



HILLINGDON
LONDON



Audit Committee

Councillors on the Committee

Rajiv P Vyas (Chairman)
Councillor Scott Seaman-Digby (Vice-Chairman)
Councillor George Cooper
Councillor Susan O'Brien
Councillor Tony Eginton (Labour Lead)

Date: THURSDAY, 15 DECEMBER
2016

Time: 5.00 PM *
(* COMMITTEE MEMBERS
ARE INVITED TO A
PRIVATE MEETING AT
4.45PM)

Venue: COMMITTEE ROOM 5 -
CIVIC CENTRE, HIGH
STREET, UXBRIDGE UB8
1UW

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

Published: Wednesday, 7 December
2016

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Email: kboulter@hillingdon.gov.uk

This Agenda is available online at:
<http://www.hillingdon.gov.uk>

Putting our residents first

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

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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

Committee Members are invited to a private meeting with the Head of Business Assurance at 4.45pm.

- 1 Apologies for absence
 - 2 Declarations 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 22 September 2016 1 - 8
 - 5 External Audit Annual Audit Letter 9 - 34
 - 6 Internal Audit Charter 2016/17 35 - 48
 - 7 Internal Audit Progress Report 2016/17 Quarter 3 and Operational Internal Audit Plan Quarter 4 49 - 72
 - 8 Corporate Fraud Team Progress Report (to follow)
 - 9 National Scheme for Auditor Appointments 73 - 78
 - 10 Annual Review of the Effectiveness of the Audit Committee 2016/17 79 - 94
 - 11 Audit Committee Terms of Reference (to follow)
 - 12 Audit Committee Forward Programme 95 - 100
- PART II**
- 13 Risk Management Report and Quarter 2 Corporate Risk Register 101 - 124

Agenda Item 4

Minutes

Audit Committee

Thursday 22 September 2016

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



HILLINGDON
LONDON

	<p>Members Present: Rajiv Vyas (Independent Chairman), Councillors Scott Seaman-Digby (Vice-Chairman), George Cooper, Peter Davis and Tony Eginton.</p> <p>Apology for Absence: Susan O'Brien (Councillor Peter Davis substituting).</p> <p>Officers Present: Garry Coote (Corporate Fraud Investigation Manager), Nancy Le Roux (Deputy Director of Strategic Finance), Sian Kunert (Chief Accountant), Muir Laurie (Head of Business Assurance), Elaine Portess (Assistant Internal Audit Manager), Martyn White (Senior Internal Audit Manager) and Khalid Ahmed (Democratic Services Manager).</p> <p>Others Present: Maria Grindley and Alan Witty (External Audit - Ernst & Young).</p> <p>Prior to the meeting, the Committee held a private meeting with the Corporate Director of Finance.</p> <p>Also the Committee were provided with a training session on the Role of the External Auditor.</p>
12.	<p>APPOINTMENT OF CHAIRMAN</p> <p>RESOLVED –</p> <p>1. That Mr Rajiv Vyas be appointed Chairman of the Committee for the rest of the Municipal Year.</p>

13.	<p>DECLARATIONS OF INTEREST</p> <p>Councillor Tony Eginton declared a Non-Pecuniary Interest in Agenda Item 7 - External Audit Report on the Pension Fund Annual Report and Accounts 2015/16 because he was a retired member of the Local Government Pension Scheme. He remained in the room during discussion on the item.</p> <p>Councillor Scott Seaman-Digby declared a Non-Pecuniary Interest in Agenda Item 7 - External Audit Report on the Pension Fund Annual Report and Accounts 2015/16 because he was a deferred member of the Local Government Pension Scheme. He remained in the room during discussion on the item.</p> <p>Councillor George Copper declared a Non-Pecuniary Interest in Agenda Item 7 - External Audit Report on the Pension Fund Annual Report and Accounts 2015/16 because he was a contributor to the Local Government Pension Scheme. He remained in the room during discussion on the item.</p>		
14.	<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 12 - Business Assurance - Corporate Risk Register for Quarter 1 2016/17.</p>		
15.	<p>MINUTES OF THE MEETINGS HELD ON 12 JULY 2016</p> <p>Agreed as an accurate record.</p>		
16.	<table border="1"> <tr> <td data-bbox="309 1144 1241 1984"> <p>APPROVAL OF THE 2015/16 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2016</p> <p>The Committee was provided with a report which summarised the findings of EY, the External Auditor, on the audit of the 2015/16 Statement of Accounts. The report summarised the Council's main financial statements.</p> <p>The Committee was informed that based on the work undertaken to date, EY anticipated issuing an unqualified opinion on the Council's financial statements, subject to the completion of outstanding work.</p> <p>The Committee was provided with details of audit differences, scope and materiality and significant audit risks.</p> <p>Members were informed that as new external auditors, EY had provided a more detailed audit and carried out more detailed testing. This was the reason why the audit of the Statement of Accounts was not finalised at this stage.</p> <p>The Committee expressed their dissatisfaction at the audit not</p> </td> <td data-bbox="1241 1144 1485 1984"> <p>Action By:</p> </td> </tr> </table>	<p>APPROVAL OF THE 2015/16 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2016</p> <p>The Committee was provided with a report which summarised the findings of EY, the External Auditor, on the audit of the 2015/16 Statement of Accounts. The report summarised the Council's main financial statements.</p> <p>The Committee was informed that based on the work undertaken to date, EY anticipated issuing an unqualified opinion on the Council's financial statements, subject to the completion of outstanding work.</p> <p>The Committee was provided with details of audit differences, scope and materiality and significant audit risks.</p> <p>Members were informed that as new external auditors, EY had provided a more detailed audit and carried out more detailed testing. This was the reason why the audit of the Statement of Accounts was not finalised at this stage.</p> <p>The Committee expressed their dissatisfaction at the audit not</p>	<p>Action By:</p>
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	<p>being completed in time for the Committee to sign off the statement of accounts. The EY representatives reported that the audit would meet the statutory deadline of 30 September, but for next year's audit, planning and time lines for the audit would be brought forward to ensure the Audit Committee signs off the statement of accounts.</p> <p>RESOLVED –</p> <p>1. That delegated authority be given to the Corporate Director of Finance, in consultation with the Chairman and / or Vice-Chairman of the Committee, to sign the statement of accounts on completion of the audit.</p>	
<p>17.</p>	<p>EXTERNAL AUDIT REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS 2015/16</p> <p>The Committee was provided with a report which summarised the findings of EY, the External Auditor, on the audit of the Pension Fund Accounts. The report summarised the Pension Fund accounts audit.</p> <p>The Committee was informed that based on the work undertaken to date, EY anticipated issuing an unqualified opinion on the Fund's financial statements, subject to the satisfactory completion of outstanding work.</p> <p>Reference was made to the following detailed work areas where further work was required.</p> <p>Members expressed their disappointment that the audit had not been completed.</p> <p>The Committee was informed that at the Pensions Committee on 21 September, delegated authority had been given to the Corporate Director of Finance, to sign the Pension Fund accounts on completion of the audit.</p> <p>RESOLVED –</p> <p>1. That the initial auditor's findings on the audit of the Pension Fund accounts for 2015/16 be noted.</p> <p>2. That the Committee considered and approved the Accounts of the Pension Fund, subject to changes made and approved by the Corporate Director of Finance, in consultation with the Chairman of the Pensions Committee.</p>	

<p>18.</p>	<p>CORPORATE FRAUD INVESTIGATION TEAM PROGRESS REPORT - APRIL 2016 -AUGUST 2016</p> <p>The Committee was provided with a report which provided details of the work undertaken by the Corporate Fraud Investigation Team (CFIT) from April to August 2016.</p> <p>Members were informed that Corporate Fraud Investigation Team activities since April 2016 included the following:</p> <ul style="list-style-type: none"> • Social Housing fraud • Council Tax/Business Rates inspections • Single Person Discount (SPD) • Residency and Verification checks • Right to Buy investigations • Proceeds of Crime investigations • Housing Waiting List • Enhanced Recruitment Verification • Council Tax Reduction Scheme (CTR) • Trading Standards • Blue Badge • Bad debts • Students • Unaccompanied Asylum Seekers • Benchmarking <p>The Corporate Fraud Investigation Manager reported that in relation to the Social Housing Fraud project, 40 properties had been recovered from April to August 2016.</p> <p>Reference was made to the work on the Housing Waiting List. Members were reminded that the purpose of the project was to identify through checking Council records, such as Council Tax information and electoral registration, people on the housing waiting list who were no longer entitled to Social Housing.</p> <p>Circumstances had either changed or people had provided false information on their application. Members were informed that removing these people from the waiting list meant that the Council would have an accurate data relating to current social housing needs for effective forward planning.</p> <p>The Committee noted that 1,909 applications had been removed from the waiting list since the project began.</p> <p>During the process, 32 cases had been identified where the household had been incorrectly claiming Single Person Discount for Council Tax which totalled £14.1k.</p>	
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	<p>Reference was made to the work started in relation to benchmarking which would measure the performance of the Team. Work was taking place with neighbouring authorities to share information to enable benchmarking to take place.</p> <p>The Corporate Fraud Investigation Manager was asked to develop targets within the work programme of the Team, to enable the level of success of the Team to be measured against other local authorities.</p> <p>RESOLVED –</p> <p>1. That the Committee considered and noted the Corporate Fraud Investigation Team report.</p>	
<p>19.</p>	<p>BUSINESS ASSURANCE - INTERNAL AUDIT PROGRESS REPORT FOR 2016/17 QUARTER 2 (INCLUDING THE QUARTER 3 INTERNAL AUDIT PLAN)</p> <p>The Senior Internal Audit Manager presented the report which provided summary information on all Internal Audit work covered in relation to the 2016/17 Quarter 2, together with assurance levels in this respect.</p> <p>Members were informed that since the last progress report, 5 assurance reviews had been concluded, 6 consultancy reviews and 2 follow-up reviews had been finalised and 2 grant claims had been certified.</p> <p>The Committee was provided with details of the Internal Audit Plan 2016/17 for Quarter 3.</p> <p>RESOLVED –</p> <p>1. That the Internal Audit progress report for 2016/17 Quarter 2 be noted and approval be given to the Quarter 3 Internal Audit Plan for 2016/17.</p> <p>2. That the Committee noted that the coverage, performance and results of Business Assurance Internal Audit activity within this quarter.</p>	
<p>20.</p>	<p>BUSINESS ASSURANCE - EFFECTIVENESS OF INTERNAL AUDIT 2016/17</p> <p>The Committee was provided with a report which provided details of the effectiveness of Internal Audit which had been assessed against the UK Public Sector Internal Audit Standards.</p>	

	<p>Members were informed that overall the Internal Audit opinion was that they were able give reasonable assurance over the key risks to the achievement of objectives for the Internal Audit function.</p> <p>RESOLVED –</p> <p>1. That the findings, recommendations and management action proposed in the report be noted.</p>	
21.	<p>AUDIT COMMITTEE FORWARD PROGRAMME 2016/17 AND 2017/18</p> <p>It was noted that there would be an item added to the meeting in December, on a Review of the Committee's Terms of Reference.</p> <p>In addition an item would also be added to the March 2017 meeting on External Quality Assessment of Internal Audit.</p> <p>Noted.</p>	
22.	<p>BUSINESS ASSURANCE - CORPORATE RISK REGISTER FOR QUARTER 1 2015/16</p> <p><i>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).</i></p> <p>The report presented to Members the Corporate Risk Register for Quarter 1 (April to June 2016). The report provided evidence about how identified corporate risks were being managed and the actions which were being taken to mitigate against those risks.</p> <p>RESOLVED –</p> <p>1. That the Committee reviewed the Corporate Risk Register for Quarter 4 (January to March 2016), as part of the Committee's role to independently assure the risk management arrangements in the Council.</p>	Action By:

	The meeting which commenced at 5.10pm, closed at 6.20pm	
	Next meeting: 15 December 2016 at 5.00pm	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Khalid Ahmed on 01895 250833. Circulation of these minutes are to Councillors, Officers, the Press and Members of the Public.

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EXTERNAL AUDIT ANNUAL AUDIT LETTER

Contact Officer: Nancy Leroux
Telephone: 01895 205353

SUMMARY

This is a covering report to EY's Annual Audit Letter which provides a summary of the expected conclusions from their audit work undertaken for the year ended 31 March 2016.

RECOMMENDATIONS

The committee is asked to note the report.

INFORMATION

The letter identifies the key areas of EY's audit work over the year, their findings in each area and the focus of their work going forward:

1. The Council's Financial Statements (including the Pension Fund) – an unqualified opinion on the Council's accounts for the year ended 31 March 2016 was issued.
2. Value for Money conclusion – it was concluded that the Council has put in place proper arrangements to secure value for money in the use of resources.
3. Whole of Government Accounts – it was reported to the National Audit Office that the consolidated return was consistent with the statutory accounts.
4. Grants Certification – there will be a separate letter on grant certification issued to Audit Committee at the end of 2016.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

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London Borough of Hillingdon and Hillingdon Pension Fund

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP

Contents

Executive Summary	2
Purpose.....	5
Responsibilities.....	7
Financial Statement Audit.....	10
Value for Money	13
Other Reporting Issues.....	15
Focused on your future.....	18
Appendix A Audit Fees	20

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)

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 Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. 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.

A close-up photograph of a person's hands writing on a document with a blue pen. The person is wearing a white lab coat. The background is blurred, showing what appears to be a laboratory or office setting. A yellow rectangular overlay is positioned in the lower-left quadrant of the image, containing the text 'Executive Summary' in a white, sans-serif font.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to London Borough of Hillingdon (the Council) and Hillingdon Pension Fund (the Pension Fund) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's and the Pension Fund's : <ul style="list-style-type: none"> ▶ Financial statements ▶ Consistency of other information published with the financial statements 	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2016 and of its expenditure and income for the year then ended. Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: <ul style="list-style-type: none"> ▶ Consistency of Governance Statement ▶ Public interest report ▶ Written recommendations to the Council, which should be copied to the Secretary of State ▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014 	The Governance Statement was consistent with our understanding of the Council. We had no matters to report in the public interest. We had no matters to report. We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on the Council and Pension Fund on 22 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 7 October 2016 following completion of our WGA work.

We would like to take this opportunity to thank the Council's staff and those working on the Pension Fund or their assistance during the course of our work.

Maria Grindley
Executive Director
For and on behalf of Ernst & Young LLP

Purpose

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 22 September 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plans that we issued on 15 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ on the 2015/16 financial statements; and
 - ▶ on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ if the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ any significant matters that are in the public interest;
 - ▶ any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ if we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). As administering authority for the Pension Fund, it is responsible for preparing the Pension Fund's statement of accounts to be published within the Pension Fund's annual report. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The background image is a blurred photograph of a desk. On the left, a laptop screen is visible, displaying some data. In the center, there is a glass of water. To the right, a document is laid out, featuring a bar chart with several vertical bars of varying heights. The overall scene suggests a professional or academic setting.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued unqualified audit reports on 30 September 2016.

Our detailed findings were included in our Audit Results Reports for both the main Council and Pension Fund audits presented to the 22 September meeting of the Audit Committee. In those reports, we noted that there were some areas where our work was outstanding and was to be completed. We completed work in those areas and this enabled us to issue unqualified audit reports on the Council and Pension Fund financial statements.

The key issues identified as part of our audit were as follows:

Significant Risk

Management override of controls

A risk present on all audits is that 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.

Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.

Conclusion

We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.

We considered accounting estimates relating to the Local Government Pension Scheme and Property, Plant and Equipment and found that estimates are reasonable, and there was no indication of bias in the calculation of the estimates.

We did not identify any:

- ▶ material weaknesses in controls or evidence of material management override;
- ▶ instances of inappropriate judgements being applied; or
- ▶ other transactions during our audit, which appeared unusual, or outside the Council's normal course of business.

Revenue and 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.

Our testing did not identify any issues that we need to report to you.

Other Key Findings

Conclusion

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 concluded that the valuation of Property, Plant and Equipment was materially correct. We identified one error that was corrected. We have no other issues to report.



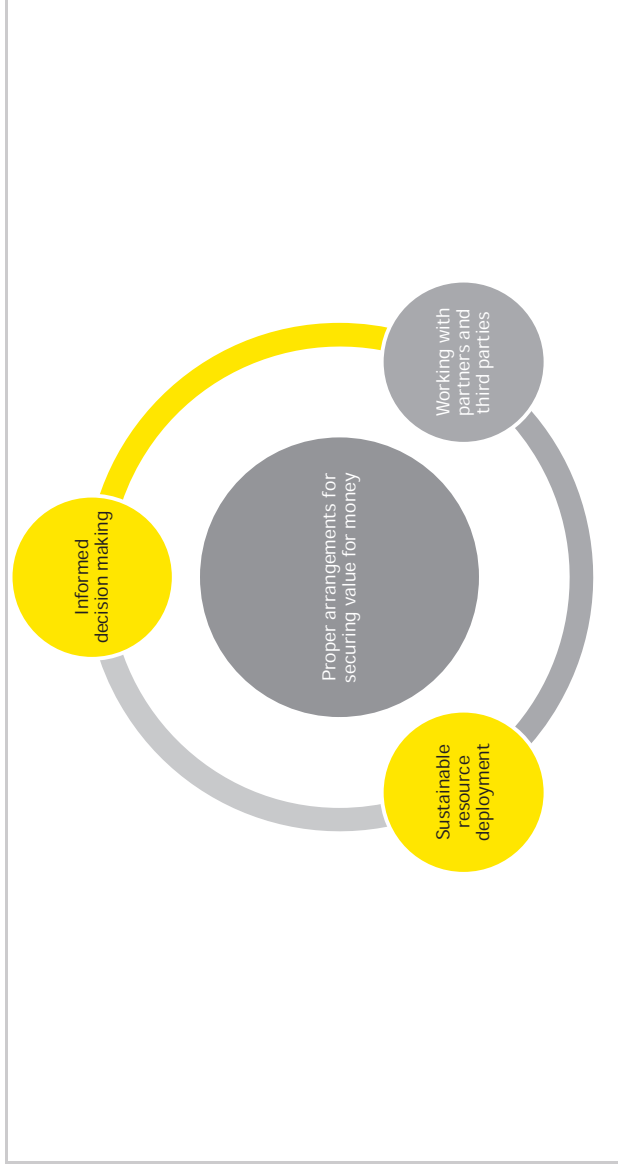
Value for Money

Value for Money

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. This is known as our value for money conclusion.

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.



We issued an unqualified value for money conclusion on 30 September 2016.

Our audit did not identify any significant matters in relation to the Council's arrangements.



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We had no issues to report.

Pension Fund Annual Report

We performed procedures to ensure that information within the Pension Fund Annual Report was consistent with the audited financial statements. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Reports to the Audit Committee on 22 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements and which the Council does not know about.

A close-up photograph of a person's hands holding a telescope. The person's face is partially visible in the background, looking through the eyepiece. The telescope is the central focus, with its lens and barrel clearly visible. The background is softly blurred, showing the person's skin and hair.

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Area	Issue	Impact
<p>Highways Network Assets</p>	<p>The 2016/17 Code of Practice on Local Authority Accounting includes the requirement for local authorities to measure Highways Network Assets using depreciated replacement cost for the first time.</p>	<p>The change in the measurement of Highways Network Assets will result in an adjustment to the opening balance of these assets at 1 April 2016. The value of these assets will be significant to the Council's balance sheet. There is a higher inherent risk of material misstatement due to value of this class of assets.</p> <p>We are providing training sessions to clients to support key officers with the new accounting requirements and our expectations as your auditors.</p>
<p>Faster close</p>	<p>From the 2017/18 financial year, the deadline for preparing the Council's financial statements will move to 31 May from 30 June. In addition, the deadline for completing the statutory audit will move to 31 July from 30 September.</p>	<p>The faster closedown timetable requires the Council to adjust its timetable for preparing the accounts, and may impact on the budget setting process and the timing of committee meetings.</p> <p>It requires upfront planning to identify areas of the accounts that can be prepared earlier, before the 31 March, and there will be a need to establish robust basis for estimations across a wider number of entries in the financial statements.</p> <p>For the 2016/17 audit, we are working with officers to bring our work forward to support the transition ahead of the new deadlines in 2017/18.</p>



Appendix A

Audit Fees

Appendix A Audit Fees

Our fee for the 2015/16 audit is in line with the scale fee set by the PSAA and reported in our Annual Results Reports.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Final Fee 2014/15** £
Total Audit Fee – Code work	157,268	157,268	157,268	210,600
Total Audit Fee – Pension Fund	21,000	21,000	21,000	21,000
Total Audit Fee – Certification of claims and returns - Housing Benefits	TBC*	17,797	24,445	38,300

* Our work to certify the Housing Benefit claim is ongoing and we will report any changes to the fee.

** We were not the auditors in 2014/15 so these fees are included for information only but were not paid to EY.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements. We are working on Teachers Pension and Pooling of Housing Capital Receipts and will report on the final fee when the work is complete.

EY | Assurance | Tax | Transactions | Advisory

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ED None

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Business Assurance – Revised Internal Audit Charter

Contact Officer: Muir Laurie
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REASON FOR ITEM

The Internal Audit (IA) Charter sets out the purpose, authority, responsibility and position of the IA Service within the London Borough of Hillingdon. As such it is a key document in respect to the Council's internal control, risk management and corporate governance framework. The IA Charter was last agreed by the Council's Corporate Management Team and Audit Committee in March 2015. However, the IA Charter has now been further updated to provide clearer compliance with the UK Public Sector Internal Audit Standards (PSIAS), which came into effect on 1st April 2013.

Whilst the main changes to the IA Charter are presentational, it has also been updated to include a new section on the wider remit of Business Assurance (ref. para 8.1). This area is specifically referred to in the PSIAS and therefore the revision results in the IA Charter now being more closely aligned with the PSIAS. The IA Charter will continue to be reviewed periodically and be approved by the Council's Corporate Management Team and Audit Committee to ensure that it remains relevant to the needs of the Council.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to review and approve the revised IA Charter.

INFORMATION

The IA Charter sets out how IA complies with the PSIAS across the following key areas:

1. Purpose
2. Statutory Requirement & Authority
3. Status of IA within the Council
4. Objectives & Mission
5. Scope of IA
6. Responsibility
7. Reporting Lines
8. Other IA Work
9. Ethics
10. Quality Assurance

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

The IA Terms of Reference March 2015 (attached).

Audit Committee 15 December 2016
PART I – MEMBERS, PUBLIC & PRESS

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Internal Audit Charter

1. Purpose

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

2. Statutory Requirement

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

3. Responsibilities and Objectives

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

4. Status of Internal Audit within the Council

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

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

5. Authority and Rights of Access to Obtain Information

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

6. Scope of Internal Audit

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

7. Fraud and Corruption

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

8. Professional Standards

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

9. The Internal Audit Plan

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

10. Management of Internal Audit Engagements and Follow-up

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

11. Staff Training and Development

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

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

12. Proficiency and Due Professional Care

- 12.1. IA will abide by the Code of Ethics set out in the PSIAS. IA staff are bound by the two essential components of the Code of Ethics: 1) *Principle*; and 2) *Rules of Conduct*, applicable to the four elements of a) Integrity; b) Objectivity; c) Confidentiality; and d) Competency. IA will apply the four *Attribute Standards* and the seven *Performance Standards* set out in the PSIAS. Any instances of non-conformance with the Code of Ethics or the PSIAS that impact the scope or operation of IA activity will be reported to CMT and the Audit Committee. Internal auditors will also abide by the Committee on Standards of Public Life's *Seven Principles of Public Life*.
- 12.2. IA staff must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility. The HIA must hold a professional qualification (CMIIA, CCAB, or equivalent) and be suitably experienced.
- 12.3 The HIA will maintain and regularly review a register of the internal auditors' declarations of business and personal interests. If there are occasions where internal auditors undertake non-IA activities including the development, design or implementation of systems, then that individual will not subsequently perform an IA review of those systems.

13. Reporting

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

14. Quality Assurance

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

Internal Audit Charter

1. Purpose

- 1.1 In accordance with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) the purpose, authority and responsibility of the internal audit activity must be formally defined in an Internal Audit (IA) Charter, consistent with the [Definition of Internal Auditing](#), the [Code of Ethics](#) and the [Standards](#).
- 1.2 The London Borough of Hillingdon IA Charter defines the purpose, authority and responsibility of the IA Service within the Council. The Charter establishes the Head of IA's (HIA's) position within the Council including the nature of the HIA's functional reporting relationships. The Charter authorises access to records, personnel and physical properties relevant to the performance of engagement and defines the scope of IA activities.
- 1.3 The HIA is responsible for applying this IA Charter and ensuring it is maintained up to date and, in line with the [Public Sector Internal Audit Standards](#) (PSIAs), this IA Charter shall be reviewed periodically, presented to senior management (Corporate Management Team [CMT]) and the Board (which for the purpose of the PSIAs is the Audit Committee) for approval to ensure that it remains relevant to the needs of the Council.

2. Statutory Requirement and Authority

- 2.1 The Local Government Accounts and Audit Regulations 2015 require every local authority to undertake an effective IA to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) or guidance.
- 2.2 The IA service is responsible for providing assurance to all of its key stakeholders including the Audit Committee, Senior Management and in particular the Chief Financial Officer to help them discharge their statutory responsibilities under Section 151 (S151) of the Local Government Act 1972. An effective IA service will be seen as a catalyst for improvement at the core of the Council and will become recognised across the Council as a value added, trusted advisor and business assurance provider.
- 2.3 Deriving from those regulations, and those authorising this Charter, **the IA service has free unrestricted access** and ability to plan and undertake audit assignments necessary to fulfil its scope. To enable full discharge of its duties, the HIA and **the IA service has authority** to:
 - Have right of direct access to the Chair of the Audit Committee;
 - Have unrestricted access to all Council functions, records, property and personnel; and
 - Obtain assistance, where necessary, from Council officers and contractors involved in the subject of audit engagements.

The HIA has overall accountability for ensuring the IA service safeguards information it has obtained and for maintaining confidentiality of information where applicable.

3. Status of Internal Audit within the Council

- 3.1 IA will be independent of all activities that it audits to enable internal auditors to perform their duties in a way that allows them to make professional and impartial judgements and recommendations.
- 3.2 The IA activity will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not engage in any activity that may impair their judgement or objectivity.
- 3.3 IA will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.
- 3.4 The Council's IA service is part of the Finance Group and is led by the Head of Business Assurance, as the Council's HIA, who reports directly to the Corporate Director for Finance (& S151 Officer). However, the HIA has unrestricted access to the independent Chair of the Audit Committee, the Chief Executive, External Audit (Ernst and Young), the Leader of the Council and all other Members and staff.
- 3.5 The HIA will annually confirm to the Board (which for the purposes of the PSIAS is the Audit Committee), the organisational independence of the IA activity with any impairments disclosed to the appropriate parties.

4. Objectives and Mission

- 4.1 IA is defined in the PSIAS as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”*.
- 4.2 The IA service acknowledges and aspires to achieving the mission of Internal Auditing as provided by the IIA:
“To enhance and protect organisational value by providing stakeholders with risk based and objective assurance, advice and insight.”
- 4.3 IA is not responsible for control systems and managing risks. Responsibility for effective internal control and management of risks rests with the management of the Council.

5. Scope of Internal Audit

- 5.1 The HIA will provide an annual HIA Opinion Statement to the Council, assisting the S151 Officer, through the Board (Audit Committee) in completing the AGS, which forms part of the statutory Statement of Accounts. The AGS provides public assurances about the effectiveness of the Authority’s risk management framework, corporate governance arrangements and the system of internal control. The HIA opinion statement (see 3 core areas overleaf) meets the Authority's statutory requirement under Regulation 6 of the Accounts and Audit (Amendments) (England) Regulations 2015 and is in line with the UK PSIAS.

- (i) **Risk Management** - Risk Management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
 - (ii) **Corporate Governance** - Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
 - (iii) **System of Internal Controls** - The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and nonfinancial systems.
- 5.2 In addition to the above **3 core annual opinion areas**, IA may, subject to specific arrangements, undertake engagements in the areas of anti- fraud and anti-corruption as detailed within this IA Charter.
- 5.3 IA also has the responsibility to provide consulting and advisory services to management relating to risk management, control and governance as appropriate for the Council. The IA service may evaluate specific operations at the request of the Audit Committee or Senior Management, as appropriate. Before any consultancy work is agreed, the HIA will ensure that IA has the appropriate skills, resources and approval to undertake the review. The HIA will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future IA activity.

6. Responsibility

Professional Standards

- 6.1 The HIA and their team have responsibility to undertake their work at all times in accordance with the PSIAS (the 'Standards') and, the IIA's Code of Ethics (the 'Code') and the broader International Professional Practices Framework (IPPF) which applies across the global practice of IA. Those members of the IA team who have membership of professional bodies will comply with the relevant requirements of that organisation.
- 6.2 Deriving from those regulations, and those authorising this Charter, the IA service has free unrestricted ability to plan and undertake IA assignments necessary to fulfil its scope. IA undertakes work in accordance with the Standards as set out below.

Risk Based IA Strategy and IA Plan

- 6.3 The IA plan is a crucial component of the annual IA opinion statement provided by the HIA to those charged with governance. In order to deliver this assurance it is vital to have a comprehensive risk-based IA plan to determine the priorities of the IA activity, consistent with the organisation's goals. The overarching IA plan is presented to the Council's Corporate Management Team (CMT) and Audit Committee for approval. This plan is supplemented by quarterly operational risk based IA plans for approval. Any significant deviation from the approved quarterly IA plans will be communicated to senior management and the Audit Committee through quarterly IA progress reports.
- 6.4 The quarterly IA plan is undertaken based on a documented risk assessment, enabling the HIA to ensure that the most effective IA coverage is achieved, which focuses on the Council's key risks. Managers are required to ensure that key staff are available to IA during the agreed period of a review and for ensuring that information requested is accurate, timely and reliable.
- 6.5 The quarterly IA plan, including resource requirements and limitations, is presented to CMT and Audit Committee for approval. Any significant deviation from the approved IA plan will be communicated to CMT and the Audit Committee through periodic activity progress reports.

Management of Engagements

- 6.6 For each IA engagement, a detailed Terms of Reference (ToR) will be prepared and discussed with the relevant managers. The ToR will establish the engagement's service objectives, key risks, scope, timing and resource allocations for the review. Each IA engagement will be sponsored by a member of CMT and engagements intended to provide an IA assurance opinion will be undertaken using a risk-based approach. IA will promptly communicate its findings and conclusions to management, proposing recommendations to address any identified weaknesses. The HIA will inform the Council (via the Audit Committee) of any remaining material weaknesses.
- 6.7 The HIA will have systems in place to ensure that internal auditors obtain and record sufficient evidence to support their conclusions and engagement results to demonstrate the adequacy of evidence obtained to support professional judgements made. This includes management supervision to ensure objectives are achieved, quality assured and staff developed.
- 6.8 A report is issued to appropriate parties following the conclusion of each IA engagement and is distributed to the review sponsor and relevant key contact(s). The report includes an executive summary with a particular emphasis on risk management, internal control and governance strengths and weaknesses identified during the review. A management action plan is appended to reports (where applicable) which provides management with the opportunity to respond to the recommendation(s) raised and set out what action (risk response) they propose to address the risk(s) identified.

Follow-up

- 6.9 IA follows-up all 'High' and 'Medium' risk-rated recommendations to establish if management has taken appropriate action to address any weaknesses identified. Escalation procedures are in place for any management responses that are judged to be inadequate in relation to the identified risk. These procedures will ensure that the impact of not taking action (Tolerating the risk) have been understood and accepted at a sufficiently senior management level.

Management Responsibilities

- 6.10 In order to be effective, **the IA service requires full co-operation of senior management.** IA is not responsible for control systems and managing risks. Responsibility for effective internal control and management of risks rests with the management of the Council.
- 6.11 Senior management must also keep the IA service abreast of significant proposed changes in processes, systems, newly identified significant risks and all suspected or detected fraud or corruption. Senior management will also ensure that the IA service has access to sufficient resources in order to deliver the IA plan as directed by the Audit Committee. Responsibility for the deployment of resources in delivery of the IA plan rests with the HIA.

7. Reporting Lines

Reporting Lines

- 7.1 The Head of Business Assurance, in his role as HIA, has overall responsibility for the day to day management of the IA service. The HIA reports administratively to the Corporate Director of Finance.
- 7.2 Organisationally, the HIA reports to the Audit Committee. The HIA also has direct right of access to the Chief Executive, Chair of Audit Committee and Leader of the Council as and when required, as set out at para. 3.4.

- 7.3 In agreement with those charged with governance, the HIA will determine the way in which findings will be reported. Standards will be set for reporting and will include arrangements for the review and approval of reports by the HIA before issue. Reports will be balanced, clear, concise and constructive and will be issued within laid-down timescales.
- 7.4 The IA service will maintain effective relationships with management within the Council, including consultation in the IA planning process at quarterly planning level and with respect to individual reviews. The HIA will share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Staff Training and Development

- 7.5 IA will be appropriately staffed in terms of numbers, professional qualifications and experience, having regard to the IA objectives and to the standards set out in the PSIAS. The staffing of IA will be kept under review by the HIA and the Audit Committee.
- 7.6 The HIA holds a professional qualification (CMIIA, CCAB, or equivalent) and be suitably experienced. All IA staff will be properly trained to fulfil their roles and responsibilities and they will each maintain their professional competence through an appropriate on-going professional development programme. When necessary, in-house IA resources will be supplemented by external resources.

8. Other Internal Audit Work

Wider Remit of Business Assurance

- 8.1 The IA activity sits within the Council's Business Assurance service. The role of the Head of Business Assurance incorporates wider responsibilities of Information Governance (as the Council's Senior Information Risk Owner (SIRO), Business Continuity, Risk Management, Insurance as well as Health & Safety. Whilst expanding the remit of Business Assurance we will continue to focus on delivering consistently high quality value added IA reviews to help services to succeed. This will be undertaken in such a way to maintain our independence and objectivity to ensure an unbiased assessment of the Council's control environment.

Third Parties

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

Consulting and Advisory Services

- 8.3 IA may perform consulting and advisory services related to governance, risk management and controls as appropriate for the Council. IA may also evaluate specific operations at the request of the Audit Committee or CMT, as appropriate. Based on its activity, IA is responsible for reporting significant risk exposures and control issues identified to the Audit Committee/ CMT.

Anti-Fraud & Anti-Corruption

- 8.4 IA's role in any fraud or corruption related work will be in accordance with the Council's Anti-Fraud and Anti-Corruption Strategy and with resources approved by the Audit Committee in the Quarterly IA Plans. However, Internal Auditors will have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation. In addition, IA may assist or lead, as needed, in the identification and investigation of suspected fraudulent activities within the Council and notify Management and the Audit Committee of the results.

Major Projects

- 8.5 The IA service will be informed of major projects and their progress through continued discussion with Management and attendance at project working groups, where invited to attend. Where a project team seeks advice or further support from the IA service, we will treat the request as one for consultancy support and make appropriate arrangements to ensure future objectivity is not impaired.

Risk Management

- 8.6 Business Assurance will be guided by the IIAs position paper on [*The Role of Internal Auditing in Enterprise-Wide Risk Management*](#) and therefore Business Assurance will not undertake any roles defined as inappropriate by that guidance. Inappropriate roles include setting the Council's risk appetite, imposing a risk management process and taking on full accountability for risk management. The position paper lists the following as legitimate roles (with safeguards):
- Co-ordination of risk management activities;
 - Consolidating risk reporting;
 - Developing a risk approach for approval and its subsequent maintenance;
 - Facilitating identification and evaluation of risks; and
 - Coaching management in responding to risks.
- 8.7 The Council's Risk Management Policy and Guidance defines the role of Business Assurance in relation to risk management, including safeguards put in place, which include:
- Internal separation of duties within the Business Assurance team, managed through the roles of Business Assurance Manager and the Senior Internal Audit Manager. Any Internal Audit review of risk management will be undertaken by an external provider to enhance independence and objectivity in this area.
 - The Cabinet holding responsibility for approving the Authority's risk management policy statement and strategy.
 - The Corporate Director of Finance, as Chief Finance Officer, being responsible for preparing the Authority's risk management policy statement and for promoting it throughout the authority;
 - The Audit Committee will 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.

9. Ethics

Code of Ethics

- 9.1. IA will abide by the Code of Ethics set out in the PSIAS. IA staff are bound by the two essential components of the Code of Ethics: 1) *Principle*; and 2) *Rules of Conduct*, applicable to the four elements of a) Integrity; b) Objectivity; c) Confidentiality; and d) Competency.
- 9.2 IA will apply the four *Attribute Standards* and the seven *Performance Standards* set out in the PSIAS. Any instances of non-conformance with the Code of Ethics or the PSIAS that impact the scope or operation of IA activity will be reported to CMT and the Audit Committee. Internal auditors will also abide by the Committee on Standards of Public Life's *Seven Principles of Public Life*.

Due Professional Care and Competency

- 9.3 IA staff will apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

Independence and Objectivity

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

10. Quality Assurance

Professional Standards

- 10.1. The IA activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics and the International Professional Practices Framework (IPPF), incorporating the Mandatory Standards.
- 10.2 This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activities performance to ensure that engagements are performed with proficiency and due professional care. In addition, IA will adhere to the Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Staff Training and Development

- 10.3 All IA staff will be properly trained (ref para. 7.5) to fulfil their roles and responsibilities and they will each maintain their professional competence through an appropriate on-going professional development programme. When necessary, in-house IA resources will be supplemented by external resources.

Quality Assurance Improvement Programme

- 10.4 The work of IA will be controlled at each level of operation to ensure that a continuously effective level of performance is being maintained. The HIA maintains a Quality Assurance and Improvement Programme (QAIP) designed to gain assurance that the work of IA is compliant with the PSIAS and achieves its objectives. The QAIP will cover all aspects of the IA activity, including but not limited to:
- Client Feedback Questionnaires (CFQs) that are sent out at the completion of each audit;
 - A self-assessment of the IA service each year and its compliance with the PSIAS;
 - On-going internal performance monitoring and reporting by the HIA, as well as an external assessment at least once every five years by a suitably qualified, independent assessor.
- 10.5 The results of the QAIP and progress against any improvement plans will be reported to Senior Management and the Board through quarterly IA progress reports, as well as within the Annual IA Report.
- 10.6 To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

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Agenda Item 7

Business Assurance - IA Progress Report for 2016/17 Quarter 3 (including the Quarter 4 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 2016/17 Quarter 3 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 Quarter 3 IA Plan and facilitates in holding management to account for managing risk/control weaknesses identified during the course of IA activity.

The attached report also presents the Audit Committee with the Quarter 4 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 January to 31st March 2017 period.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the IA Progress Report for 2016/17 Quarter 3 and consider the Quarter 4 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 2015 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.

New IA standards came into force on 1st April 2013, revised in April 2016, which further promote improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

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

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BUSINESS ASSURANCE

Internal Audit Progress Report to Audit Committee: 2016/17 Quarter 3 (including the Quarter 4 Internal Audit Plan)

6th December 2016



Contents

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

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	Page
1. Introduction	3
2. Executive Summary	3
3. Analysis of IA Activity in Quarter 3	4
4. Analysis of IA Performance in Quarter 3	7
5. Forward Look	8
<u>Appendix A</u> – Detailed IA Work Undertaken	9
<u>Appendix B</u> – Revisions to 2016/17 Quarter 3 IA Plan	13
<u>Appendix C</u> – 2016/17 Quarter 4 IA Plan	16
<u>Appendix D</u> – IA Assurance Level Definitions and IA Recommendation Risk Ratings	21

1. Introduction

1.1 The Role of Internal Audit

- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Council achieve its corporate objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2015 that the Authority undertakes an effective IA to evaluate the effectiveness of its risk management, internal control and corporate governance processes, taking into account UK Public Sector IA Standards (PSIAS) or guidance.
- 1.1.2 The PSIAS define the nature of IA and set out basic principles for carrying out IA within the public sector. The PSIAS helps the Council to establish a framework for providing IA services, which adds value to the organisation, leading to improved organisational processes and operations.

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

- 1.2.1 This progress report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on 2016/17 IA assurance, consultancy and grant claim verification work covered during the period 13th September to 6th December 2016. In addition, it provides an opportunity for the Head of Business Assurance, as the Council's Head of Internal Audit (HIA), to highlight significant issues arising from IA work in Quarter 3. It also highlights to CMT, the Audit Committee and other IA stakeholders the revisions to the Quarter 3 IA plan since its approval in September 2016 (refer to **Appendix B**).
- 1.2.2 A key feature of the Quarter 3 IA progress report is the inclusion of the Quarter 4 IA plan (refer to **Appendix C**). This has been produced in consultation with senior managers over the last few weeks and sets out the planned programme of IA coverage due to commence in the 1st January to 31st March 2017 period.

2. Executive Summary

- 2.1 Since the last IA Progress Report to CMT and the Audit Committee in September 2016, **10 assurance reviews** have concluded (including 2 follow-ups), **1 consultancy review** has been finalised and **1 grant claim** has been certified. We are therefore nearing completion of the programme of IA work for Quarters 1 and 2, with significant progress made on Quarter 3.
- 2.2 Our work on the 2016/17 Quarter 3 IA plan commenced on 1st October and work is now well underway on all Quarter 3 planned work (refer to **Appendix A**) with positive progress made. It should however be noted that whilst we have maintained capacity during the quarter, we have lost resource through an internal secondment to Business Improvement which, in addition to a changing skills mix within the team, has impacted delivery within the quarter. We are confident that the enhanced robustness of IA resource through recent recruitment exercises will enable delivery of the 2016/17 plan despite continuing requests for business assurance advice and expertise to undertake supplementary work.
- 2.3 Key assurance reviews finalised this quarter have included **Physical Access Controls (including Security Arrangements)**, **Lease Agreements** and **Sheltered Housing**. One assurance audit finalised in this quarter received a **NO** assurance opinion with a further three reviews receiving a **LIMITED** assurance opinion over the management of the key risks. These results are in line with our expectations and the risk-based approach which we deploy. 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 will be followed-up by us in due course.

- 2.4 The consultancy work within Business Support / Technical Admin in relation to data protection was a significant piece of work for us this quarter. IA also continues to undertake a variety of valuable advisory work across the Council. 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 2016/17 Quarter 3

3.1 Assurance Work in Quarter 3

- 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 **8** 2016/17 IA assurance reviews have been completed to final report stage (excluding follow-ups), with **3** others progressed to draft report stage and **12** reviews at the testing stage. In addition, **2** follow-ups reviews have been finalised this quarter (refer to **Appendix A** for details).
- 3.1.2 Key assurance reviews finalised this quarter have included Physical Access Controls (including Security Arrangements), Lease Agreements, Sheltered Housing and the Anti Social Behaviour and Investigations Team (ASBIT). For **Physical Access Controls including Security Arrangements** we raised **3 HIGH** and **5 MEDIUM** risk recommendation and gave an overall **NO** assurance opinion. We are aware that a number of the issues highlighted within our report are intrinsic to the Civic Centre and, due to the current austerity measures imposed, may be risk tolerated by management due to the cost benefit provided. However, we have identified numerous and significant gaps in relation to physical access controls and security arrangements at the Civic Centre.
- 3.1.3 Specifically, our testing identified a combination of preventative and detective control gaps which consequently mean there are considerable opportunities for an unauthorised person to gain access to restricted staff areas. The high likelihood of physical access controls being breached substantially increases the opportunity for Council assets to be misappropriated and/or damaged; in addition to compromising the safe working environment for Council staff, Councillors and visitors.
- 3.1.4 The IA review of **Lease Agreements** raised **1 HIGH** and **1 MEDIUM** risk recommendation. Our testing highlighted that there is an absence of centrally held lease records. Whilst records were maintained by the various service areas across the Council, these were found to be inconsistent in terms of the accuracy and completeness of information. In order to assess for value for money, we reviewed a sample of tenders with our testing finding that leases consistently continue to run after contract expiry and we were therefore unable to provide assurance that these historic lease arrangements continue to provide value for money to the Council, and therefore an overall **LIMITED** assurance opinion was provided.
- 3.1.5 The IA review of **Sheltered Housing** raised **3 HIGH** and **6 MEDIUM** risk recommendations, with a **LIMITED** assurance opinion provided. This review highlighted that there are many areas of the Sheltered Housing (SH) service which we consider to require management attention. However, at the time of review the service was under consultation which may have had an impact on the service and the control environment. We found that there were documented procedures and guidance manuals in critical need of review, with gaps identified in relation to mandatory training and health and safety compliance.
- 3.1.6 During our review of the application and assessment process, we noted gaps in supporting documentation and it was apparent that several pieces of evidence to support the SH applications were not stored on the Civica document management system. In addition, we believe the SH assessment process itself requires review to ensure that complete, accurate, relevant and timely information is captured to ensure the appropriate approval and allocation of the service user.

- 3.1.7 The IA review of the **ASBIT** raised **1 HIGH** and **4 MEDIUM** risk recommendations, with a **LIMITED** assurance opinion provided. This review highlighted a distinct lack of consistency in how onyx is operated throughout the team, significantly reducing the integrity and quality of data within the system. Management are aware of some of the historic issues highlighted below and have actively sought a new IT solution, CIVICA APP, which is at an advanced stage of implementation scheduled for December 2016.
- 3.1.8 Due to reported onyx system functionality issues the service lacks a performance management culture with no robust or formal mechanisms in place to monitor and report performance information to key stakeholders. The absence of management information prevents ASBIT management from fully scrutinising the workload and performance of the Service. This coupled with the absence of regular training and execution of quality spot checks appears to be impacting the accuracy within the system, as well as the quality and quantity of management information.
- 3.1.9 Other assurance reviews finalised this quarter included Fees and Charges, Corporate Debtors, Council Stores and the Effectiveness of the Audit Committee (which is being reported as a separate agenda item to the Audit Committee). Each of these three reviews provided a **REASONABLE** assurance opinion and together raised **20 MEDIUM**, **12 LOW** risk recommendations. Positive management action has been proposed to address all **HIGH** and **MEDIUM** risk recommendations raised this quarter.
- 3.1.10 Further, as at 6th December, **3** assurance reviews have been progressed to draft report stage, **12** at the testing stage with **1** at planning stage. The summary results of these **16** assurance audits will be included in the Quarter 4 progress report due to be presented to Audit Committee on 16th March 2017.

3.2 Consultancy Work in Quarter 3

- 3.2.1 IA continues to undertake a variety of consultancy work across the Council. The consultancy coverage includes IA staff attending working and project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach continues to help increase IA's knowledge of corporate developments that feed into the risk based deployment of IA resource on assurance work. Also, participation in working and project groups as well as secondments within the Council continues to help individual IA staff develop, whilst at the same time increasing the value IA provides to the Council.
- 3.2.2 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 improvement suggestions for senior management to consider. Attached at **Appendix A** is a list of consultancy work carried out in Quarter 3 with **1 consultancy review completed** within the period. A further 2 consultancy reviews were added to the Quarter 3 IA plan as detailed at **Appendix B**.
- 3.2.3 IA was requested to provide independent assurance that following two very similar Data Protection (DP) breaches within the remit of Business Support / Technical Admin in the space of a few months earlier this year. Overall, we concluded that since the occurrence of the first and second incidents, processes have been enhanced and along with the further planned improvements, the control framework has been sufficiently strengthened. These improvements will help prevent a reoccurrence of a similar incident in the future, providing the processes now in place continue to be adhered to.

3.3 Grant Claim Verification Work in Quarter 3

- 3.3.1 During this quarter IA has also assisted the Council in certifying three grant claims. As detailed at **Appendix A**, IA continues to carry out verification work on the **Troubled Families Grant** as well as undertaking verification work regarding the **Disabled Facilities Grant (DFG)**, which equates to £1.76m within the quarter.

3.3.2 The **DFG** provides a framework for local authorities to provide mandatory grants for housing adaptations for disabled people to enable them to live independently in their own homes, whether they be privately owned, rented or social housing. Our DFG certification work confirmed compliance, in particular expenditure, against the set grant conditions. As a result of our testing, we are pleased to state that the grant claim to Department for Communities and Local Government (DCLG) was signed off by the HIA and Chief Executive, prior to the 30th September 2016 deadline, with an unqualified opinion.

3.3.3 There has been one other grant claim verification work undertaken within the quarter in relation to the Hillingdon Teaching Schools Alliance (HTSA). This work, currently at testing stage, was an addition to the Quarter 3 IA Plan detailed at **Appendix B**.

3.4 Follow-up of Previous Internal Audit Recommendations in Quarter 3

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. In addition to this, we have taken a renewed approach to follow-up work within the year, actively following up on prior **Limited** or **No** assurance reports within 6 months to a year after their issue. This approach provides additional assurance to CMT and the Audit Committee over the implementation of IA recommendations and whether the control environment is now operating as intended.

3.4.2 Attached at **Appendix A** is a list of follow-up work carried out in Quarter 3. This highlights that **2 follow-up** reviews have been completed within the period, with one further review currently at an advanced stage. The two follow-up reviews completed this quarter were on the **Limited** assurance 2015/16 review of **Deprivation of Liberty Safeguards** and 2015/16 IA consultancy review of **Library Imprest Accounts**.

3.4.3 Within the **Deprivation of Liberty Safeguards** follow-up we are pleased to report that all 6 recommendations raised were deemed **Implemented** as at 13th October 2016. The IA follow up review of the **Library Imprest Accounts** concluded that only 1 out of 6 improvement suggestions were deemed Implemented at the time of this review. Further action is required to ensure that the associated risks are being appropriately controlled in the remaining five suggested improvements raised.

3.4.4 Due to the lack of action taken to address identified weaknesses, it has been agreed with management that the improvement suggestions deemed not implemented will be tracked on TeamCentral against the agreed implementation date. Thus, we will monitor the implementation against each of these five improvement suggestions through this dedicated resource to ensure a robust control environment is in place, providing assurance to CMT and the Audit Committee on the progress made.

3.5 Other Internal Audit Work in Quarter 3

3.5.1 We continue to undertake a quarterly approach to IA planning to ensure emerging risks and new areas of concern are captured, particularly within the fast changing environment the Council operates in. Over the last month we have undertaken our risk based planning meetings, alongside operational and corporate risk discussions due to the synergies between these two functions. Further to this, we have produced the detailed operational IA plan for Quarter 4 (refer to **Appendix C**) in consultation with management.

3.5.2 This quarterly planning cycle helps ensure that IA resources are directed in a more flexible and targeted manner, maximising resources as well as benefiting our stakeholders.

3.5.3 Within the quarter, and following the recent review of the effectiveness of IA, we have undertaken a review of audit evidence as part of our **Quality Assurance and Improvement Programme (QAIP)**. The QAIP is designed to provide assurance that IA work continues to be fully compliant with the UK PSIAS and also helps enable the ongoing performance monitoring and improvement of IA activity.

3.5.4 This review identified a small number of instances where audit evidence, supporting the recommendations raised and/or assertions made, was saved on the shared drive rather than on the TeamMate file. This issue has been highlighted and communicated to the team with an evidence based training exercise provided at a recent Business Assurance team meeting.

4. Analysis of Internal Audit Performance in 2016/17 Quarter 3

4.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. We believe that these KPIs to be meaningful and provide sufficient challenge to the 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. Cumulative performance against KPIs in the 1st April to 6th December 2016 period is highlighted in the table below:

KPI Ref.	Performance Measure	Target Performance	Actual Performance	RAG Status
KPI 1	2016/17 HIGH risk IA recommendations where positive management action is proposed	98%	100%	GREEN
KPI 2	2016/17 MEDIUM risk IA recommendations where positive management action is proposed	95%	100%	GREEN
KPI 3	2016/17 HIGH risk IA recommendations where management action is taken within agreed timescale	90%	100%	GREEN
KPI 4	2016/17 MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	91%	GREEN
KPI 5	Percentage of annual (Q1 to Q4) IA Plan delivered to draft report stage by 31 st March	90%	90%	GREEN
KPI 6	Percentage of annual (Q1 to Q4) IA Plan delivered to final report stage by 31 st March	80%	80%	GREEN
KPI 7	Percentage of draft reports issued as a final report within 15 working days	75%	50%	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%	100%	GREEN

4.2 Performance against KPI 7 is currently being reported as **RED**. This is primarily due to six instances where management responses to the draft reports have not been received within the set timescales. Whilst we facilitate this process, we are reliant on timely management responses to achieve this indicator. On 4 of the 12 assurance reviews finalised to date, we experienced significant delays receiving management responses.

- 4.3 The time taken to finalise final reports from draft stage is on average 20 working days, an increase of 9 days from the quarter 2 progress report. Due to historic non performance against KPI 7 we have commenced providing greater oversight of compliance against this KPI to Corporate Directors as part of a quarterly IA dashboard, reporting a snapshot of IA performance at a Group level.
- 4.4 We are currently exceeding several of our KPI targets, including achieving the ambitious KPI 8, Client Satisfaction Rating which we are hopeful will continue throughout the remainder of the year as the volume of CFQ feedback increases. In addition, due to the increasing trend of consultancy reviews undertaken within the service, we have commenced sending formal CFQs for consultancy reviews within the quarter. This should therefore provide an accurate quantitative indicator as to the value and quality of the range of services provided by IA.
- 4.5 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 guidelines, which is encompassed in our IA and management review processes. This is reported as 100% compliant following the annual **Effectiveness of IA** review. However, our External Quality Assessment (EQA), scheduled for January 2017, will provide an enhanced value against this KPI.

5. Forward Look

- 5.1 A key member of the IA team is due to leave the Council later this month, moving to an IT audit role within the banking industry. Given the recent recruitment exercise for a Trainee Internal Auditor, in line with the recently updated IA Strategy 2015-20, we are looking at a number of recruitment options to fill the resulting vacancy in the team providing other members of the IA team with an opportunity to take on more responsibility.
- 5.2 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 awaiting to confirm arrangements and timing with the HIA from the London Borough of Lambeth who will be carrying out the assessment of our IA service. The review is expected to take place over 5 days and will be conducted within existing IA resources.
- 5.3 IA would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the Council during Quarter 3. There are no other matters that the HIA needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie FCCA, CMIIA
Head of Business Assurance

6th December 2016

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2016/17**

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

2016/17 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 6 th December 2016	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
16-A4	Physical Access Controls (including Security Arrangements)	Final report issued on 7 th Nov 2016	No	3	5	0	0	Not yet due
16-A9	Health Visiting	Final report issued on 20 th Jul 2016	Limited	1	1	0	0	✓
16-A1	Lease Agreements	Final report issued on 4 th Nov 2016	Limited	1	1	0	0	✓
16-A16	Sheltered Housing	Final report issued on 17 th Nov 2016	Limited	3	6	1	0	Not yet due
16-A24	Anti Social Behaviour Investigations Team (ASBIT)	Final report issued on 1 st Dec 2016	Limited	1	4	4	0	Not yet due
16-A11	Risk Management	Final report issued on 7 th Jul 2016	Reasonable	0	5	3	0	N/A
16-A12	Review of the Effectiveness of IA	Final report issued on 7 th Jul 2016	Reasonable	0	2	3	2	N/A
16-A5	New Years Green Lane (NYGL)	Final report issued on 20 th Jul 2016	Reasonable	0	6	2	0	✓
16-A3	Housing Benefits	Final report issued on 26 th Jul 2016	Reasonable	0	3	5	1	✓
16-A10	Fees and Charges	Final report issued on 30 th Sep 2016	Reasonable	0	4	1	0	✓
16-A7	Corporate Debtors	Final report issued on 4 th Oct 2016	Reasonable	0	9	5	0	✓
16-A13	Review of the Effectiveness of the Audit Committee	Final report issued on 18 th Nov 2016	Reasonable	0	4	3	0	Not yet due
16-A17	Council Stores	Final report issued on 1 st Dec 2016	Reasonable	0	3	3	0	Not yet due
16-A28	Insurance Service	Draft report in progress						
16-A15	ICS Data Quality- Financial Controls	Draft report in progress						
16-A20	Logical Access Controls	Draft report in progress						
16-A6a	Contract Management - Parking Services	Testing in progress						

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2016/17**

IA Ref.	IA Review Area	Status as at 6 th December 2016	Assurance Level	Risk Rating			CFQ Received?
				H	M	L	
16-A6b	Contract Management (Social Care)	Testing in progress					
16-A25	Better Care Fund	Testing in progress					
16-A27	Semi-Independent Living (including Contract Management)	Testing in progress					
16-A30	Planning Application processing team - Quality Control	Testing in progress					
16-A31	Local Land Charges	Testing in progress					
16-A32	Building Control	Testing in progress					
16-A33	Corporate Fraud Investigations Team	Testing in progress					
16-A35	Fostering Pathway	Testing in progress					
16-A37	Youth Offending Service Assessment	Testing in progress					
16-A38	Tenancy Management	Testing in progress					
16-A40	Disabled Facilities Grant	Testing in progress					
16-A34	Main Accounting System	Planning					
		Total Number of IA Recommendations Raised in 2016/17	9	53	30	3	
		Total % of IA Recommendations Raised in 2016/17	10%	58%	32%	-	

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2016/17****2016/17 IA Follow-Up Reviews:**

IA Ref.	IA Follow-Up Review Area	Status as at 6 th December 2016	Recommendations			CFQ Received?
			Implemented	Partly Implemented	Not Implemented	
16-A14	Home to School Transport - Safeguarding Arrangements	Final report issued on 6 th Jul 2016	3	6	-	✓
16-A23	Music Service	Final report issued on 8 th Aug 2016	4	3	1	✓
16-A21	Deprivation of Liberty Safeguards (DoLS)	Final report issued on 13 th Oct 2016	6	-	-	✓
16-A22	Library Imprest Accounts	Final report issued on 24 th Oct 2016	1	-	5	✓
16-A40	Disabled Facilities Grant	Testing in progress				

2016/17 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 6 th December 2016	CFQ Received?
16-C4	Stores - Year End Stock Take	Memo issued on 21 st April 2016	✓
16-C2a	Children and Young Peoples Service (CYPS) Financial Controls - Allowances	Memo issued on 19 th May 2016	✓
16-C2b	Children and Young Peoples Service (CYPS) Financial Controls - P'Cards & Imprest	Memo issued on 19 th May 2016	✓
16-C8	Stores - Stock Transfer	Memo issued on 20 th May 2016	✓
16-C6	Private Sector Landlord Scheme	Memo issued on 3 rd June 2016	Not applicable
16-C3	Benefits - BACs processing	Memo issued on 14 th July 2016	✓
16-C9	Data Analytics (Personal Protective Equipment)	Memo issued on 18 th July 2016	✓
16-C5	Digital broadcasting of Council meetings	Memo issued on 19 th July 2016	✓
16-C13	Data Analytics (consent to drive vs. mileage claimed)	Memo issued on 3 rd August 2016	✓
16-C7	Public Health - Provider Payments Process (Pharmacy)	Memo issued on 11 th August 2016	✓
16-C12	Public Health - Provider Payments Process (GPs) - Combined with 16-C7	Memo issued on 11 th August 2016	✓

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2016/17****2016/17 IA Consultancy Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 6th December 2016	CFQ Received?
16-C11	Information Governance - Data Protection Training	Memo issued on 5 th September 2016	✓
16-A26	Business Support / Technical Admin - Data Protection	Memo issued on 4 th November 2016	Not applicable
16-C14	SEND Ofsted Inspection Project Management Support	Consultancy support in progress	
16-C15	Mayor's Charity Accounts	Testing in Progress	

2016/17 IA Grant Claim Verification Reviews:

IA Ref.	IA Review Area	Status as at 6th December 2016
16-GC1	Troubled Families Grant - Quarter 1	Certified and memo issued on 3 rd May 2016
16-GC2	Social Care Capital Grant	Certified and memo issued on 30 th June 2016
16-GC5	Troubled Families Grant - Quarter 2	Certified and memo issued on 30 th June 2016
16-GC3	Bus Subsidy Grant	Certified and memo issued on 1 st September 2016
16-GC4	Housing Benefit Subsidy Grant	IA testing completed on 12 th September 2015
16-GC6	Disabled Facilities Grant	Certified and memo issued on 20 th September 2016
16-GC7	Troubled Families Grant - Quarter 3	Testing in Progress
16-GC8	Hillingdon Teaching Schools Alliance (HTSA)	Testing in Progress

APPENDIX B**REVISIONS TO THE 2016/17 INTERNAL AUDIT PLAN ~ QUARTER 3****IA work DEFERRED from the 2016/17 Operational IA Plan for Quarter 3:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
16-A36	Ofsted Readiness	Assurance	MEDIUM	Tony Zaman, Corporate Director of Social Care	Following initial discussions and agreement to this audit we were advised that there is substantial ongoing work in this area. Management have therefore requested this review be deferred until Quarter 4 to provide greater assurance over the management of service risks, strategic and operational arrangements moving forward.
16-A29	Library Book Procurement	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	This review was initiated by the Council's Business Improvement Delivery (BID) Team with their work concluded and options provided to the relevant Head of Service. This review, depending on the option and model decided upon, will be deferred until the next financial year.
16-A37	Youth Offending Service (YOS) Assessment	Assurance	MEDIUM	Tony Zaman, Corporate Director of Social Care	Following initial request, discussions and agreement to this audit we were then advised as part of our planning process that the enhancements to the YOS assessments were at a very early stage and additional value from this audit would be obtained in six months time, and therefore requested this review be deferred until Quarter 1 of 2017/18.
16-C10	Domiciliary Care Payments	Consultancy	MEDIUM	Tony Zaman, Corporate Director of Social Care	Domiciliary care refers to a range of support services and personal care delivered to an individual within their home. Service users will undergo a variety of assessments and support planning to establish the number of hours of care they require per week; including financial assessments to determine whether they are eligible to receive financial support. The IA Assurance review of Corporate Debtors identified weaknesses in this area, recommending potential improvements to processes around client billing, relieving the need for this IA consultancy review.

APPENDIX B (cont'd)**REVISIONS TO THE 2016/17 INTERNAL AUDIT PLAN ~ QUARTER 3****IA work DEFERRED from the 2016/17 Operational IA Plan for Quarter 3:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
16-A39	Change Control	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Despite communicating the plan and scheduling the work within December, we have since been advised that, due to the restructure within the Council's IT department and resulting lack of available resource, Management have requested to defer this IA assurance review to Quarter 4.

IA work ADDED to the 2016/17 Operational IA Plan for Quarter 3:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
16-A40	Disabled Facilities Grant	Assurance (Follow-up)	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following the 2015/16 IA assurance review in this area which received a LIMITED assurance opinion, this follow-up review, with a refined scope, focuses on the implementation of the 8 MEDIUM risk recommendations raised.
16-GC8	Hillingdon Teaching Schools Alliance (HTSA)	Grant Claim	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Teaching schools, appointed by the National College for Teaching and Leadership (NCTL), to provide high quality training, development and support to new and experienced school staff. They receive an annual grant from NCTL to help fund the cost of this provision. As part of the grant conditions each school receiving funding is required to obtain independent external assurance that this funding has been spent in accordance with the aims and objectives of the grant as indicated in the Grant Funding Agreement. This external assurance grant is not part of core school funding and hence there will be a cost to be met by the school for the external assurance grant claim audit.

APPENDIX B (cont'd)**REVISIONS TO THE 2016/17 INTERNAL AUDIT PLAN ~ QUARTER 3****IA work ADDED from the 2016/17 Operational IA Plan for Quarter 3:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
16-C14	SEND Ofsted Inspection Project Management Support	Consultancy	MEDIUM	Tony Zaman, Corporate Director of Social Care	IA will be providing approximately 10 days of project management support to Children and Young People's Service (CYPS) throughout the SEND Ofsted inspection being undertaken within Quarter 3.
16-C15	Mayor's Charity Accounts	Consultancy	LOW	Paul Whaymand, Corporate Director of Finance	The Mayor's Charity has been registered as a charitable trust in November 2015 and therefore are required to comply and operate within Charity Commission guidelines. The Council is currently preparing the accounts for the Mayor's Charity and Internal Audit has been asked to assist as part of this process. These accounts do not form part of the Council's finances so there would be no conflict in undertaking this review.

APPENDIX C**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2016/17 ~ QUARTER 4**

IA work scheduled to commence in the 1st January to 31st March 2017 period:

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
16-A41	Service Planning	Assurance	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Service planning is an essential process for the Council to achieve its priorities and demonstrate continuous improvement. It brings together aspects of performance and risk management, corporate projects and programmes to ensure cohesion in corporate direction and management decision making thus increasing the likelihood of achieving Corporate objectives and goals. It allows the Council to define actions, monitor progress and report performance as well as prioritising what services we need to deliver to meet the needs of our residents.
16-A42	Tenancy Management - Enforcement and Risk Management	Assurance	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Effective rent arrears recovery is dependent on taking prompt and appropriate action. This action should have increasing severity where the level of rent arrears debt does not reduce. At Hillingdon, rent arrears have significantly increased in recent years as a result of the reductions in Housing Benefit paid to tenants. Following a restructure of the service, this review will seek to provide assurance over the continued management of the keys risks within the enforcement and risk management team.
16-A43	Housing Needs - Allocations and Assessments	Assurance (Follow-up)	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following the 2015/16 IA assurance review in this area which received a LIMITED assurance opinion this follow-up review, with a refined scope, that focuses on the implementation of the 3 HIGH and 7 MEDIUM risk recommendations. This follow-up assurance review will establish how the Council is managing the risk of not meeting housing needs in the borough caused by insufficient provision of accommodation which includes the supply of affordable housing, and the provision and management of temporary accommodation.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2016/17 ~ QUARTER 4**

IA work scheduled to commence in the 1st October to 31st December 2016 period:

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
16-A44	Fleet Management	Assurance (Follow-up)	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	<p>This review will seek to provide assurance over the Fleet Management Service (FMS) which is responsible for providing a fit for purpose, safe, reliable and cost effective vehicle fleet. This enables LBH to deliver key front line operational services to residents. The FMS primarily support waste services, highways and passenger services.</p> <p>Following the 2015/16 IA assurance review in this area which received a LIMITED assurance opinion this follow-up review, with a refined scope, that focuses on the implementation of the 1 HIGH and 8 MEDIUM risk recommendations.</p>
16-A45	New Years Green Lane	Assurance (Follow-up)	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	<p>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.</p> <p>Following the 2016/17 IA assurance review in this area which received a LIMITED assurance opinion this follow-up review, with a refined scope, that focuses on the implementation of the 6 MEDIUM risk recommendations.</p>
16-A36	Ofsted Readiness	Assurance	MEDIUM	Tony Zaman, Corporate Director of Social Care	<p>The Ofsted inspection will look at the Council's services for children in need of help and protection; children looked after and care leavers. Deferred from Quarter 3, this assurance review will focus on the readiness of Children and Young People's Service for an Ofsted inspection seeking to demonstrate the Council's commitment to high standards of practice, management and leadership in the safeguarding of children.</p>

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2016/17 ~ QUARTER 4**IA work scheduled to commence in the 1st January to 31st March 2017 period:

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
16-A39	Change Control	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Change management process is a formal set of procedures and steps that are set in place to manage all changes, updates, or modifications to hardware and software (systems) across the organisation. This IT assurance review, deferred from Quarter 3, will aim to assess whether change processes are conducted in line with organisational policy.
16-A46	Payroll	Assurance	MEDIUM	Fran Beasley, Chief Executive & Corporate Director of Administration	Staff costs form a major proportion of the Council's expenditure. The control of staff costs, through sound budgeting and human resource planning is therefore vital to the financial success of the Council. Having a robust and reliable payroll service is also important to make sure payments to staff are made accurately and promptly. Due to restructures within the Council, this IA assurance review will focus solely on segregation of duties throughout the function to ensure that there is appropriate oversight of transactions throughout the process.
16-A47	Estates Management - Leases	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following the 2016/17 assurance review of Lease Agreements, focusing on the Council's approach to obtaining leases, this assurance review will focus on the lease of Council property and land assets within the Estates Management service are being appropriately managed and income maximised.
16-A48	Facilities Management within Green Spaces, Sport and Culture	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Facilities management (FM) is a management discipline concerned with the integration of processes within the Council to maintain and develop agreed services which support and improve the effectiveness of its primary activities. The Council's facilities management function is undertaken by an outsourced provider, and this review will seek to provide assurance over compliance with contract requirements with particular focus within Green Spaces, Sport and Culture.

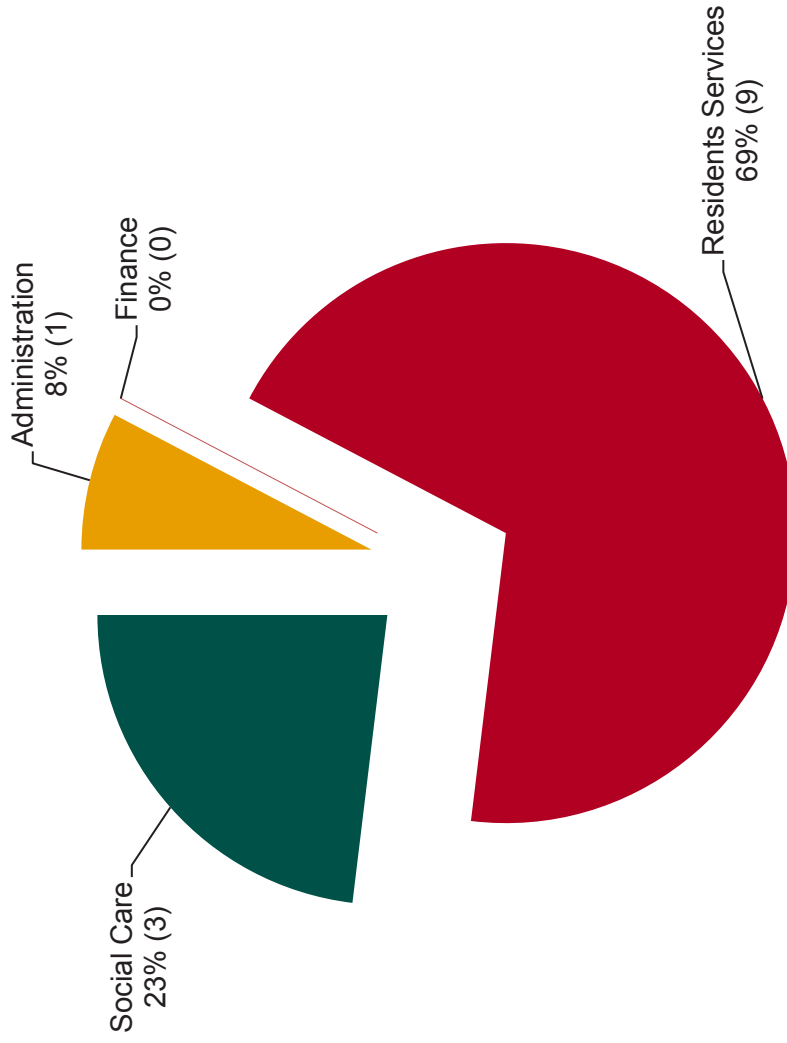
APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2016/17 ~ QUARTER 4**IA work scheduled to commence in the 1st January to 31st March 2017 period:

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
16-A49	Data Quality within Trading Standards and Regulatory Services	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Trading Standards ensure businesses are aware of their obligations to consumers and do not infringe consumer protection laws whilst the Regulatory Service process applications for licences, permits and notices under the Licensing Act 2003 and the Gambling Act 2005. This review will aim to provide assurance around the quality of data held within the respective services, with a particular focus around evidential information. Data quality refers to the accuracy, completeness, validity and timeliness of data to support business operations and aid in decision making and planning.
16-A50 / 16-C16	Social Care Contingency	Assurance / Consultancy	MEDIUM	Tony Zaman, Corporate Director of Social Care	We have allocated contingency resources within the Quarter 4 plan to ensure that any assurance and / or consultancy advice needed arising from risks identified through the Ofsted SEND inspection currently being undertaken.
16-GC9	Troubled Families Grant - Quarter 4	Grant Claim	MEDIUM	Tony Zaman, Corporate Director of Social Care	The Troubled Families programme is a Government scheme under the Department for Communities and Local Government (DCLG) with the stated objective of helping troubled families turn their lives around. The Council receives a payment by results grant from the DCLG for each identified 'turned around' troubled family. As per the grant conditions, IA will undertake verification work to confirm identified troubled families have been 'turned around'.

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2016/17 ~ QUARTER 4 (cont'd)

IA work scheduled to commence in the 1st January to 31st March 2017 period – Analysis by Corporate Director:



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

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

RISK	DEFINITION
<p style="text-align: center;">HIGH</p> <p style="text-align: center;">●</p>	<p>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.</p>
<p style="text-align: center;">MEDIUM</p> <p style="text-align: center;">●</p>	<p>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.</p>
<p style="text-align: center;">LOW</p> <p style="text-align: center;">●</p>	<p>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.</p>
<p style="text-align: center;">NOTABLE PRACTICE</p> <p style="text-align: center;">●</p>	<p>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.</p>

NATIONAL SCHEME FOR AUDITOR APPOINTMENTS

Contact Officer: Nancy Leroux
Telephone: 01895 205353

SUMMARY

Under the Local Audit and Accountability Act 2014 the Audit Commission was abolished and new arrangements established to audit local public bodies. The act sets out the new regime for local authority audits and reforms the way audit is procured by Councils. An external auditor for the audit of the Council's accounts for 2018/19 must be appointed before the end of 2017.

Councils may make the appointment themselves, or in conjunction with other bodies, or they can take advantage of a national collective scheme. The decision on the Council's approach is required to be taken by Full Council and to align with the timetable for decision making a report will need to go to the January meeting of Full Council.

There are significant advantages to be gained from opting in to the national scheme and this report explains the role of Public Sector Audit Appointments Limited (PSAA), who has been given the role of appointing local auditors under the national scheme. It also outlines a timetable for appointing auditors under the scheme. The Council has been formally invited to opt into these arrangements and should the Council decide to join, then a formal acceptance by Council is required by 9 March.

RECOMMENDATIONS

The committee is asked to note the contents of the report and the recommendation to Council to formally opt in to the national scheme for appointing local authority auditors.

INFORMATION

Information on the national scheme: Public Sector Audit Appointments Limited (PSAA)

PSAA are a not-for-profit company established by the Local Government Association (LGA). They administer the current audit contracts, let by the Audit Commission before it closed.

The PSAA have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. They have established an

advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

PSAA have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that they will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements they will operate for audits of the accounts from 2018/19.

PSAA will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate their role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

PSAA are committed to making sure the national scheme will be an excellent option for auditor appointments. They intend to run the scheme in a way that will save time and resources for local government bodies. A collective procurement, which they will carry out on behalf of all opted-in authorities, will enable PSAA to secure the best prices, keeping the cost of audit as low as possible for the bodies that choose to opt in, without compromising on audit quality. Their current role means they have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for Councils to:

- establish an audit panel with independent members;
- manage their own auditor procurement and cover its costs;
- monitor the independence of their appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with their auditor.

The PSAA scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives. They will also try to be flexible about changing an auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for PSAA to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. They ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

PSAA will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in their contract terms and in the quality criteria in their tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

They will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing a procurement strategy for the contracts with audit firms, PSAA will have input from the advisory panel they have established. The panel will assist PSAA in developing arrangements for the national scheme; provide feedback on proposals as they develop, and helping maintain effective channels of communication. PSAA think it is particularly important to understand Council's preferences and priorities, to ensure they develop a strategy that reflects customer's needs within the constraints set out in legislation and in professional requirements. In order to secure the best prices they are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help them manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, they will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plan to take great care to ensure that every auditor appointment passes this test. They will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments. They will consult on the appointment of auditors, most likely from September 2017. Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising their own costs. Any surplus funds will be returned to scheme members under our articles of association and their memorandum of understanding with the Department for Communities and Local Government and the LGA.

Costs for setting up and managing the scheme will need to be covered by audit fees. PSAA expect their annual operating costs will be lower than their current costs as they expect to employ a smaller team to manage the scheme. They are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of their current deferred income. They think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which have regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by the scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. They expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017 and the formal approval process is a decision made by the members of an authority meeting as a whole.

Timetable

The draft timeline for the new arrangements:

Closing date for receipt of notices to opt in	9 March 2017
Contract notice published	20 February 2017
Award audit contracts	End of June 2017
Consult on and make auditor appointments	End of December 2017
Consult on and publish scale fees	End of March 2018

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

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Internal Audit - Effectiveness of the Audit Committee 2016/17

Contact Officer: Muir Laurie
Telephone: 01895 556132

REASON FOR ITEM

An effective and independent Audit Committee is a key element in the Council's corporate governance and risk management framework. An effective Audit Committee leads to improved internal control, risk management and financial reporting.

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

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

OPTIONS AVAILABLE TO THE COMMITTEE

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

INFORMATION

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

- Terms of Reference;
- Independence & Membership;
- Members Skills, Training & Development;
- Audit Committee Meetings - Review of key documentation;
- Audit Committee Benchmarking; and
- Follow-up of recommendations arising from the 2014/15 IA Assurance Review.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

Final IA Assurance Report - Effectiveness of the Audit Committee, published on 24th June 2015.

Audit Committee 15 December 2016
PART I – MEMBERS, PUBLIC & PRESS

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BUSINESS ASSURANCE

Final Internal Audit Assurance Report 2016/17

Effectiveness of Audit Committee

18th November 2016

Overall IA Assurance Opinion:

REASONABLE

Recommendation Overview:

High Risk	0
Medium Risk	4
Low Risk	3
Notable Practice	0

Review Sponsor:

Fran Beasley

Chief Executive and Corporate Director of Administration

Report Distribution:

Audit Committee

All Audit Committee Members (including the Independent Chairman and substitute Audit Committee Members)

Lloyd White

Head of Democratic Services

Khalid Ahmed

Democratic Services Manager

Muir Laurie

Head of Business Assurance

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



1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review forms part of the 2016/17 Quarter 2 IA Operational Plan, presented to Audit Committee on 12th July 2016. **The purpose of this review is to provide assurance to the Corporate Management Team (CMT) and the Audit Committee over the key risks in relation to the Effectiveness of the Audit Committee, as follows:**
- The scope of work to be performed by the Audit Committee is not suitably defined in the Terms of Reference and therefore it may not encompass all the assurance needs of the Council and the Cabinet. As a result there is an increased risk that the Audit Committee is not performing its role and responsibilities in line with best practice guidelines;
 - The Audit Committee members are not suitably independent and objective, resulting in potential biased and ineffective decisions being made. Members may not have a good understanding of the Council's objectives, priorities, risks and strategies and therefore decision making by the Audit Committee may not be suitably aligned;
 - The Audit Committee does not contain or have at its disposal an appropriate mix of skills or its Members may not have been adequately trained. Consequently, there is a risk that Members may not be able to perform their duties effectively and fulfil the requirements of their role, which may result in reputational damage for the council;
 - The Audit Committee does not effectively support the Council by reviewing and scrutinising the completeness of key documentation to satisfy their needs, and by reviewing the reliability and integrity of documentation. As a result, the Council may be in breach of their statutory obligations which could cause reputational damage or financial loss for the Council;
 - The Audit Committee does not engage effectively with financial and performance reporting issues, and with the work of key stakeholders, primarily IA and External Audit; Furthermore, the Audit Committee may not communicate effectively with the Council's CMT, Cabinet and other stakeholders. This may result in a loss of public money resulting in adverse public reaction and reputational loss; and
 - The Audit Committee's reputational image amongst other local authorities audit committee's is considered weak and ineffective in its role, scrutiny, decision making and therefore may result in further adverse reputational damage for the Council.
- 1.2 This report is produced on an exception basis, highlighting the key aspects from the IA assurance review to management. Further detailed findings are available upon specific request.

2. Background

- 2.1 An effective and independent Audit Committee (AC) is a key component of the Council's corporate governance and risk management framework. The purpose of an AC is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
- 2.2 An effective AC leads to improved internal control, risk management and financial reporting. It provides a forum for discussing key issues raised by IA and External Audit, working independently to provide assurance to the Council.
- 2.3 CIPFA best practice guidance states that in order for the AC to be fully effective and therefore able to provide meaningful advice to the Council, its Members need to be independent, diligent, knowledgeable, and receive relevant, timely and reliable information. This guidance also indicates that AC Members must be in a position to challenge Directors and the Cabinet and draw attention to any governance weaknesses.

-
- 2.4 Best practice guidance also states the AC should have clear reporting lines and unrestricted rights of access to other Council committees and senior managers (as required). In addition, the AC will have sufficient administrative support and access to all relevant and timely information.
- 2.5 The AC currently comprises of five members including an independent Chair. The remainder of the Committee, in accordance with best practice, is representative of the political make up of the Council which helps to ensure that no political agenda is given priority at meetings with decisions made by the Committee are free from political influence.

3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **REASONABLE** assurance over the key risks to the achievement of objectives for Effectiveness of the AC. Definitions of the IA assurance levels and IA risk ratings are included at **Appendix C**.
- 3.2 We were pleased to confirm that the AC's Terms of Reference (located within the Council's Constitution) is appropriately made available to its users in addition to being presented within each meeting agenda. It was however identified that the Terms of Reference has not been subject to review since May 2013.
- 3.3 In addition, AC report packs are issued to members six working days in advance of a meeting, which is in line with best practice and provides sufficient time to allow AC members to review reports ahead of meetings. Furthermore, it was confirmed through our bench-marking exercise against nine other local authorities that relevant and appropriate documentation is provided to the AC for review.
- 3.4 It was confirmed that the composition of the committee is in line with the Constitutional requirements, with four elected Councillors and an independent Chairman and the Vice-Chair from the majority group. However, a bench-marking exercise, assessing LBH against nine other local authorities, identified that an average committee membership consisted of six Members. With quorate currently requiring four members, there is an increased likelihood of AC meetings being delayed or cancelled. Assessment of Member's attendance to the first AC meeting of 2016/17 (12th July 2016) was the lowest with only two Members present and therefore requiring two substitutes to meet quorum requirements.
- 3.5 We undertook a review of the last six meetings of the AC and noted that, due to unforeseen circumstances, two Members, including the Independent Chairman, were unable to attend two of the last six AC meetings. We are aware that the Council's Constitution (Section 2.05b) places responsibilities on Members and co-opted Members for meeting attendance. Further, upon discussion of this issue with Democratic Services, we were advised that no role description is in place for the Independent Chairman, outlining their role, responsibilities and the Council's expectations.
- 3.6 Declarations of interests are initially completed by members following election via the "Register of Interest Form", which we were able to confirm evidence of for all four elected committee members. It was however noted that the Independent Chairman's latest declaration was completed in November 2014. In addition, any conflicts of interests arising through meeting agenda items are required to be declared at the commencement of the AC meeting and recorded within meeting minutes. Review of the last six committee minutes identified one instance where there was no record within the meeting minutes that the agenda item "Declaration of Interests" was discussed.
- 3.7 During the assurance review, we concluded that, whilst AC Members inherently possess key attributes required of committee Members, there is still a requirement to understand relevant service areas across the Council where further specific AC related training is necessary. AC Members had previously been consulted on a Skills Matrix developed by the Head of Business Assurance (HBA).

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- 3.8 Whilst there was some appetite from Committee Members for this, we note this has not been progressed further by Democratic Services. The Skills Matrix would help in the identification of specific AC training requirements and help inform a tailored Training and Development Plan (T&DP) for AC Members. This gap, coupled with the limited induction process upon appointment, may impact the effectiveness of the Audit Committee.
- 3.9 As recorded within the AC's ToR, an Annual Report is required to be submitted to Full Council on the activities of the AC. It was confirmed that this was last completed and submitted to AC in 2013/14, although was not subsequently presented to Full Council for consideration. In addition, no annual report has been produced by the AC and reported to Council for 2014/15 or 2015/16.
- 3.10 It was also identified that a formal assurance mapping exercise to identify the sources of assurance from across the Council is currently not in place. This was also raised within the IA 15/16 Assurance Review of the Effectiveness of the AC and the recent IA 16/17 Assurance Review of the Effectiveness of IA. As a result we will not be re-raising this recommendation within this assurance review.
- 3.11 The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting with the Head of Democratic Services and the Democratic Services Manager and are available to management upon specific request. The key findings and IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions and notable practices are set out in **Appendix B** of the report.

4. Acknowledgement

- 4.1 Business Assurance would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance. In particular the Democratic Services Manager, whose advice and help were gratefully appreciated.

5. Business Assurance Contact Details

This audit was led by: Priyanka Mittal
Senior Internal Auditor

This audit was reviewed by: Elaine Polton CPFA
Assistant Internal Audit Manager

Thank you,



Martyn White, CIA
Senior Internal Audit Manager

Management Action Plan

No.	Key Finding
1	<p>It was confirmed through reviewing Council meeting minutes that the Audit Committee's (AC) Terms of Reference (ToR) was last reviewed on the 9th May 2013. Examination of the AC ToR identified the following inconsistencies:</p> <ul style="list-style-type: none"> • Item 2 of the ToR states that the AC will <i>"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"</i>. However, it was confirmed that this does not accurately reflect current practice undertaken by the AC; • Item 5 of the ToR states that the AC will <i>"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"</i>. Once again this does not reflect current practices undertaken by the AC in regards to the Council's Internal Audit function; • Item 16 of the ToR states that the AC will <i>"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 changed to the Leader of the Council and the Deputy Chief Executive and Corporate Director of Resident Services"</i>. We were unable to evidence that the AC considered aspects of review and monitoring of the Raising Concerns at Work policy or the complaints process within the last 3 years; and • Item 17 of the ToR states that the AC is required to <i>"Oversee the production of the authority's Statement of Internal Control and recommend its adoption"</i>. However this terminology is incorrect as Statement of Internal Control ceased to exist in 2008 and was subsequently replaced by the Annual Governance Statement. <p>In addition, assessment of the AC ToR against best practice guidance developed by CIPFA (Practical Guidance for Local Authorities & Police, December 2013) and HM Treasury (Audit and Risk assurance Committee Handbook, March 2016), identified the following missing information:</p> <ul style="list-style-type: none"> • Rights of AC Members; • Access rights of the Head of Internal Audit & External Audit representative to the Chair of the Committee; • Meeting requirements (frequency & quorum); and • Information Requirements to be provided to AC for review, e.g. External Audit report; Internal Audit report; Corporate Risk Register; Statement of Accounts; Governance Statement; and Risk Management Strategy. <p>Whilst we confirmed that some of the above information (i.e. Committee Members & quorum) is recorded within the Council's Constitution, this is not specifically within the AC's ToR.</p> <p>This issue was raised within the 2015/16 review and we note this has not been implemented.</p>

APPENDIX A (cont'd)

Management Action Plan			
Risk	Recommendation	Management Action Proposed	Risk Owner & Implementation date
<p>Where the AC's ToR is not subject to an annual review there is an increased risk that the content does not accurately represent the required roles and responsibilities of members in line with best practice guidance.</p> <p>Where the content of the ToR excludes key specific information identified, there is a risk that it does not provide sufficient information for its users.</p>	<p>The AC ToR should be reviewed with consideration given to including suggested changes from relevant key officers, External Audit and AC Members.</p> <p>All changes proposed following the review should be formally approved with an annual review of the ToR incorporated as part of the AC Forward Plan.</p>	<p>Accepted; a review of the AC ToR is currently underway. Once complete, the Head of Democratic Services will discuss the outcome with the Leader of the Council with a view to a report on the proposed changes to the ToR being submitted to the December meeting of the AC. There will also be an annual item on the AC Forward Plan for a review of the AC ToR.</p>	<p>Lloyd White, Head of Democratic Services</p> <p>31st December 2016</p>
<p>Risk Rating</p> <p>MEDIUM ●</p>		<p>Risk Response*</p> <p>TREAT</p>	

*Please refer to **Appendix C** for Risk Response definitions.

APPENDIX A (cont'd)

Management Action Plan				
No.	Key Finding	Recommendation	Management Action Proposed	Risk Owner & Implementation date
2	Whilst we were informed that new Council Members receive an induction pack following an election, it was confirmed that there is no formal induction programme specifically provided to new appointments to the AC.	<p>A formal induction programme should be provided to all new members (incl. substitutes) to the AC. This should encompass but not be limited to the following:</p> <p>An induction pack capturing the following information:</p> <ul style="list-style-type: none"> • The AC ToR; • Internal & External Audit Plans; • Corporate Risk Register; • Council's Strategy; and • Latest relevant financial reports. <p>Meetings with:</p> <ul style="list-style-type: none"> • AC Chair & AC Members; • Internal Audit; • External Audit; and • Other relevant senior managers. 	<p>Agreed; an induction programme for all AC Members will be introduced by Democratic Services, which will include a pack prepared for Members of the AC.</p>	<p>Lloyd White, Head of Democratic Services</p> <p>31st December 2016</p>
Risk		Risk Rating		
		<p style="text-align: center;">MEDIUM ●</p>		
		Risk Response*		
		TREAT		

*Please refer to **Appendix C** for Risk Response definitions.

APPENDIX A (cont'd)

Management Action Plan					
Key Finding					
No.	Key Finding	Risk	Recommendation	Management Action Proposed	Risk Owner & Implementation date
3	AC Members had previously been consulted on a 'Skills Matrix' developed by the Head of Business Assurance (HBA) in February 2014. Whilst there was some appetite from Committee Members for this, we noted that it has not been progressed further by Democratic Services to identify specific training needs of the AC. In addition, we confirmed that within the AC's Forward Plan a training item is identified stating the training to be provided at the start of the meeting to members. However, this Forward Plan does not identify all training to be provided during the year as there is no Training and Development Plan as such in place.	<p>Risk</p> <p><i>Where a skills matrix assessment is not undertaken there is a risk that potential skill gaps are not promptly identified of AC members and therefore training cannot be targeted to address these.</i></p> <p><i>Where a formal Training and Development Plan is not in place there is an increased risk that Members may not have sufficient skills and knowledge required to effectively carry out their roles and responsibilities as an AC Member. Further, there is likelihood that where this occurs, the Council may face financial and reputational damage.</i></p>	Democratic Services should consider developing a skills matrix for AC Members including substitute AC Members. Outcomes of the skills matrix assessment should help inform/determine the contents of the AC Training and Development Plan. The Plan should be developed in consultation with AC Members on an annual basis as part of the skills matrix exercise and be formally approved by the AC.	Democratic Services will review the proposed skills matrix with the Head of Business Assurance and establish the key training needs to be delivered.	Lloyd White, Head of Democratic Services
			Need to establish if delivery of training at AC meetings is the most effective way of targeting all the AC Members, including substitutes. Also need to clarify if quarterly is the correct timescale.	Once key training for all AC Members has been delivered, Democratic Services will consider wider Member training as and when required.	31 st March 2017
			Risk Rating	Risk Response*	
			<p>MEDIUM</p> <p style="text-align: right; color: yellow;">●</p>	TREAT	

*Please refer to Appendix C for Risk Response definitions.

APPENDIX A (cont'd)

Management Action Plan			
No.	Key Finding	Recommendation	Management Action Proposed
Risk	Risk Rating	Risk Owner & Implementation date	
4	As per the AC's Terms of Reference, the AC is required to report to Full Council on an annual basis via the submission of the Annual Report, outlining their activities during the financial year. However, it was identified that this report was last produced for 2013/14, initially submitted to AC on 30 th July 2014, however no evidence was available to support that this was subsequently presented to full Council. Furthermore, it was confirmed that no Annual Report was produced for 2014/15 and 2015/16.	The AC Annual Report should be produced on an annual basis by the Chairman of the AC, in consultation with AC Members & Democratic Services. This report should be promptly submitted to full Council on an annual basis for review and approval.	Accepted; An annual AC report will in future be produced by Democratic Services in liaison with relevant officers. This will also be added to the AC Forward Plan.
Where the Annual Report is not produced and submitted to Council on an annual basis, in line with the AC's ToR and best practice guidance, there is an increased risk that appropriate governance is not in place. Where the activities of the AC are not reported there is an increased likelihood that the Council may face reputational damage.	Risk Rating MEDIUM ●	Lloyd White, Head of Democratic Services 31 st March 2017	Risk Response* TREAT

*Please refer to Appendix C for Risk Response definitions.

APPENDIX B

Good Practice Suggestions			
No.	Key Finding	Observation / Suggestion	Risk / Rationale
5	<p>It was confirmed that the composition of the committee is in line with the Constitutional requirements of four elected Councillors and an independent Chairman, with the Vice-Chair coming from the majority group. However, a bench-marking exercise undertaken assessed LBH against nine other local authorities and identified that on average Audit Committee membership consisted of six Members. Furthermore, Members' attendance to the first meeting of financial year 2016/17 (12th July 2016) had only two members in attendance and therefore required two substitutes to ensure this was quorate.</p>	<p>Consideration should be given to increasing AC membership to reduce the risk of AC meetings being delayed or cancelled because they do not meet the quorum requirements of four members.</p>	<p><i>If there are only five AC Members and regular reliance on the substitutions process, there is an increased risk that AC meetings may not be effective or have to be delayed or cancelled as they cannot go ahead if they do not meet the quorum requirement of four Members. Any AC meetings cancelled at short notice would increase the Council's administrative costs and may cause statutory deadlines not to be met/ potential reputational damage.</i></p>
			<p>Risk Rating</p> <p>LOW</p> <p style="color: green; font-size: 24px;">●</p>

APPENDIX B (cont'd)

Good Practice Suggestions			
No.	Key Finding	Observation / Suggestion	Risk / Rationale
6	<p>On commencement of AC Meetings, Members are given the opportunity to declare any conflicts of interests they may have with agenda items. This is recorded within the meeting minutes by the Clerk to the AC. Of the last six committee meetings we confirmed a declaration of interests was not recorded in one meeting:</p> <ul style="list-style-type: none"> • Meeting 2nd July 2015: No record within meeting minutes that Agenda Item 2 "Declaration of Interest" was discussed prior to the commencement of the committee meeting. 	<p>When preparing meeting minutes following AC meetings; accurate and complete information should be presented to address the outcomes of all agenda items. Where no declarations of interests are declared, this should also be recorded within minutes to ensure evidence of agenda items being discussed.</p>	<p>Where the outcome of an agenda item (declaration of interests) is not recorded within the meeting minutes, there is a risk that its users are unable to confirm whether these have been appropriately declared. Where this occurs, there is a risk the Council may face reputational damage.</p>
			<p>Risk Rating</p> <p>LOW ●</p>

APPENDIX B (cont'd)

Good Practice Suggestions			
No.	Key Finding	Observation / Suggestion	Risk / Rationale
7	<p>Section 2.05b of the Council's Constitution states "If Members (including co-opted member) fail to attend any meeting of the committee or advisory group to which they are appointed/co-opted throughout a period of six consecutive months, they will cease to be a member of that committee or group unless their absence is due to a reason which has been previously approved".</p> <p>Analysis of meeting attendance over the last 18 months identified that:</p> <ul style="list-style-type: none"> • The Independent Chairman has been unable to attend 2 of the last 6 AC meetings (March & July 2016); and • Councillor O'Brien has been unable to attend 2 of the last 6 AC meetings (July and September 2016). <p>Furthermore, it was confirmed by the Head of Democratic Services that the Chairman to the AC does not have a formal Job Description in place outlining his roles and responsibilities.</p>	<p>Attendance to all AC meetings should be made in line with Constitutional requirements. Management should consider implementing a defined role description for the AC chair, including minimum attendance requirements.</p>	<p>Where consistent membership of the AC is not maintained there is an increased risk that an appropriate and consistent level of independent review may not be undertaken reducing the effectiveness of the Audit Committee. Where this occurs, accurate assurance needs cannot be provided to the Council and could result in financial and reputational damage.</p>
			<p>Risk Rating</p> <p>LOW</p> <p style="color: green; font-size: 24px;">●</p>

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.

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	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.

Audit Committee Forward Programme 2016/17 and 2017/18

Contact Officer: Kate Boulter
Telephone: 01895 556454

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
12 July 2016	CR3
22 September 2016	CR4
15 December 2016	CR5
16 March 2017	CR4
tbc June 2017	tbc

AUDIT COMMITTEE

Forward Programme 2016/17 and 2017/18

Meeting Date	Item	Lead Officer
12 July 2016	*Private meeting with Head of Business Assurance to take place before the meeting	
	Appointment of Chairman	
	Training Item - Statement of Accounts	Chief Accountant
	Draft Annual Governance Statement 2015/16	Head of Policy
	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 Director of Finance to take place before the meeting	
	Training Item - Role of the External Auditor	
	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 /Ernst & Young
	External Audit Report on the Pension Fund Annual Report and Accounts 2015/16	Ernst & Young
	Internal Audit Progress Report 2016/17 Quarter 2 & Operational Internal Audit Plan Quarter 3	Head of Business Assurance
	Annual Review on the Effectiveness of Internal Audit 2016/17	Head of Business Assurance
	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 Manager

PART I – MEMBERS, PUBLIC AND PRESS

Audit Committee – 15 December 2016

Meeting Date	Item	Lead Officer
15 December 2016	*Private meeting with the Head of Business Assurance to take place before the meeting	
	External Audit Annual Audit Letter	Ernst & Young
	Internal Audit Charter 2016/17	Head of Business Assurance
	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
	National Scheme for Auditor Appointments	Deputy Director Strategic Finance
	Risk Management Report & Q2 Corporate Risk Register - Part II	Head of Business Assurance
	Annual Review of the Effectiveness of the Audit Committee 2016/17	Head of Business Assurance
	Audit Committee Terms of Reference	Democratic Services
	Audit Committee Forward Programme	Democratic Services
	Risk Management Report and Q2 Corporate Risk Register	

PART I – MEMBERS, PUBLIC AND PRESS

Audit Committee – 15 December 2016

Meeting Date	Item	Lead Officer
16 March 2017	*Private meeting with External Audit (Ernst & Young) to take place before the meeting	
	Training Item - tbc	tbc
	Annual External Audit Plan 2015/16 (Ernst & Young)	Corporate Director of Finance /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 2017/18 to 2021/22	Corporate Director of Finance
	Internal Audit Progress Report 2016/17 Quarter 4	Head of Business Assurance
	Annual Internal Audit Plan 2017/18 & Operational Internal Audit Plan Quarter 1	Head of Business Assurance
	External Quality Assessment of Internal Audit 206/17	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

PART I – MEMBERS, PUBLIC AND PRESS

Audit Committee – 15 December 2016

Meeting Date	Item	Lead Officer
tbv July 2017	*Private meeting with Head of Business Assurance to take place before the meeting	
	Appointment of Chairman	
	Training Item - TBC	Chief Accountant
	Draft Annual Governance Statement 2016/17	Head of Policy
	Annual Internal Audit Report & Head of Internal Audit Opinion Statement 2016/17	Head of Business Assurance
	Internal Audit 2017/18 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

PART I – MEMBERS, PUBLIC AND PRESS

Audit Committee – 15 December 2016

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