprivation of Liberty Safeguards	Final report issued on 28 th July 2015	LIMITED	0	6	2	0	Yes

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Assurance Reviews - Quarters 1, 2, 3 and 4:**

IA Ref.	IA Review Area	Status as at 4 th March 2016	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
15-A24	DFG and Adaptations	Final report issued on 1 st Sep 2015	LIMITED	0	8	4	1	Yes
15-A5	Absence Management	Final report issued on 1 st Sep 2015	REASONABLE	0	3	4	0	Yes
15-A11	Imprest Accounts	Final report issued on 9 th Sep 2015	REASONABLE	0	1	3	1	Yes
15-A14	Purchasing Cards	Final report issued on 16 th Sep 2015	REASONABLE	0	3	4	0	Yes
~ QUARTER 3 ~								
15-A3a	Personalised Budgets (ASC & CYPS)	Final report issued on 6 th Nov 2015	REASONABLE	0	5	8	2	Yes
15-A12	Corporate Procurement & Commissioning	Final report issued on 13 th Nov 2015	LIMITED	1	5	4	0	Yes
15-A22	Reablement Service	Final report issued on 25 th Nov 2015	REASONABLE	0	3	2	0	Yes
15-A25	Schools - ICT and Asset Management Arrangements <i>7 Schools visited: Bourne Primary School, Colham Manor Primary School, Dr Triplett's CofE Primary School, Glebe Primary School, Harefield Junior School, Harlington School, and West Drayton Primary School.</i>	Final report issued on 25 th Nov 2015	LIMITED	4	5	7	4	Yes
15-A23	Domiciliary Care	Final report issued on 4 th Dec 2015	LIMITED	1	5	0	0	Yes
15-A31	Schools - Asset Management	Audit Cancelled						
15-A34	Performance Management	Audit deferred to 2016/17						
15-A35	Schools Safeguarding, including Safer Recruitment	Audit Cancelled						
~ QUARTER 4 ~								
15-CR2	Child Sexual Exploitation	Final report issued on 10 th Feb 2016	REASONABLE	0	7	3	1	Not yet due

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Assurance Reviews - Quarters 1, 2, 3 and 4:**

IA Ref.	IA Review Area	Status as at 4 th March 2016	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
15-A16	Records Management & Document Retention Policy	Final report issued on 18 th Feb 2016	LIMITED	1	4	2	1	N/A
15-A36	Section 117 of the Mental Health Act 1983 - Aftercare and accommodation	Final report issued on 23 rd Feb 2016	REASONABLE	0	5	1	0	Not yet due
15-A47	Children's Centres (Follow-up)	Final report issued on 23 rd Feb 2016	Not Applicable	-	-	-	-	N/A
15-A27	Housing - Repairs	Final report issued on 25 th Feb 2016	LIMITED	4	6	1	0	Not yet due
15-CR3	Housing Needs - Allocations & Assessment	Final report issued on 2 nd Mar 2016	LIMITED	3	7	2	0	Not yet due
15-A10	Officers' Scheme of Delegations	Final report issued on 3 rd Mar 2016	LIMITED	1	1	0	0	Not yet due
15-A9	Value Added Tax	Draft report issued on 18 th Feb 2016						
15-A39	Waste Services	Draft report issued on 25 th Feb 2016						
15-A30	Right to Buy (RtB)	Draft report issued on 3 rd Mar 2016						
15-A37	Occupational Therapy Equipment	Draft report issued on 3 rd Mar 2016						
15-A38a	Home to School Transport - Safeguarding Arrangements	Draft report issued on 3 rd Mar 2016						
15-A48	Staff Gifts, Hospitality and Sponsorship (Follow-up)	Draft report issued on 3 rd Mar 2016						
15-A26	Housing - Planned Maintenance	Draft report in progress						
15-A28	Capital Programme (formerly Corporate Construction)	Draft report in progress						
15-A29	Financial Assessments (Children's & Adults)	Draft report in progress						

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Assurance Reviews - Quarters 1, 2, 3 and 4:**

IA Ref.	IA Review Area	Status as at 4 th March 2016	Assurance Level	Risk Rating				CFQ Received?	
				H	M	L	NP		
15-A45	High Level Mileage (Follow-Up)	Draft report in progress							
15-A32	Special Educations Needs and Disability (SEND) - Local Offer	Testing in progress							
15-A33	ICT Data Centre Resilience	Scheduled to commence 23 rd Mar							
15-A38b	Home to School Transport - Financial Processes and Payment	Testing in progress							
15-A40	Fleet Management	Testing in progress							
15-A41	Safeguarding Adults	Deferred to 2016/17 - See Appendix B							
15-A43	PerTemps Contract Management	Testing in progress							
15-A44	Child Contract Centre	Audit Cancelled - See Appendix B							
15-A46	Planning applications - Community Infrastructure Level (Follow-Up)	Testing in progress							
15-A49	Staff Declarations of Interest (Follow-up)	Testing in progress							
Total Number of IA Recommendations Raised in 2015/16				23	88	66	17		
Total % of IA Recommendations Raised in 2015/16				13%	50%	37%	-		

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Consultancy Reviews - Quarters 1, 2, 3 and 4:**

IA Ref.	IA Review Area	Status as at 4 th March 2016
~ QUARTER 1 ~		
15-C4a	Data Protection Policy Review	Final consultancy memo issued 28 th April 2015
15-C4b	Information Governance Policy Review	Final consultancy memo issued 11 th May 2015
15-C8	Procurement Tender Evaluation Records	Final consultancy memo issued 29 th May 2015
15-C3	Education Funding Agency (EFA) Mock Audit - Hillingdon Adult & Community Learning	Final consultancy memo issued 5 th June 2015
15-C10	Mortuary	Final consultancy memo issued 25 th June 2015
~ QUARTER 2 ~		
15-C5	First Aid Quality Assurance Review - Quarter 1	Final consultancy memo issued 28 th July 2015
15-C6	Stores Management	Final consultancy memo issued 30 th July 2015
15-C11	Corporate Construction	Verbal advice provided (IAA Review due in Q3)
15-C12	Housing - Planned Maintenance	Verbal advice provided (IAA Review due in Q3)
15-C13	Housing Repairs	Verbal advice provided (IAA Review due in Q3)
15-C14	Textiles Recycling Processes	Final consultancy memo issued 16 th Sep 2015
~ QUARTER 3 ~		
15-C9	Whistleblowing Investigation	Final consultancy memo issued 5 th Oct 2015
15-C7	24+ Advanced Learning Loans Mock Audit - Hillingdon Adult & Community Learning	Final consultancy memo issued 13 th Oct 2015
15-C19	Stores Stock Check	Final consultancy memo issued 15 th Oct 2015
15-Inv A	Investigation A	Concluded 22 nd Oct 2015
15-C15	Troubled Families Project Group (attendance/participation)	Consultancy support concluded
15-C17	Libraries Imprest Accounts	Final consultancy memo issued 26 th Oct 2015
15-C21	Security at Harlington Road Depot	Final consultancy memo issued 24 th Nov 2015
15-C2a	Review of Children & Young People's Services - Prepaid Cards	Final consultancy memo issued 26 th Nov 2015
~ QUARTER 4 ~		
15-C22	Passenger Assistance	Final consultancy memo issued 7 th Dec 2015

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Consultancy Reviews - Quarters 1, 2, 3 and 4:**

IA Ref.	IA Review Area	Status as at 4 th March 2016
15-C2b	Review of Children & Young People's Services - Looked After Children (LAC) Savings	Final consultancy memo issued 17th Dec 2015
15-C16	National Fraud Initiative - Single Person Discount	Consultancy support provided
15-C18	Local Authority's Arrangements for Supporting School Improvement (LAASSI)	Final consultancy memo issued 13 th Jan 2016
15-Inv B	Investigation B	Work in progress
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)	Work in progress
15-C20	Policy Review: <ul style="list-style-type: none"> - Data Protection Policy Review (15-C4a) - Information Governance Policy Review (15-C4b) - Anti Fraud & Anti Corruption Policies 	<ul style="list-style-type: none"> - Final consultancy memo issued 28th April 15 - Final consultancy memo issued 11th May 15 - Work in progress
15-C23	Domiciliary Care Process Mapping	Work in progress
15-C24	Autism Guidance	Work in progress
15-A42	Hospital discharge	Work in progress
15-Inv C	Investigation C	Work in progress
15-EQA	Review of the Effectiveness of IA at the LB of Hackney	Work in Progress

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2015/16 IA Grant Claim Verification Reviews - Quarters 1, 2, 3 and 4:

IA Ref.	IA Review Area	Status as at 4 th March 2016
15-GC1	Troubled Families Grant - Quarter 1	Memo issued 29 th May 2015
15-GC3	Housing Benefits Subsidy Grant	IA testing completed on 3 rd September 2015
15-GC4	Troubled Families Grant - Quarter 2	IA testing completed on 18 th September 2015
15-GC2	Bus Subsidy Grant	IA testing completed on 22 nd September 2015
15-GC5	Troubled Families Grant - Quarter 3	IA testing completed on 14 th December 2015
15-GC6	Defra Flood Scheme	IA testing completed on 14 th January 2016

APPENDIX B**REVISIONS TO THE 2015/16 INTERNAL AUDIT PLAN ~ QUARTER 4****Revisions to the 2015/16 Operational IA Plan for Quarter 4:**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
~ Additions ~				
15-InvC	Investigation C	Investigation	Pauline Moore, Head of Business Improvement and HR	We were asked by the Head of Business Improvement and HR to undertake an internal disciplinary investigation.
15-A48	Staff Gifts, Hospitality and Sponsorship	Follow-up	Fran Beasley, Chief Executive and Corporate Director of Administration	The 2013/14 review of Staff Gifts, Hospitality and Sponsorship received a reasonable assurance opinion, with 3 Medium and 1 Low risk recommendations raised. This follow up review was requested by the Sponsor and has a refined scope which focuses on the implementation of the following 3 Medium risk recommendations raised.
15-A49	Staff Declarations of Interest	Follow-up	Fran Beasley, Chief Executive and Corporate Director of Administration	This follow-up review was requested following some control weaknesses identified within the 2015/16 IAA reviews of Corporate Procurement and Scheme of Delegations, highlighting some concerns in this area. This review will report progress made in relation to improvement within the control environment, following weaknesses identified within the 2013/14 Staff Declarations of Interests IA Consultancy Memo issued on 28 th January 2014, which made 12 improvement suggestions.
~ Amendments ~				
15-A42	Hospital Discharge Process	Assurance	Tony Zaman, Corporate Director of Social Care	Further to undertaking the initial planning and background research for this audit, it was established that management required a consultancy service on the data, its use, as well as undertaking data and trend analysis to monitor contractor performance. As such this work now lends itself more to a consultancy nature rather than assurance.

APPENDIX B**REVISIONS TO THE 2015/16 INTERNAL AUDIT PLAN ~ QUARTER 4****IA reviews ADDED to the 2015/16 Operational IA Plan for Quarter 4:**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
~ Deferrals ~				
15-A41	Safeguarding Adults	Assurance	Tony Zaman, Corporate Director of Social Care	Further to undertaking the initial planning and background research for this audit, it was established that management are currently reviewing and implementing revised safeguarding adult processes. As such it would be worthwhile to defer the audit review until completion of this review and controls are fully embedded.
~ Cancellations ~				
15-A44	Child Contact Centre	Assurance	Tony Zaman, Corporate Director of Social Care	This review initially requested to undertake a value for money /cost benefit analysis of the Contact Centre (Abacus) with management using audit findings to decide on the ongoing viability of the Centre. Due to changes in the management structure it was agreed that it would be more appropriate that this review be undertaken by the new Assistant Director for CYPS.

APPENDIX C**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2016/17 ~ QUARTER 1****IA work scheduled to commence in the 1st April to 30th June 2016 period:**

IA Ref.	Planned Audit Area	Risk Assessment	Audit Type	Review Sponsor	Rationale
16-A1	Lease Agreements	HIGH	Assurance	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	A lease is a contractual arrangement calling for the user to pay the owner for use of an asset. Property, buildings and vehicles are common assets that are leased. Industrial or business equipment is also leased. There are technical changes planned for the 2017/18 financial year relating to operational leases moving to a balance sheet item. However, as part of our planning discussions it was established that there is no central oversight of the lease process with instances of leases expiring but continuation of use of the asset.
16-A2	Management and Control of Void Dwellings	HIGH	Assurance	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	There are a number of teams and services involved throughout the management and control of void properties. This assurance review will focus on the end to end process to ensure that it is working efficiently and that appropriate policies, procedures and action is taken to minimise the time that Council properties are empty and classified as void.
16-A3	Housing Benefits	HIGH	Assurance	Paul Whaymand, Corporate Director of Finance	Further to a change in the delivery of the Revenues and Benefits Service, following the decision to award a substantial 5 year contract to a new provider, this assurance review will seek to provide assurance that there has been minimal impact upon service users as a result of the change.
16-A4	Physical Access Controls, including Security Arrangements	HIGH	Assurance	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	As a result of our IA planning meetings and in light of our Data Protection audit findings, it was highlighted that an assurance review of access to Council buildings, including security arrangements and access card management would be useful to ensure that the risk of unauthorised access to Council assets is being appropriately managed.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2016/17 ~ QUARTER 1****IA work scheduled to commence in the 1st April to 30th June 2016 period:**

IA Ref.	Planned Audit Area	Risk Assessment	Audit Type	Review Sponsor	Rationale
16-A5	New Years Green Lane (NYGL)	HIGH	Assurance	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	The Council has two local civic amenity sites which are used for the disposal of household rubbish and recycling. The Harefield civic amenity site at New Years Green Lane accepts vans and cars and also permits the disposal of trade waste materials. Further to our IA planning discussions with the Deputy Director, Residents Services it was established that assurance was required over the New Year Green Lane Waste Site including aspects of Health and Safety safeguards, income, as well as the data accuracy of compiling and reporting of waste performance data from source.
16-A6	Contract Management	HIGH	Assurance	Paul Whaymand, Corporate Director of Finance	Managing a service contract effectively is key to ensuring that contract objectives are met and value for money is achieved. The contracts register consists of over 1,000 contracts and due to the size of the Council there are a large number of key strategic service contracts in place. This review will seek to provide assurance over the management of one of the Council's key contracts to ensure that the expected value for money is obtained and the contract is being managed in a consistent, efficient and effective manner.
16-A7	Corporate Debtors	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	This assurance review will seek to provide assurance that there is a sound system of internal control operating over Corporate Debtors following the recent upgrade to the Oracle financial system. This review was last undertaken as part of the 2013/14 IA Plan.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2016/17 ~ QUARTER 1****IA work scheduled to commence in the 1st April to 30th June 2016 period:**

IA Ref.	Planned Audit Area	Risk Assessment	Audit Type	Review Sponsor	Rationale
16-A8	TeleCareLine	MEDIUM	Assurance	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	TeleCareLine is a monitoring and alert system that can help support people to live independently in their own homes, by providing users, their carers, family and friends reassurances that help is available in an emergency 24 hours a day. This service is available to services users on a sliding scale of costs, based on certain circumstances. Due to the nature of the TeleCareLine service it carries an inherent risk which cannot be fully mitigated. This assurance review will seek to confirm that sufficient and appropriate controls are in place and operating effectively to minimise this risk to an acceptable level.
16-A9	Health Visiting	MEDIUM	Assurance	Tony Zaman, Corporate Director of Social Care	The responsibility for commissioning health visiting transferred to the Council in October 2015 having being previously managed by NHS England. This assurance review will seek to confirm that the transition has occurred effectively, the contract is being delivered to an acceptable standard and that there are appropriate control systems in place.
16-A10	Fees and Charges	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	The Council has a clear and thorough fees and charges list which represents a useful tool for staff. As part of our planning process, it was established that a greater level of assurance is required to confirm that service specific fees and charges, in particular crematoria, room hire (weddings and theatre hire) and garages, are being charged appropriately and that income is being maximised from these revenue streams.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2016/17 ~ QUARTER 1****IA work scheduled to commence in the 1st April to 30th June 2016 period:**

IA Ref.	Planned Audit Area	Risk Assessment	Audit Type	Review Sponsor	Rationale
16-A11	Risk Management	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Risk management involves understanding, analysing and addressing risk to make sure organisations achieve their objectives. Due to the recent change in where the Council's risk management function sits, the new responsible Head of Service has welcomed an independent assurance review to assist in ensuring that risk management is proportionate to the complexity of the Council, and that it becomes embedded throughout the organisation.
16-A12	Review of the Effectiveness of Internal Audit	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Following the 2015/16 IA assurance review in this area, we are due to undertake a follow-up review with a refined scope that focuses on the implementation of the high and medium risk recommendations.
16-A13	Review of the Effectiveness of the Audit Committee	MEDIUM	Assurance	Fran Beasley, Chief Executive and Corporate Director of Administration	Following the 2015/16 IA assurance review in this area, we are due to undertake a follow-up review with a refined scope that focuses on the implementation of the high and medium risk recommendations.
16-C1	Data Analytics	MEDIUM	Consultancy	Paul Whaymand, Corporate Director of Finance	We plan to utilise our dedicated data analytical tool (IDEA) to run individual quarterly reports on transactional data. This will provide assurance on data sets with any anomalies identified referred to management for investigation and audit to identify any internal control failures. Such examples may include contractor spend without a valid contract in place, journals processed outside of normal working hours, or duplicate invoices.
16-C2	Children and Young Peoples Service (CYPS) Financial Controls	MEDIUM	Consultancy	Tony Zaman, Corporate Director of Social Care	This review forms part of our ongoing CYPS financial controls consultancy review, focusing on 16 plus expenditure, including governance and how expenditure is being monitored.

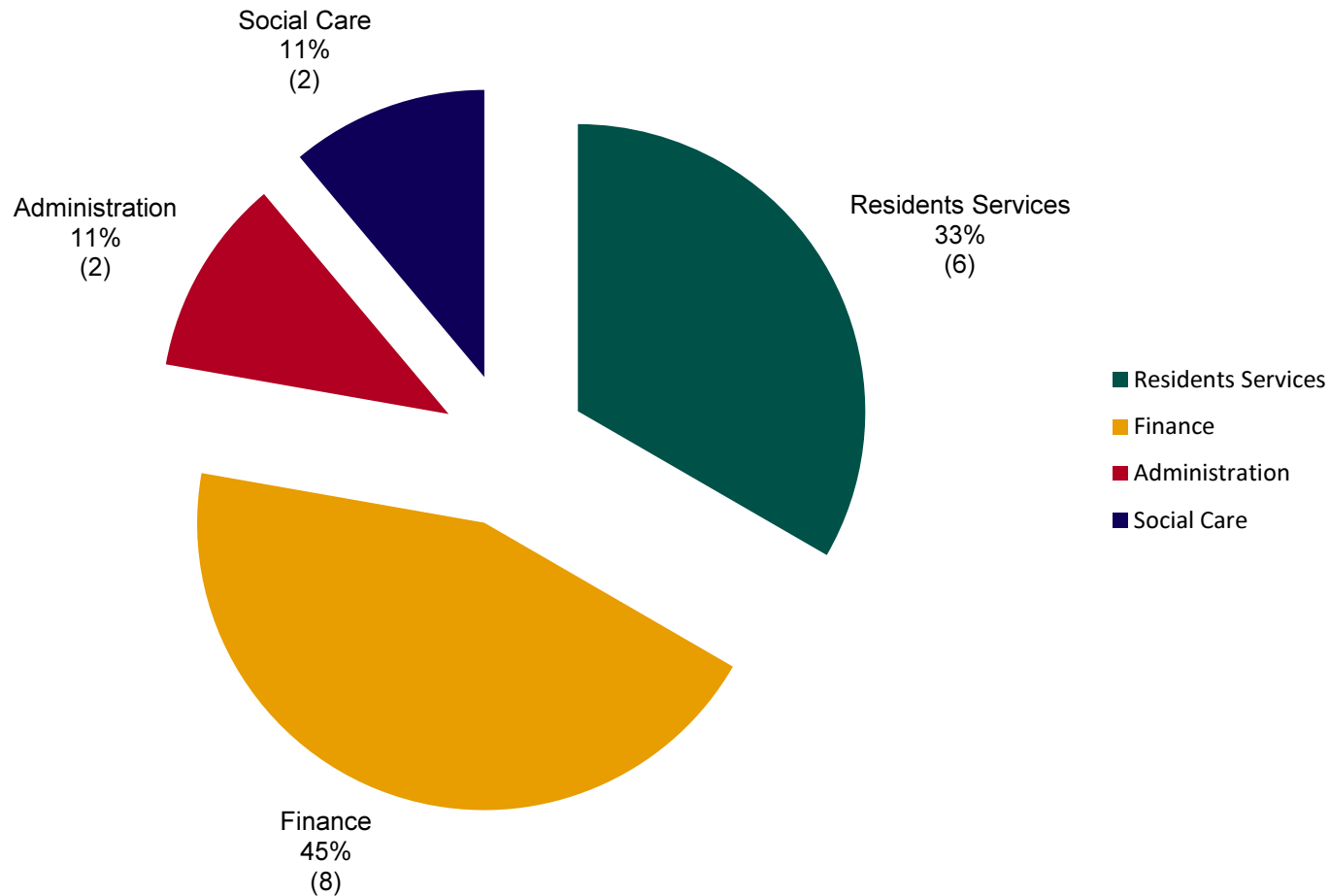
APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2016/17 ~ QUARTER 1****IA work scheduled to commence in the 1st April to 30th June 2016 period:**

IA Ref.	Planned Audit Area	Risk Assessment	Audit Type	Review Sponsor	Rationale
16-C3	Benefits - BACs processing	MEDIUM	Consultancy	Paul Whaymand, Corporate Director of Finance	A Creditors module has been setup within the Northgate system, replacing the current requirement for the Benefits payment interface, allowing payment files to be created and paid out via AEP BACs software. Due to the changes in the system of control framework, we will review the process to ensure that risk is being appropriately managed.
16-C4	Stores - Year End Stock Take	MEDIUM	Consultancy	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	Further to the consultancy review of stores at Harlington Road Depot in 2015/16, which highlighted a number of areas where improvements could be made, we assisted at HRD to undertake a full stock check of the SLS. To fully close off this piece of work, we will observe and monitor the annual stock check in order to independently verify it.
16-C5	Webcast of public meetings	MEDIUM	Consultancy	Fran Beasley, Chief Executive and Corporate Director of Administration	Section 40 of the Local Audit and Accountability Act 2014 gives the Secretary of State power, by regulations (Openness of Local Government Bodies Regulations 2014), allows persons to film, photograph or make sound recordings of proceedings of public meeting. To mitigate the risk of third party recordings being doctored or edited, the Council will be webcasting their first meeting on the 25 th February 2016 and this consultancy review will seek to confirm that appropriate arrangements have been made.

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2016/17 ~ QUARTER 1

IA work scheduled to commence in the 1st April to 30th June 2016 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 required to provide an alternative audit in their Group.

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

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

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

APPENDIX D (cont'd)**RISK RESPONSE DEFINITIONS**

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

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

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

Agenda Item 12

Audit Committee Forward Programme 2015/16 and 2016/17

Contact Officer: Kiran Grover
Telephone: 01895 250693

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
15 March 2016	CR3
30 June 2016	CR3
22 September 2016	CR3
15 December 2016	TBC

Audit Committee 15 March 2016

PART I – MEMBERS, PUBLIC & PRESS

AUDIT COMMITTEE

Forward Programme 2015/16 and 2016/17

Meeting Date	Item	Lead Officer
15 March 2016	*Private meeting with external auditors take place before the meeting	
	Training Item - Corporate Governance	Head of Policy
	Corporate Director of Finance /Ernst & Young	Annual External Audit Plan 2015/16 (Ernst & Young)
	Annual Governance Statement 2015/16 – Interim Report	Head of Policy
	Balances and Reserves Statement	Corporate Director of Finance
	Revisions to the Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2020/21	Corporate Director of Finance
	Internal Audit Progress Report 2016/17 Quarter 1	Head of Business Assurance
	Annual Internal Audit Plan 2016/17 & Operational Internal Audit Plan Quarter 1	Head of Business Assurance
	Corporate Fraud Team Progress Report	Corporate Fraud Investigations Manager
	Risk Management Report & Q3 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services Manager

Meeting Date	Item	Lead Officer
30 June 2016	*Private meeting with Head of Internal Audit to take place before the meeting	
	Draft Annual Governance Statement 2016/17	Head of Policy

Audit Committee 15 March 2016

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	Annual Review on the Effectiveness of Internal Audit 2016/17	Head of Business Assurance
	Annual Review of the Effectiveness of the Audit Committee 2016/17	Head of Business Assurance
	Annual Internal Audit Report & Head of Internal Audit Opinion Statement 2015/16	Head of Business Assurance
	Internal Audit 2016/17 Quarter 1 Progress Report & Quarter 2 Operational Internal Audit Plan	Head of Business Assurance
	Corporate Fraud Team Progress Report	Corporate Fraud Investigations Manager
	Risk Management Report & Q4 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services Manager

Meeting Date	Item	Lead Officer
22 September 2016	*Private meeting with the Corporate Fraud Investigations Manager to take place before the meeting	
	- Draft Annual Audit Letter	Ernst & Young
	Approval of the 2015/16 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2016	Corporate Director of Finance /Deloitte
	External Audit Report on the Pension Fund Annual Report and Accounts	Ernst & Young
	Internal Audit Progress Report 2016/17 Quarter 2 & Operational Internal Audit Plan Quarter 3	Head of Business Assurance
	Internal Audit Charter 2016/17	Head of Business Assurance

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	Corporate Fraud Team Progress Report	Corporate Fraud Investigations Manager
	Risk Management Report & Q1 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
15 December 2016	*Private meeting with the Corporate Director of Finance to take place before the meeting	
	External Audit Annual Grant Audit Letter 2015/16	Ernst & Young
	Draft Treasury Management Strategy 2017/18 to 2021/22	Corporate Director of Finance
	Internal Audit Progress Report 2016/17 Quarter 3 & Operational Internal Audit Plan Quarter 4	Head of Business Assurance
	Corporate Fraud Team Progress Report	Corporate Fraud Investigations Manager
	Risk Management Report & Q2 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services

Audit Committee 15 March 2016

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