HILLINGDON
LONDON

Audit Committee

Councillors on the Committee

Councillor Scott Seaman-Digby (Vice-Chairman)
Councillor George Cooper
Councillor Tony Eginton
Councillor Susan O'Brien

Date: THURSDAY, 29 JUNE 2017

Time: 5.00 PM (PLEASE NOTE, MEMBERS ARE INVITED TO A PRIVATE MEETING AT 4.45PM)

Venue: COMMITTEE ROOM 6 - CIVIC CENTRE, HIGH STREET, UXBRIDGE UB8 1UW

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

Published: Wednesday, 21 June 2017

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This Agenda is available online at:
http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=256&MId=3007&Ver=4

Putting our residents first

Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
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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 approve (but not direct) the Internal Audit Strategy to ensure that it meets the Council's overall strategic direction.

2. Review, approve and monitor (but not direct) Internal Audit's planned programme of work, paying particular attention to whether there is sufficient and appropriate coverage.

3. Through quarterly Internal Audit summary reports of work done, monitor progress against the Internal Audit Plan and assess whether adequate skills and resources are available to provide an effective Internal Audit function. Monitor the main Internal Audit recommendations and consider whether management responses to the recommendations raised are appropriate, with due regard to risk, materiality and coverage.

4. Make recommendations to the Leader of the Council or Cabinet Member for Finance, Property and Business Services on any changes to the Council's Internal Audit Strategy and Internal Audit Plans.

5. Review the Annual Internal Audit Report and Opinion Statement and the level of assurance this provides over the Council's corporate governance arrangements, risk management framework and system of internal controls.

6. Consider reports dealing with the activity, management and performance of Internal Audit.

7. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to request work from Internal Audit.

External Audit

8. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.

9. Monitor management action in response to issues raised by External Audit.

10. Receive and consider specific reports as agreed with the External Auditor.

11. 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.

12. Be consulted by the Corporate Director of Finance over the appointment of the Council's External Auditor.

13. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.

14. Monitor arrangements for ensuring effective liaison between Internal Audit and External Audit, in consultation with the Corporate Director of Finance.

Governance Framework

15. 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.

16. Review any issue referred to it by the Chief Executive, Deputy Chief Executive, Corporate Director, any Council body or external assurance providers including Inspection agencies.

17. Monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the Corporate Risk Register and seeking assurances that appropriate action is being taken on managing risks.

18. Review and monitor Council strategy and policies on anti-fraud and anti-corruption including the 'Raising Concerns at Work' policy, making any recommendations on changes to the relevant Corporate Director in consultation with the Leader of the Council.

19. Oversee the production of the authority's Annual Governance Statement and recommend its adoption.

20. Review the Council's arrangements for corporate governance and make recommendations to the Corporate Director of Finance on suggested actions to improve alignment with best practice.

21. Where requested by the Leader of the Council or 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

22. 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 external auditor that need to be brought to the attention of the Council.

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

Review and reporting

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

Agenda

PART I

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

PART II

Minutes

Audit Committee
Thursday 16 March 2017
Meeting held at Committee Room 4 - Civic Centre,
High Street, Uxbridge UB8 1UW

	Members Present: Councillors Scott Seaman-Digby (Vice-Chairman - In the Chair), George Cooper, Jazz Dhillon and Susan O'Brien **Apology for Absence:** Rajiv Vyas (Independent Chairman) and Councillor Tony Eginton (Councillor Jazz Dhillon substituting). **Officers Present:** Kevin Byrne (Head of Policy and Partnerships), Sarah Hydrie (Business Assurance Manager), Nancy Le Roux (Deputy Director of Strategic Finance), Sian Kunert (Chief Accountant), Muir Laurie (Head of Business Assurance), Paul Whaymand (Corporate Director of Finance), Martyn White (Senior Internal Audit Manager) and Khalid Ahmed (Democratic Services Manager). **Others Present:** Maria Grindley and Adrian Palmer (External Audit - Ernst & Young). Prior to the meeting, the Committee held a private meeting with the External Auditors, Ernst & Young.
36.	**DECLARATION OF INTEREST** Councillors Scott Seaman-Digby and Susan O'Brien, both declared Non-Pecuniary Interests in Agenda Item 5 - EY 2016/17 Pension Fund Audit Plan and Information on their Detailed Work Plan, because they were deferred members of the Local Government Pension Scheme. They both remained in the room during discussion on the item.
37.	**EXCLUSION OF THE PRESS AND PUBLIC** It was agreed that all the items on the Agenda be considered in public with the exception of Agenda Item 15 - Business Assurance - Corporate Risk Register for Quarter 3 2016/17.
38.	**MINUTES OF THE MEETING HELD ON 15 DECEMBER 2016** Agreed as an accurate record, subject to the inclusion of the Declaration of a Non Pecuniary Interest by Councillor Susan O'Brien because she was a deferred member of the Local Government Pension Scheme.

| 39. | **EY 2016/17 ANNUAL AUDIT PLAN, 2016/17 PENSION FUND AUDIT PLAN AND INFORMATION ON DETAILED WORK PLAN**

The Committee was provided with documents which set out the initial plans for the 2016/17 audit by the Council's external auditors, EY. The plans set out the approach to the audit of the Council's Accounts and the Pension Fund Accounts and a broad timetable, to enable the whole process to be completed by early September. In addition, following a request at the last meeting, EY produced an audit work plan to cover the interim work carried out to date and a plan for completion of the main audit covering key da5tes where work was planned.

Members were informed that the Key Financial Statement Risks on the Audit Plan were:

• Risk or fraud in revenue and/or expenditure recognition
• Risk of management override
• Financial statement presentation

For the Pension Fund Audit Plan, the Key Financial Statement Risks were:

• Risk of incorrect valuation of investments
• Risk of Management override
• Risk of error due to change in Pension Fund administrator
• Accounting for changes in investment managers

Reference was made to the detailed work plan which set out clear milestones for EY's Audit. This was welcomed by the Committee.

RESOLVED –

1. **That the 2016/17 Annual Audit Plan, the 2016/17 Pension Fund Audit Plan and EY's detailed work plan be noted.** | |
| 40. | **EY - ANNUAL GRANT AUDIT LETTER**

Consideration was given to a report which provided the key findings on the grant work undertaken by EY for the year ended 31 March 2016.

Reference was made to the work carried out on the certification of the Housing Benefit Subsidy claim which resulted in a number of errors being revealed both in under and over payment of benefits. From this work a qualification | |

		Action By:
	letter was received.	
	In addition EY were responsible for certifying two returns relating to the Teachers Pensions Contributions and Pooling of Capital Receipts and these returns were certified without qualification.	
	RESOLVED –	
	1. **That the findings contained in the Annual Grant Audit Letter be noted.**	
41.	**BALANCES AND RESERVES STATEMENT 2017/18**	
	The Balances and Reserves Statement provided detail on the Council's approach to the management and measurement of unallocated balances.	
	The Committee was informed that the recommended range for unallocated balances had increased from £15m to £31m in 2016/17, to £15m to £32m in 2017/18, with the overall upper limit for balances £14.5m higher at £46.5m. This was to take account of the planning drawdown from reserves included in the Medium Term Financial Forecast from 2017/18.	
	RESOLVED –	
	1. **That the contents of the report be noted.**	
42.	**DELIVERING THE COUNCIL'S ANNUAL GOVERNANCE STATEMENT (AGS) 2016-17**	
	The Committee was provided with an update on the progress to date in the preparation of the Annual Governance Statement for 2016/17.	
	Reference was made to new guidance issued by CIPFA which applied to AGSs prepared for this financial year and onwards. The guidance centred on seven core principles and key good practice.	
	Members were informed that a Corporate Governance Working Group had been set up to oversee the process and to identify any emerging governance issues. The draft AGS 2016/17 would be submitted to the next meeting of the Audit Committee for comment, and for approval.	
	RESOLVED –	
	1. **That the procedure followed and assurance used to produce the AGS for 2016/17 be noted.**	

43.	**CORPORATE FRAUD INVESTIGATION TEAM PROGRESS REPORT - APRIL 2016 -FEBRUARY 2017**	Action By:
	The Committee was provided with a report which provided details of the work undertaken by the Corporate Fraud Investigation Team (CFIT) from April 2016 to February 2017	
	Members were informed that Corporate Fraud Investigation Team activities since April 2016 included the following:	
	• 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 • National Fraud Initiative (NFI) • Trading Standards • Blue Badge • Bad debts • Unaccompanied Asylum Seekers • Benchmarking	
	Reference was made to the good work carried out with the Corporate Director of Children's Social Care in relation to verifying the circumstances of asylum seekers financially supported by social care. Checks had identified 42 cases for investigation which brought a saving of £166,000. Officers were asked for details on what percentage of the total of unaccompanied asylum seekers was this figure.	**Garry Coote**
	Discussion took place on the work being carried out in relation to benchmarking. Members were informed that work was being carried out with CIPFA as there was currently no readily available benchmarking data. The Committee agreed that it was important for the Team to develop performance targets to ensure the Council was receiving Value for Money in fraud detection.	
	RESOLVED –	
	1. **That the Committee considered and noted the Corporate Fraud Investigation Team report, particularly the on-going work in relation to benchmarking to assess performance.**	

44.	**BUSINESS ASSURANCE - INTERNAL AUDIT PROGRESS REPORT FOR 2016/17 QUARTER 4 (INCLUDING THE 2017/18 QUARTER 1 INTERNAL AUDIT PLAN)**	
	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 4, together with assurance levels in this respect.	
	Members were informed that for 2016/17 Quarter 4, 3 Internal Audit assurance levels had been completed to final report stage, with 12 others progressed to draft report stage and the remaining 4 reviews at the testing stage.	
	The Committee was informed that several Key Performance Indicators (KPI) were being exceeded, with the exception of KPI 7 which related to delays of draft reports being issued as a final report within 15 days.	
	Members noted the recent number of staffing changes in the Internal Audit Team during the quarter but were assured that the staffing levels would return to 8, by the end of May 2017.	
	RESOLVED –	
	1. **That the Internal Audit progress report for 2016/17 Quarter 4 be noted and approval be given to the Quarter 1 Internal Audit Plan for 2017/18.**	
	2. **That the Committee noted that the coverage, performance and results of Business Assurance Internal Audit activity within this quarter.**	
45.	**BUSINESS ASSURANCE - DRAFT INTERNAL AUDIT PLAN 2017/18**	**Action By:**
	The Committee was informed that the outcomes from the work proposed in the 2017/18 Internal Audit Plan, underpinned the Head of Business Assurance's statutory annual Internal Audit opinion statement.	
	This opinion concluded on the overall adequacy and effectiveness of the Council's internal control, risk management and corporate governance arrangements. It also supported the Council's Annual Governance Statement which formed part of the statutory financial statements.	
	The Committee was informed that in 2017/18, the Business Assurance service at Hillingdon would continue to apply a fully risk-based approach to its IA coverage. This would mean that Business Assurance would give greater assurance to the Council because its IA coverage was closer aligned to the key	

	risks to the achievement of the Council's objectives. **RESOLVED –** 1. **That approval be given to the draft Internal Audit Plan for 2017/18.**	
46.	**BUSINESS ASSURANCE - ANTI-FRAUD AND ANTI-CORRUPTION STRATEGY 2017-20** The Committee was informed that the report presented Members with the draft Anti Fraud and Anti Corruption (AF&AC) Strategy 2017-20. The document, defined Hillingdon's approach to managing the risk of fraud and corruption against the Council. The report set out how the Council encouraged best practice in Anti- Fraud & Anti-Corruption to help embed it across all of its services, projects and external partnerships. Any fraudulent or corrupt act committed against the Council effectively constituted theft of taxpayers' money and was therefore unlawful. **RESOLVED –** 1. **That approval be given to the Council's Anti- Fraud & Anti-Corruption Strategy 2017-20, which had also been circulated to other key stakeholders.**	
47.	**AUDIT COMMITTEE - REVIEW OF TERMS OF REFERENCE** The report provided the Committee with an opportunity to review the Terms of Reference of the Committee. Members were presented with suggested changes, based on consultations with key participating officers and Members of the Audit Committee. **RESOLVED –** 1. **That the suggested amendments to the Committee's Terms of Reference be recommended for approval to Council.**	
48.	**AUDIT COMMITTEE FORWARD PROGRAMME 2016/17 AND 2017/18** Noted.	

49.	**BUSINESS ASSURANCE - CORPORATE RISK REGISTER FOR QUARTER 3 2016/17**	**Action By:**
	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). The report presented to Members the Corporate Risk Register for Quarter 3 (October to December 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. **RESOLVED –** 1. **That the Committee reviewed the Corporate Risk Register for Quarter 3 (October to December 2016), as part of the Committee's role to independently assure the risk management arrangements in the Council.**	
	The meeting which commenced at 5.10pm, closed at 6.00pm **Next meeting: 29 June 2017 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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Minutes

Audit Committee
Thursday, 11 May 2017
Meeting held at Council Chamber - Civic Centre,
High Street, Uxbridge UB8 1UW

Published on: 18 May 2017
Come into effect on: Immediately (or call-in date)

Members Present:
Councillors Scott Seaman-Digby (Vice-Chairman)
George Cooper
Tony Eginton
Susan O'Brien

ELECTION OF VICE CHAIRMAN

RESOLVED: That Councillor Seaman-Digby be elected as Vice Chairman of the Audit Committee for the 2017/2018 municipal year.

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Independent Chairman of the Audit Committee

Reporting Officer: Lloyd White, Head of Democratic Services

SUMMARY

This report seeks approval to the process to appoint a new Independent Chairman of the Audit Committee for this Municipal Year. The position currently attracts a Special Responsibility Allowance of £2,975.49 p.a.

RECOMMENDATIONS

That:

1. **The former Independent Chairman of the Audit Committee be thanked for his service to the Council;**

2. **Democratic Services be instructed to co-ordinate the process to advertise and appoint a new Independent Member / Chairman of the Audit Committee as detailed below;**

INFORMATION

1. A new Independent Chairman of the Committee is required to be appointed. Accordingly Members' views are sought concerning the process to advertise and appoint a new Independent Chairman.

2. CIPFA guidance on local authority Audit Committees recommends that when choosing an Independent Member of an Audit Committee, that such a person should only be considered for the position if he or she:

   - Has not been a Member or an officer of the local authority / public body within five years before the date of the appointment;
   - Is not a Member or an officer of that or any other relevant authority;
   - Is not a relative or a close friend of a Member or an officer of the body / authority;
   - Has applied for the appointment;
   - Has been approved by a majority of the Members of the Council; and
   - Has responded to an advert for the position which has been advertised in at least one newspaper distributed in the local area and in other similar publications or on websites that the body / local authority considered appropriate.

3. Following the guidance above, the proposed process to appoint an Independent Member / Chairman for this Council's Audit Committee would be as follows:

- The position would be advertised, as suggested, within a local newspaper, on the Council website and in Hillingdon People, inviting suitably qualified persons to submit an 'expression of Interest' of no more than 300 words in length to the Head of Democratic Services.
- The deadline for submissions would be the end of July 2017.
- An Interview Panel will be set up to shortlist (if necessary) and interview prospective candidates with a view to submitting a recommendation to the Council meeting on 7 September 2017. The composition of the Interview Panel will be the Cabinet Member for Finance, Property and Business Services and the Vice-Chairman of the Audit Committee.

Financial Implications

The cost of this appointment is contained within the Council's draft budget for 2017/2018 as part of Members' allowances.

Legal Implications

The legal implications are detailed in the body of the report.

BACKGROUND DOCUMENTS:

None.

The Draft Annual Governance Statement 2016- 2017

Contact Officer: Kevin Byrne
Telephone: 01895 250665

SUMMARY

1. The Committee received an update on preparation of the Annual Governance Statement (AGS) for 2016/17 at its meeting on 16th March 2016. Good progress has been made draft the AGS, which has included collecting cross-council management assurance statements and reflecting progress in implementing actions from previous AGS. The AGS on schedule to be published alongside the Statement of Accounts in September 2017.

2. Governance issues identified during the review process are outlined in the attached draft AGS (Appendix A).

REASON FOR REPORT

3. This briefing provides the Audit Committee with an update on the process and presents the draft 2016-17 AGS for review and comment.

RECOMMENDATION

4. **Members are invited to review the production of the draft 2016-17 AGS and offer comments on the process.**

5. **At this stage the AGS is draft and subject to possible amendment. The Committee will be invited to adopt the AGS once it is signed and agreed by the Leader of the Council and the Chief Executive, for publication alongside the annual accounts in September 2017.**

DRAFT

London Borough of Hillingdon

Annual Governance Statement 2016/17

1   Scope of Responsibility

The London Borough of Hillingdon is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The London Borough of Hillingdon follows an approach to corporate governance which is in accordance with the principles of the CIPFA/SOLACE 2016 Framework and guidance '*Delivering Good Governance in Local Government'.* This statement meets the requirements of Regulation 6 (1)(a) of the Accounts and Audit Regulations 2015 which require an authority to conduct a review at least once a year of the effectiveness of its system of internal control and to include a statement reporting on the review with the published Statement of Accounts. Regulation 6(1)(b) of the same regulations requires that the statement is an *Annual Governance Statement* which must be prepared in accordance with proper practices in relation to accounts.

2   The Purpose of the Governance Framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Hillingdon's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the London Borough of Hillingdon for the

year ended 31 March 2017 and up to the date of approval of the 2016/17 Statement of Accounts.

3 The Governance Framework

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

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

3.2. Part 2 of the Constitution outlines the roles and responsibilities of the Executive, Non-executive, Mayor, Overview and Scrutiny committees, Standards committee and officer functions. There is an ethical framework governing the conduct of Members and co-opted members. The governance arrangements for Hillingdon comprise:

- A structure of the Leader of the Council, a Cabinet and Policy Overview and Scrutiny Committees;
- A Corporate Management Team;
- Senior Management Teams;
- The Audit Committee, led by an independent chairman; and
- A Standards Committee and a Code of Conduct for Members and Co-opted Members.

The authority's constitution is on its website at www.hillingdon.gov.uk.

3.3. Part 2, article 7 of the Constitution sets out the **'Cabinet Scheme of Delegations'**. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet Members. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Directors' responsibilities. Executive decision-making is transparent and undertaken in accordance with regulations and the law, with flexibility for urgent decisions. Cabinet meetings are open to the public and media to attend and report on and are available to watch through the Council's YouTube channel.

3.4. Part 2, articles 6 and 8 (including Part 4,E) sets out how the Council's non-executive decisions by Members are taken. **Policy Overview and Scrutiny Committees** undertake regular monitoring of services, performance and the budget and an annual programme of major Member-led service reviews involving witness testimony aimed at influencing Executive policy. Statutory scrutiny of health and police bodies is undertaken annually. Regulatory decisions on planning, licensing and related matters are undertaken judiciously by experienced and trained elected Councillors, in accordance with the Council's high ethical standards.

3.5. Part 2, article 8 also sets out how the Authority works with its partners in Hillingdon through the **Health and Wellbeing Board**, which is chaired by the Cabinet Member for Social Services, Housing, Health and Wellbeing and which complies with the requirements of the Health and Social Care Act 2012. The Health and Wellbeing Board seeks to improve the quality of life of the local population and provide high-level collaboration between the Council, NHS and other agencies to develop and oversee the strategy and commissioning of local health and social care services.

3.6. Part 3 of the Constitution sets out the **'Scheme of Delegations to Officers'**. This governs the responsibility allocated to officers of the London Borough of Hillingdon to perform the authority's activities. These include the Chief Executive, Borough Solicitor and Head of Democratic Services. The schemes are updated when required to reflect changes to Directors' responsibilities in line with business priorities. Within this, each Directorate has individual Schemes of Delegations, setting out how Directors' responsibilities are sub-delegated.

3.7. Part 5 of the Constitution sets out formal **'Codes of Conduct'** governing the behaviour and actions of all Council Members, co-opted members and Council officers. A 'Code of Conduct for Members and Co-opted Members' was adopted in July 2012. The code requires that Councillors conduct themselves appropriately to fulfil their duties and that any allegations of misconduct are investigated. There is a separate 'Code of Conduct for Employees', which applies to all Council officers and is part of their contract of employment. The authority regularly reviews the code and guidance to ensure these requirements reflect changes to the Council structure. A revised Code of Conduct for Officers and Protocol for Member/Officer Relations were approved by full Council in February 2015.

3.8. Rather than adopting a formal **Code of Corporate Governance** the Council ensures that Hillingdon's governance structure, decision making process and areas of responsibility are covered in the Council's Constitution and Schemes of Delegation.

3.9. **A Member training programme** is devised for each municipal year. All new Members are trained on the Code of Conduct by the Borough Solicitor and Head of Democratic Services and refresher training delivered where appropriate. Complaints about alleged breaches of the Code are handled in accordance with the requirements of the Localism Act 2011. The Standards framework includes a Whips Protocol and complainants are expected to make use of it first, with complaints only escalated to the Monitoring Officer and Standards Committee if they cannot be resolved through this process. The Council has also put in place an induction and training programme for Members along with specific training on scrutiny, planning, audit and licensing rules.

3.10. **Member Register of Interests** records the interests of Members and co-opted members of the London Borough of Hillingdon. There is a separate 'Related Parties' register that all Members and relevant senior officers are required to complete each year declaring the relationship and nature of any related party transactions, which the authority has entered into.

3.11. **A Member / Officer Protocol** to govern and regulate the relationship between the London Borough of Hillingdon's elected Members and appointed officers is in place.

3.12. A formal **Whistleblowing policy**, which sets out how the Council complies with the Public Interest Disclosure Act 1998, allows Council staff and contractors working for the authority to raise complaints regarding any behaviour or activity within the authority, ranging from unlawful conduct to possible fraud or corruption. The Monitoring Officer has overall responsibility for maintaining and operating the policy, along with reporting on outcomes to the Standards Committee. A new Investigations Protocol has recently been drafted to ensure that all allegations are appropriately risk assessed and the correct officers made aware of the allegations and a robust decision making process is in place. The new procedure is in the process of being communicated to all appropriate stakeholders.

3.13. **The London Borough of Hillingdon** has set out its vision of 'Putting Our Residents First' and established four priority themes for delivering efficient, effective and value for money services. The priority themes are; 'Our People', 'Our Heritage', 'Our Environment' and 'Sound Financial Management'. The delivery of these priorities will be achieved through a combination of strategic management programmes, which include: the Hillingdon Improvement Programme, Business Improvement Delivery programme and the financial and service planning process (Medium Term Financial Forecast).

3.14. **The Hillingdon Improvement Programme (HIP)** is Hillingdon's strategic improvement programme which aims to deliver excellence as set out in the Council vision – 'Putting Our Residents First'. The HIP Vision is to build a more customer focused organisation, to modernise business processes and to free up resources to provide improved services for our residents. HIP has helped to change the culture of the organisation and to improve the services delivered to residents. This can be evidenced through the high satisfaction rates received from residents about customer care, waste and recycling services, libraries, our primary and secondary schools and how well they feel informed, through regular feedback. HIP is consistently trying to improve Hillingdon by continuing to deliver a range of innovative projects, drive forward major cultural change and enhance Hillingdon's reputation. The programme is led by the Leader of the Council, and the Chief Executive and Corporate Director for Administration is the Programme Director. Cabinet members and directors are also responsible for specific HIP projects.

3.15. **The Business Improvement Delivery (BID)** programme is a key part of HIP and has been designed to fundamentally transform the way the Council operates. Through the programme, savings of £13.309 million were delivered in 2016/17 taking total savings since 2010 to approximately £110 million. The BID programme delivery and expenditure is overseen by the Leader of the Council, and the Deputy Chief Executive and Corporate Director of Residents Services.

3.16. **The Medium Term Financial Forecast (MTFF)** process is the system of service, financial and annual budget planning. This runs from the preceding March to February with a robust challenge process involving Members and Corporate

Directors. Monthly reports on key financial issues are produced and communicated through the finance management team.

3.17. **Hillingdon Partners** aims to bring together the key local public, private, voluntary and community sector organisations to work as a local strategic partnership to improve the quality of life for all those who live in, work in and visit Hillingdon. The Partnership seeks to promote the interests of Hillingdon beyond the borough's boundaries with external organisations, regional bodies and central government. The Partnership has agreed nine priority areas for the focus of its work, with actions to address local priorities delivered through theme groups.

3.18. **A Joint Strategic Needs Assessment** (JSNA) outlines the current and future health and wellbeing needs of the population over the short-term (three to five years) and informs service planning, commissioning strategies and links to strategic plans such as Hillingdon's Joint Health and Wellbeing Strategy. The JSNA is 'live' and can be accessed via the Council's website and as such is updated throughout the year rather than being refreshed annually.

3.19. **An Independently Chaired Audit Committee** operates to oversee financial reporting, provide scrutiny of the financial and non-financial systems, and provide assurance on the effectiveness of risk management procedures and the control environment. The Audit Committee has been set up with terms of reference which are generally consistent with CIPFA's 'Audit Committees – Practical Guidance for Local Authorities 2005'. The Audit Committee is subject to an annual Internal Audit assurance review of its effectiveness. The final report of the last such review was dated 18th November 2016. Further to this, the Terms of Reference for the Audit Committee have been updated and formally approved to further strengthen the Council's governance arrangements.

3.20. The **Performance Management Framework** is a Council-wide framework requiring service areas and teams to set annual plans, targets, identify risk and report performance against Council priorities. Key aspects of performance are monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the results of which are regularly presented to Senior Management Teams and reported quarterly to the Corporate Management Team.

3.21. The London Borough of Hillingdon has established an effective **risk management system**, including:

- **A Corporate Risk Management Strategy** outlining the roles, responsibilities and processes for capturing, reporting and taking action to mitigate key corporate and group risks. The Corporate and Group Risk Registers enable the identification, quantification and management of strategic risks to delivering the Council's objectives. Group Risk Registers are updated quarterly, reviewed by each Senior Management Team and the most significant risks are elevated to the Corporate Risk Register where appropriate. The Council's Risk Management framework is reviewed annually. The Head of Business Assurance has overall responsibility for the facilitation of the Council's Risk Management Framework and improvement

work in this area is ongoing.

- **A Corporate Risk Management Group** (CRMG), chaired by the Corporate Director of Finance, reviews the Corporate Risk Register on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. The Corporate Risk Register is presented to the Audit Committee in the following quarter. Where appropriate, the Medium Term Financial Forecast (MTFF) embraces the potential financial impact of significant risks. The Head of Business Assurance has overall responsibility for the facilitation of the Council's Risk Management Framework and the Audit Committee has commented that good progress has been made in strengthening the process for updating the Council's Corporate Risk Register on a quarterly basis.

- **Risk Management training** has been provided to Audit Committee members during 2016/17. Risk Management training for staff is available via an e-learning training package although the completion rate is low. Further improvement work is planned which will include the provision of bite size training sessions for staff in relation to risk management.

3.22. The Council recognises that there is a continued need for robust and effective strategic and operational risk management processes and procedures across the organisation. Effective risk management will help to mitigate against the financial and reputation risks arising from the broad range of **insurable risks** to which the Council is exposed. It is anticipated that the Council's Insurance contracts will support the transfer of financial risk through using a mixed portfolio of suppliers specialising in particular insurance sectors, alongside proactive actions by the Insurance Service to raise awareness of such risks.

3.23. **The Business Assurance Health and Safety Service** provide advice and support to the Corporate Health & Safety Forum, Group Health and Safety Champions as well as to managers regarding health and safety issues. The Corporate Health & Safety Forum assists in ensuring a consistent approach to health and safety management is adopted throughout the Council. It reviews health and safety performance across the Council and discusses matters of topical and strategic interest that have corporate health and safety consequences.

3.24. A corporate officer group, the Hillingdon Information Assurance Group (HIAG), chaired by the Senior Information Risk Owner (the Head of Business Assurance) on behalf of the Corporate Management Team, meets every quarter to review progress on the agreed Information Governance Action Plan (IGAP). The relevant policies, procedures and guidelines for staff are updated in line with the IGAP. An updated data protection e-learning training module has been rolled out to staff and briefings have been delivered to some Elected Members. Where identified, learning from data protection incidents that have occurred is integrated into the IGAP.

3.25. The London Borough of Hillingdon has **an Anti-Fraud and Anti-Corruption Strategy** which has recently been updated and is in the process of getting the required formal approval. The strategy is underpinned by a full range of policies and procedures including the Council's Whistleblowing Policy. Work is ongoing to

progress the updates to these policies and procedures and ensure they are aligned to the Council's new Investigations Protocol. Once finalised, the Strategy, Protocol, Policies and Procedures will be communicated to all key stakeholders to help ensure they are all aware of their responsibilities in relation to fraud and corruption at the Council.

3.26. **The Committee Standing Orders** (Part 4B), Procurement & Contract Standing Orders (Part 4H) & Scheme of Delegation to Officers (Part 3) are incorporated in the Constitution and reviewed annually. The Scheme of Delegation specific to each Group is available on the Hillingdon's internal web pages: 'Horizon'.

3.27. The London Borough of Hillingdon **monitors legislative changes,** considers implications and opportunities and ensures that the authority is substantially compliant with laws and regulations. The Policy Team leads on briefing the Corporate Management Team on upcoming changes and agreeing actions, reporting to Cabinet on specific issues as required. Legal Services review key committee and all executive reports prior to decision, for legal compliance.

3.28. Hillingdon's training and development programme enables staff and senior officers to access and complete a wide range of learning and development opportunities through the internal Learning & Development pages on 'Horizon' to ensure they have the skills, knowledge & behaviours to deliver the Council's priorities. This includes induction programmes, e-learning packages and a range of vocational development courses under the Qualifications and Credit Framework. In addition, the Hillingdon Academy is now well established as a leadership programme aimed at providing the Council's future leaders. The Council also offers staff the opportunity to achieve professional qualifications and meet their continuing professional development (CPD) requirements.

3.29. The **Performance and Development Appraisal (PADA)** process requires all officers and senior managers to record employees' key objectives and tasks, set targets for when these must be delivered and identify staff learning and development needs. There are competency frameworks for staff, managers, senior officers and Directors, with descriptors outlining the performance that is expected at each level. Performance reviews are required to be completed on a bi-annual basis against the relevant competency framework and PADA guidance is available to support both staff and managers through the process.

3.30. Hillingdon has a set of **consultation/engagement standards** that demonstrate a commitment for building strong relationships with residents, visitors and businesses throughout the borough. The standards set out Hillingdon's commitment to engage, consult and respond to the views of local communities. The standards also support Hillingdon's commitment to transparency and the need for sharing information with residents. Resident and stakeholder feedback supports and informs corporate intelligence, which drives business planning, policy and decision making including commissioning and procurement of services. An annual customer engagement plan is in place covering all Council services to align customer engagement to support the delivery of Council priorities.

3.31. The Council has in place a well-established **Petition Scheme**, including e-

Petitions. This is widely used by people in the borough to submit their views on local matters directly to decision-makers.

4   **Review of Effectiveness**

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

4.2. The CIPFA/SOLACE 2016 Framework '*Delivering Good Governance in Local Government*' (Chapter 5), sets out seven principles of good practice:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder involvement.
- Defining outcomes in terms of sustainable economic, social and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the entity's capacity, including the capacity of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

4.3. The review of effectiveness has considered each of the principles, including the sub-principles and behaviours and actions that demonstrate good governance in practice and as set out in the guidance.

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

4.4.1. A comprehensive annual programme of scrutiny and review by the Policy Overview and Scrutiny Committees as well as the Audit Committee.

4.4.2. The role and responsibilities of the Corporate Director of Finance, detailed in the Finance Schemes of Delegation. As a key member of the Corporate Management Team leadership, his role is to act as, and exercise the functions of, the "Chief Finance Officer" meaning the officer designated under section 151 of the Local Government Act 1972. As such he is actively involved in all material business decisions to safeguard public money and sound financial management on behalf of the authority.

4.4.3. The work of the external auditors (Ernst & Young) as reported in their Annual Audit Letter.

4.4.4. The work of the Business Assurance service, which develops its quarterly Internal Audit plans after an assessment of risk and priorities including discussions with relevant senior managers. The Head of Business Assurance (& Head of Internal Audit) reported quarterly during the year to both the Corporate Management Team and the Audit Committee. Overall he has provided a 'reasonable' level of assurance on the Council's internal control environment for 2016/17.

4.4.5. Management Assurance Statements (MAS) were received from all Deputy Directors and Heads of Service covering the financial year 2016/17. The MAS provide confirmation that the control environment is operating effectively to safeguard the delivery of services and that governance issues other than those identified in Section 5 (below) have been raised and are being dealt with appropriately.

4.4.6. The London Borough of Hillingdon has continued to maintain effective financial management throughout the financial year, with unallocated reserves remaining at £39 million at 31 March 2017.

4.4.7. The London Borough of Hillingdon has a clear commitment to a capable and fit for purpose procurement function. Working to a Category Management approach, Procurement ensures a best value approach to expenditure commitment. By engaging with groups, Procurement supports the delivery of financial and service level requirements to meet the wider corporate objectives with a 'Residents' First' approach.

4.5. Overall, therefore, the review of effectiveness has concluded that internal control/governance systems were in place for the financial year ended 31 March 2017 and, except where identified in section 5, the London Borough of Hillingdon's management and control systems are operating effectively in accordance with good practice.

5 **Significant Governance Issues**

5.1. The London Borough of Hillingdon has implemented a range of improvement actions, as part of its overall continuous improvement programme, to strengthen governance arrangements and control systems.

5.2. All governance issues reported in the 2015/16 AGS and in previous years have been resolved and the following points are noted:

5.2.1 In relation to school improvement, good progress has continued to be made during the last year to embed a school-led improvement approach in Hillingdon working closely with Head Teachers and Governing Bodies in the Borough. Community Schools which are a cause for concern are subject to regular performance reviews and where appropriate Warning Notices are served. Alternatively concerns are escalated to the Regional Schools Commissioner in the case of Academy schools. The Council is working closely with all schools in

Hillingdon to ensure all children in Hillingdon receive a 'good' or better education.

5.2.2 An Internal Audit assurance report on the Council's Corporate Anti-Fraud and Anti-Corruption arrangements finalised in December 2014 identified a number of governance issues requiring improvement. An overarching Corporate Anti-Fraud and Anti-Corruption Strategy (2017-20) has been drafted and agreed by a range of key stakeholders including the Audit Committee on 16th March 2017. Policies and plans to support the Strategy are currently being drafted with direct involvement of the Corporate Management Team. Links to these will be made available in the CAF&AC Strategy (once agreed).

5.2.3. A review of the Passenger Transport Service and a routine Health and Safety Audit in 2015-16 identified problems with contract monitoring and a need for actions to improve safeguarding and health and safety procedures. A new system of routine and spot checking contractors' compliance has been put in place. This includes inspection of all relevant documentation regarding company insurance, vehicles and contracted drivers. Safeguarding documentation has been produced for all contracted companies and drivers. A stronger system is in place to ensure that all staff have the necessary DBS clearance and for monitoring and recording health and safety training.

5.2.4 Some inadequate health and safety and security arrangements were identified at Harlington Road Depot. These have been addressed through a number of staff changes, the introduction of increased security measures and new regular communications to promote health and safety across the site.

5.2.5. During 2016/17 good progress has been made to implement actions in response to recommendations from an internal review of the homelessness and housing service. Nearly all recommendations have been implemented including strengthening management controls, staff performance management and the review and approval of a revised Social Housing Allocation Policy. Further work is underway to actively implement the two remaining recommendations from the review.

5.2.6 The Council has completed a restructure of the Corporate Procurement Team. The Team has received Official Journal EU training and training for Chartered Institute of Procurement and Supply professional qualifications (where appropriate). A new category structure has been created, incorporating category strategy and Supplier Relationship Management identification for key suppliers. Ongoing contracts are reviewed, where appropriate, to ensure they contain suitable KPI's and SLA's.

5.2.7 All critical (priority 1) Council services now have an up-to-date Business Continuity Plan in place. Further work is planned to ensure the plans are fully embedded within each service.

5.2.8. The Council continues to attach the highest importance to Data Protection and Information Governance. Work is ongoing through the Council's Information assurance working group (HIAG) to strengthen arrangements in this area.

5.2.9. Following an Employment Tribunal hearing the Council reviewed its Recruitment & Selection policy. The Policy was revised, consulted on and approved and was implemented with effect from April 2017.

5.3 Following a review of the effectiveness of the system of internal control including the corporate governance arrangements, the following significant governance issues have been identified in 2016/17:

5.3.1 Further work to strengthen business continuity operational risk: Business Continuity / Disaster Recovery: In the event of a disaster such as an extended period of power outage or major fire in the Civic Centre, multiple business areas would be unable to operate their ICT systems for days, or have limited ability to operate for up to 2 weeks. Proposals have been put forward to CMT regarding back-up solutions and swifter access to the Council's core ICT applications in such a scenario. Capital funding has provisionally been identified and CMT are to further review alternate location options for emergency command and control. Final proposals for the required technology resilience, need to go in tandem with this and as part of the upcoming modernisation of ICT.

5.3.2 An Internal Audit of Building Control services identified a number of operational and financial risks. Positive management actions with timescales have been agreed to address these risks.

5.3.3 There is some evidence of deterioration in the financial position of a number of maintained Schools, linked to changes in the national funding of schools. Two schools requested a licensed deficit in 2016/17 - one of which was projecting a year-end deficit of £1.6 million. There are a further eleven schools with balances below £50k and the ringfenced Dedicated Schools Grant budget overspent by £1.1 million in 2016/17. The finance team will use the 2016/17 out turn data and the maintained Schools three-year budget plans to determine where intensive support is required (over and above that already offered through the Schools Finance team SLA). The issue is also being discussed on an ongoing basis at Schools Forum.

5.3.4 The Social Care Finance team have identified that there is incomplete management information relating to Social Care clients that have no recourse to public funds (NRPF) and identification of the related costs of their support. The service now has access to the Connect system that collates this data. Additionally the service works closely with the Fraud Team and is exploring opportunities for closer working with the Home Office.

5.4. The Council continues to operate in an environment of declining financial support from government while managing increasing demand for a broad range of services, which in the absence of any response would result in a rising annual deficit that would reach £70m by 2021/22. In response, the Council continues to review and transform services to drive improvement and efficiency through initiatives such as the successful BID programme, which has bridged the budget gap by delivering £13.3m savings in 2016/17. This proven approach is set to be continued beyond 2016/17, enabling the Council to continue 'putting our residents first' despite the challenging financial conditions.

Fran Beasley
Chief Executive
XX September 2017

Cllr Ray Puddifoot MBE
Leader of the Council
XX September 2017

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Business Assurance - Internal Audit Annual Report & Opinion Statement 2016/17

Contact Officer: Muir Laurie
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REASON FOR ITEM

The UK Public Sector Internal Audit Standards (PSIAS) requires the Head of Business Assurance, as the Council's Head of Internal Audit, to deliver an Annual Internal Audit Report and Opinion Statement that can be used by the Council to inform and support its Annual Governance Statement. Therefore, in setting out how it meets the reporting requirements, this report and opinion statement also outlines how Internal Audit (IA) has supported the Council in meeting the requirements of the Accounts and Audit (England) Regulations 2015. The report also summarises the main findings arising from the work performed by IA during 2016/17.

This report provides the opportunity for the Head of Business Assurance to highlight to the Committee any significant matters arising from the work of IA during 2016/17. The draft report was considered by CMT on 14th June 2017 to allow comment by the officer body responsible for the Council's internal control, corporate governance and risk management arrangements.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee are asked to note the Annual IA Report and Opinion Statement 2016/17.

INFORMATION

IA provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 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.

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

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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Annual Internal Audit Report & Opinion Statement 2016/17

19th June 2017

www.hillingdon.gov.uk

Contents

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1. Introduction

1.1 The Role of Internal Audit

1.1.1 Internal Audit (IA), which is part of the Council's Business Assurance (BA) service, provides an independent assurance and consultancy service that underpins good governance. This is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (Amendments) (England) Regulations 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 public sector internal auditing standards or guidance.

1.1.2 IA give an objective opinion to the Council on whether the control environment is operating as expected. In 'traditional' IA teams this usually means compliance testing of internal controls. However, the IA service at Hillingdon fully embraces the risk based approach which means IA provides greater assurance to the Council because it is focused on the key risks to the achievement of the organisation's objectives. As a result, IA does not just comment on whether the controls operate, but whether they are the right controls to mitigate risk and enhance the likelihood of achieving the overall aims of the service.

1.1.3 The UK Public Sector IA Standards (PSIAS) promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement (AGS).

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

1.2.1 This annual report summarises the main findings arising from all of the 2016/17 IA assurance and consultancy work. The report also provides IA key stakeholders including the Council's Corporate Management Team (CMT) and the Audit Committee, with an opportunity to hold the Council's Head of Business Assurance (HBA) [as the Council's statutory Head of Internal Audit (HIA)] to account on delivery of the 2016/17 IA Plan and on the effectiveness of the IA service.

1.2.2 The UK PSIAS require the HIA to deliver an annual IA report and opinion statement that can be used by the organisation to inform its AGS. Therefore, in setting out how it meets the reporting requirements, this report and opinion statement also outlines how IA has supported the Authority in meeting the requirements of the Accounts and Audit (England) Regulations 2015.

2. Executive Summary

2.1 Despite a significant reduction in IA capacity during the year, the HBA is pleased to report that **the 2016/17 IA plan was 93% complete to draft report stage by 31st March** and **100% complete by 19th June 2017**. This is an excellent achievement for IA and the Council and highlights the continued collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Council.

2.2 Delivery of the IA plan for 2016/17 has been achieved in a relatively timely manner against a backdrop of continuous change and improvement for the BA service and the Council. These improvements have included continuing to embed a risk based approach to help focus IA resources, restructuring the IA team to generate greater front line capacity and enhancing the application of lean auditing principles to the IA process. This has incorporated the evolvement of IA software (TeamMate) which continues to improve the efficiency of the IA service, in particular the IA follow-up process. Further details of IA performance can be found at section 6 of this report.

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

> *It is the HIA's opinion that overall IA can provide* **REASONABLE** *assurance that the system of internal control that has been in place at Hillingdon Council for the year ended 31st March 2017 accords with proper practice, except for the significant internal control issues referred to in para 3.8 (see para 3.12 for further details).*

2.4   In total **67** pieces of IA work have been delivered as part of the 2016/17 IA plan. This included **30** assurance reviews, **10** follow-up reviews, **15** consultancy reviews and **12** grant claim audits. Nearly half of the **30** assurance reviews resulted in a **LIMITED** (**43%**) or **NO** (**3%**) assurance IA opinion. Whilst this may appear concerning, this provides positive assurance to the Audit Committee and CMT that IA resource is focused on the right areas, often highlighted by management as known areas of concern.

2.5   **All of the 2016/17 HIGH and MEDIUM risk recommendations raised by IA were accepted by the relevant managers/risk owners, with positive action proposed to TREAT all these risks** (this includes the issues highlighted in the quarterly IA progress reports presented to the Audit Committee and CMT during 2016/17). Further analysis of the IA assurance levels issued in 2016/17 along with a breakdown of the risk recommendations raised can be found at section 4 of this report.

2.6   The table below provides an analytical review of assurance opinions issued by IA over the last 3 years which demonstrates a broadly consistent picture, in particular over the last two years:

Assurance Level	2014/15	2015/16	2016/17
Substantial	6	0	2
Reasonable	20	17	14
Limited	4	15	13
No	4	1	1
Totals	**34**	**33**	**30**

2.7   The bar chart below highlights that IA assurance reviews are increasingly focussed on the areas of greatest risk:
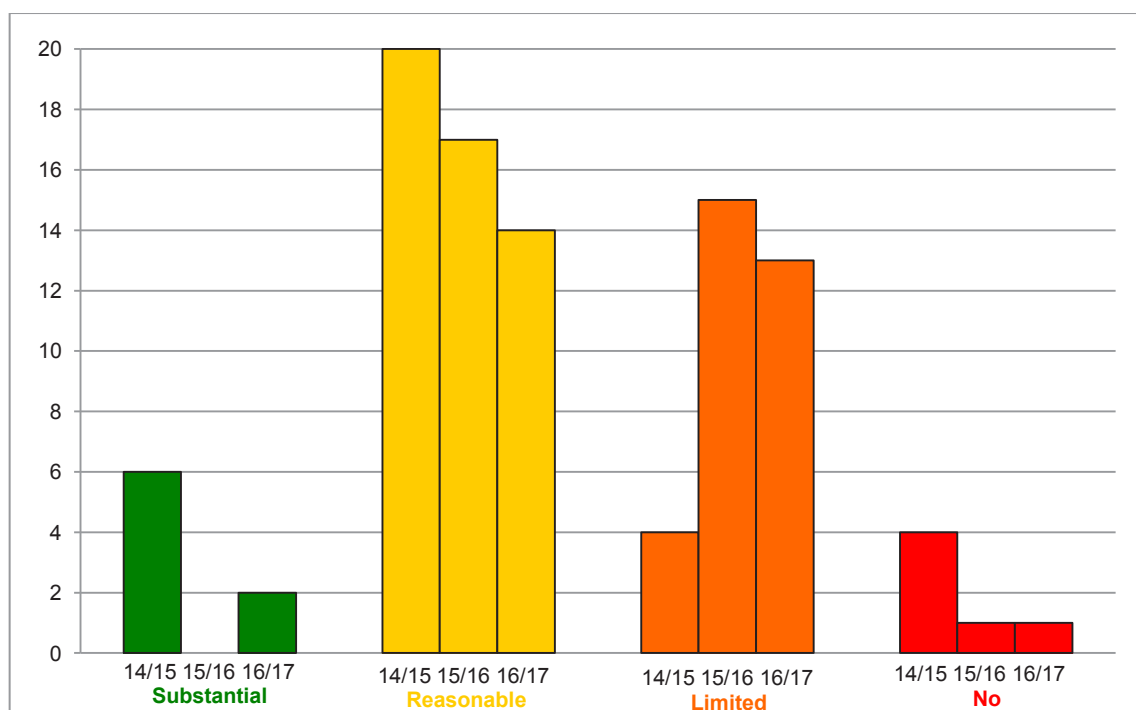
2.8 Greater IA resource has been deployed on following-up recommendations during 2016/17, as highlighted by the bar chart below, comparing the deployment of IA resources:
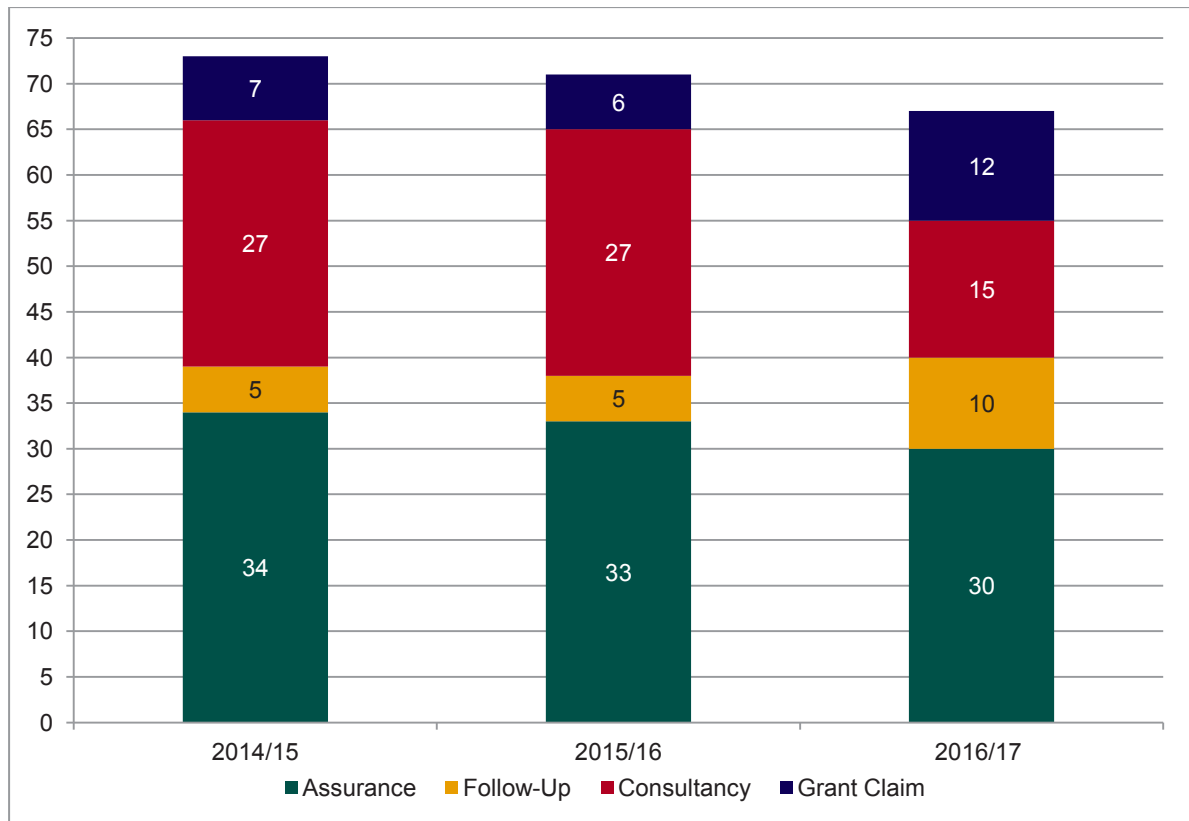
2.9 Focussing dedicated IA resource to the process of **following-up recommendations** that are due to have been implemented, has helped to continue to achieve a positive outcome for the Council during 2016/17. Specifically, as at 19th June 2017, **100%** of the HIGH risk recommendations raised in 2016/17 that have fallen due (6 of 15) have been confirmed by management as in place. Each of the remaining nine HIGH risk recommendations implementation date had not yet passed. IA verification work is ongoing to confirm these recommendations are embedded and operating as intended. Further details of the follow-up of previous IA recommendations can be found at section 5 of this report.

3. Head of Internal Audit Opinion Statement 2016/17

3.1 Background

3.1.1 The HIA opinion statement is provided partly to help inform the Chief Executive and Leader of the Council to assist them in completing the AGS, which forms part of the statutory Statement of Accounts for the 2016/17 year.

3.1.2 The AGS provides public assurances about the effectiveness of the Council's governance arrangements, including the system of internal control. The HIA opinion statement meets the Authority's statutory requirement under Regulation 6 of the Accounts and Audit (Amendments) (England) Regulations 2015 and is in line with the UK PSIAS.

3.2 Scope of Responsibility

3.2.1 The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty, under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

5.

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

3.3 The Purpose of the System of Internal Control

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

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

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

3.4.1 The HIA opinion is based primarily on the work carried out by the Council's IA service during 2016/17, as well as a small number of other assurance providers. Where the work of the Corporate Fraud Investigations Team (CFIT) has identified weaknesses of a systematic nature that impact on the system of internal control, this has been considered in forming the HIA opinion.

3.4.2 The IA Plan for 2016/17 was developed primarily to provide CMT and the Audit Committee with independent assurance on the adequacy and effectiveness of the systems of internal control, including an assessment of the Council's corporate governance arrangements and risk management framework.

3.5 Basis of Assurance

3.5.1 All of the IA reviews carried out in 2016/17 have been conducted in accordance with the UK PSIAS. An independent assurance review of the IA service finalised in July 2016 confirmed that Hillingdon's IA service has overall met the requirements of the UK PSIAS in 2016/17. An external quality assurance (EQA) review of the IA service is due to commence in July 2017.

3.5.2 In line with the UK PSIAS, the HIA is professionally qualified and suitably experienced. The skills mix within the rest of the in-house IA team has evolved during the year with **every single member of the IA team either fully qualified or actively studying for a relevant professional IA qualification**. This has been supported by our external IA partner provider Mazars. As a result, the 2016/17 IA resources fulfilled the UK PSIAS requirements in terms of the combination of professionally qualified and suitably experienced staff.

3.6 Qualifications to the Opinion

3.6.1 During 2016/17 the Council's IA service:

- had **unrestricted access to all areas and systems** across the authority;

- received **appropriate co-operation from officers and members**; and

- had **sufficient resources to enable it to provide adequate coverage** of the authority's control environment to provide the overall opinion (refer to para 3.12.3).

As a consequence, **there are no qualifications to the HIA opinion statement for 2016/17**.

3.7   Other Assurance Providers

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

- Coverage of the Corporate Fraud Investigations Team;

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

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

- The work of the Business Continuity Management Group;

- The work of the Hillingdon Information Assurance Group (HIAG);

- The Audit Committee - an IA assurance review of the effectiveness of the Audit Committee was reported in November 2016.

- External inspections i.e. Ofsted; and

- Coverage by External Audit (EY) including grant claim certification i.e. HB Subsidy.

3.8   Significant Internal Control Weaknesses

3.8.1   IA is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise during the year.

3.8.2   **There were several significant control weaknesses identified by IA during 2016/17**. Work is ongoing to strengthen the Council's control environment in relation to the significant control weaknesses identified. These included (but are not limited to):

1. The 2016/17 IA review identified a wide range of **physical access control** gaps which cumulatively created significant opportunity for an unauthorised person to gain access to restricted Council areas. The likelihood of potential security breaches within the Civic Centre is increased due to the nature, usage, foot-fall and design features of the building, as well as involvement of high profile political figures. However, following this IA assurance review, Management have taken prompt positive action to reduce the likelihood of security breaches within the Civic Centre.

2. Our assurance and consultancy work continues to identify **contract management shortcomings** across the Council (as previously reported in the IA Annual Reports for both 2014/15 and 2015/16). Generally, weaknesses identified stem from a lack of clarity over strategic and operational contract management/monitoring responsibilities. This has in some areas of the organisation impacted oversight and monitoring of contractor delivery. Specifically IA coverage has highlighted varying degrees of contract management by service managers and their interaction with the Corporate Procurement team. We are aware that during 2016/17 the Corporate Procurement team has undergone significant transformation and Management are confident that the control gaps will be resolved moving forward. This will be achieved through clarity of responsibility between management and the Corporate Procurement team, as well as the ongoing implementation, maintenance and automation within the Capital E-Sourcing solution.

3. There are significant gaps in records management and document retention across the Council. This has been highlighted in IA reviews during the year in relation to the retention of key contractual documentation i.e. signed agreements, terms and conditions of contract, service specifications, pricing schedules, SLAs and the agreed contractor performance metrics/KPIs. Weaknesses were also noted in the documentation and processes for evidencing agreed variations to contract. This can in part be attributed to the significant restructure within Corporate Procurement. However, greater clarity over the corporate records management and document retention processes and defining roles and responsibilities is still required.

4. A key theme identified throughout a number of IA reviews within 2016/17 was the noticeable control weaknesses and/or gap in the 'second line of defence'. This included service risk management (refer to para. 3.10) and in particular quality control and inspection. In line with this theme, several audits within 2016/17 have identified gaps in, or the absence of, data quality and quality assurance controls, impacting and potentially compromising the accuracy, reliability and integrity of data. Whilst the reduction in focus on the 'second line of defence' may be attributed to reducing resource as a result of austerity, its absence could significantly impact service delivery, including management information, decision making and statutory compliance.

5. Following the decision taken by Schools Forum in October 2015, IA no longer carries out thematic audits or cyclical reviews in local authority (LA) maintained schools. IA coverage in this area is now reduced to the statutory minimum and as a result Hillingdon maintained schools are only subject to IA reviews where there is a known significant risk. Known risks in schools will be considered and identified with LA partners including Members, Schools Finance and the Schools Improvement Team. There of course remains an obligation for all maintained schools to appropriately manage their risks and to comply with their policies and financial regulations. Given that accountability for the internal control environment rests with School Management and their Governing Body, risk management, internal control and policy compliance should continue to be monitored appropriately within the existing school's governance and committee structures. However, where there are sufficient concerns raised regarding practice or risk management at a Hillingdon maintained school, the Council (via IA) retains the authority to carry out an independent assurance audit of that school at any reasonable time.

3.9 Internal Control Improvements

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

- The **controls surrounding the Council's core financial systems are strong**. There was a significant change in 2015/16 relating to the upgrade of the Oracle Financials system. Substantial work in this area was undertaken to safeguard the integrity of data through the transition, with assurance over the upgrade and associated changes in controls of the core financial systems was built into the 2016/17 plan.

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

3.10 Risk Management

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

3.10.2 The IA opinion on the effectiveness of the Council's RM arrangements is based on **the Chartered Institute of Internal Auditors' Risk Maturity Model**. IA has identified that there is good RM practice in an increasing number of areas of the Council's operations, but there remains some services where the understanding of RM could be improved. Further, IA's review of the Council's RM arrangements concluded that whilst the approach to RM at a strategic level was good, risk identification and management at a more operational level is a somewhat scattered, silo based approach.

3.10.3 The RM policy and guidance was updated and approved in January 2017 with comprehensive detail as well as the clarity of roles, responsibilities and accountabilities of Members and Officers in relation to RM. The Council has a well established Corporate Risk Management Group (CRMG) in place which meets quarterly and discusses strategic (corporate) risk issues in a sufficient manner. Strategic risks are monitored and reviewed by Group SMTs, CMT as well as the Audit Committee on a quarterly basis. In addition, whilst it is the responsibility of all employees to identify and manage risks effectively, there are designated risk champions representative for each Group (Directorate) with accountability assigned for each identified strategic risk to own and manage, in liaison with the lead Cabinet Member.

3.10.4 However, the Council needs to further improve the process for identifying and recording risks at an operational level. In particular, IA's judgement in this area is that risks below Group level are not being consistently identified and treated across the organisation. Further, service risk registers, whilst encouraged, are not in place for a number of areas across the Council. We have therefore concluded that the approach to managing operational risks still requires significant work if the Council is to achieve a *Risk Managed* enterprise-wide approach to risk management.

3.10.5 Nevertheless, a number of enhancements to risk management arrangements have been noted throughout the year. This includes the establishment of risk appetite statements for each risk within the corporate risk register and the communication of the updated RM policy and guidance. As a result, the IA assessment of **the Council's Risk Management maturity is** that the Council was *Risk Defined* as at 31st March 2017 (previously *Risk Aware* as at 31st March 2016). In our opinion, the Council demonstrates all the main characteristics of a *Risk Defined* maturity level and the key requirements that apply to this maturity level are now in place.

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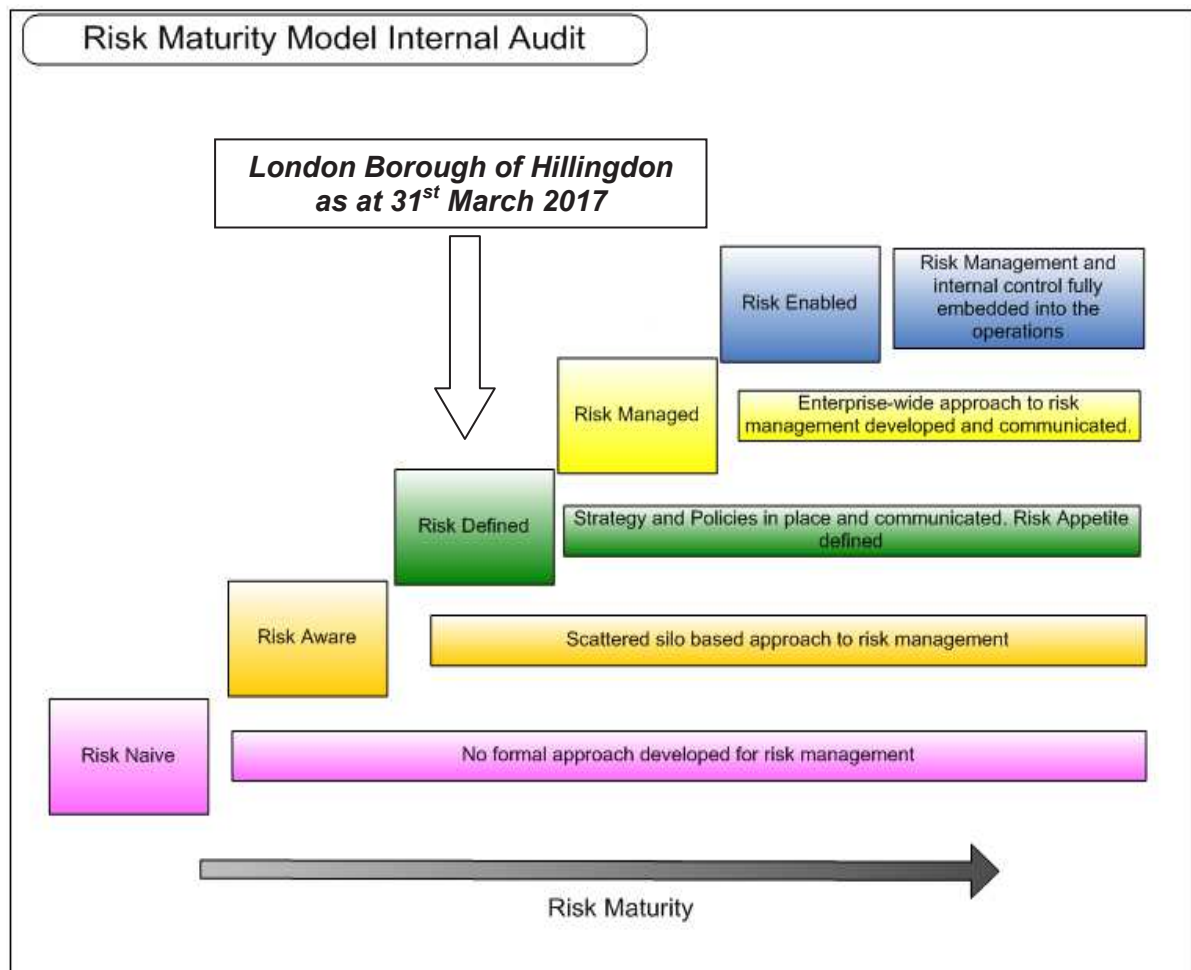
3.11 Corporate Governance

3.11.1 The 2016/17 IA opinion on the effectiveness of the Council's corporate governance arrangements is based on the **Langland's Report on 'Good Governance Standard for Public Services'**. The Langland's report contains best practice governance in the public sector and IA's assessment is highlighted in the table overleaf:

Langland's Governance Principles	IA Assessment of Hillingdon
1. Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.	**SUBSTANTIAL** Assurance - The Council's vision and strategic priorities are clearly communicated and understood by officers. The Council's vision *'putting our residents first'* provides the clear direction that is required to fulfil the Council's purpose and achieve positive outcomes for residents. Even without a formal corporate business plan, the overarching strategies of the Hillingdon Improvement Programme /Business Improvement Delivery programme and Medium Term Financial Forecast provides the steer and focus to achieve the Council's vision and strategic priorities.
2. Good governance means performing effectively in clearly defined functions and roles.	**REASONABLE** Assurance - The Council's Constitution comprehensively sets out how the Council is governed with the function/role of the Cabinet clearly defined and documented. Further, the roles and responsibilities for the HIP Steering Group and CMT have strengthened during the year. As a result, it is IA's opinion, that the organisational structure is fit for purpose to deliver the Council's vision and priorities. Nevertheless, there is scope to further improve understanding of governance across the Council and to provide additional clarity relating to roles and responsibilities.
3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour.	**REASONABLE** Assurance - The Council has a Code of Conduct in place for both officers and Members to ensure values and behaviours are upheld consistently across the Council. Member and officer relations were found to be good with no significant concerns. An Anti-Fraud and Anti-Corruption Strategy has recently been subject to significant update and will be underpinned by a full range of supporting policies and procedures including the Council's Whistleblowing Policy. The Council does not maintain a Local Code of (Corporate) Governance, this would assist the Council to demonstrate that the Council adheres to the desired CG culture. It would also help improve accountability to stakeholders and allow staff to better understand the benefits of good governance.
4. Good governance means taking informed, transparent decisions and managing risk.	**REASONABLE** Assurance - The Cabinet operates as an effective Member decision making body which is known by officers for usually making swift decisions. IA confirmed that a Cabinet Scheme of Delegations (SD) was in place and Group SDs are in place and have been updated within the year. (cont'd/)

Langland's Governance Principles	IA Assessment of Hillingdon
	(/cont'd)
	RM arrangements were found to be in place and have been reviewed separately by IA. The Council's AGS process was overall found to be adequate, although there remains scope for further improving understanding across the Council of what governance is and what it means.
5. Good governance means developing the capacity and capability of the governing body to be effective.	**REASONABLE** **Assurance** - The Council's Cabinet brings direction and stability to the organisation. It has demonstrated that it provides continuity of knowledge and relationships, with minimal change to the Cabinet Members/ roles this year. There are induction, training and development arrangements in place to help ensure Members have the rights skills and knowledge to perform their Cabinet duties effectively. Member performance is evaluated by their respective political groups. Officers were positive about the role and clear direction that the Cabinet provides.
6. Good governance means engaging stakeholders and making accountability real.	**REASONABLE** **Assurance** - The Council engages with stakeholders using an array of engagement and consultation activities to make accountability real. There is clear accountability between the Cabinet and its Executive Committees. Policy Overview (PO) and Scrutiny arrangements are in place and appropriately reported. The recommendations proposed by PO Committees are generally endorsed by the Cabinet. Various mechanisms are in place to obtain feedback and engage with officers, residents and service users. Petition and consultation arrangements were also found to be in place. IA identified there is further scope for improvement with regards to reporting of key information in relation to the Council's Vision, Strategic Priorities, Strategies, financial position, performance, achievements, outcomes and satisfaction of service users. This, including alignment to Service Planning, will improve accountability and enhance stakeholder confidence, trust and interest.

3.11.2 As a result, **Hillingdon's overall Governance arrangements were assessed by IA as REASONABLE**. The Council's vision and strategic priorities provides both officers and Members with a very clear direction. This is complimented by a strong and stable political leadership that controls and leads the organisation to achieve positive outcomes for residents. The Council's governance arrangements are underpinned by its Constitution which explains how the Council is governed and how it operates.

3.11.3 IA also noted the Cabinet is collectively viewed as effective and renowned for generally quick decision making. In IA's opinion, although the Council's CG arrangements are not fully in line with more traditional CG models, **the outcomes the Council has achieved within a period of austerity measures and constant change are exceptionally good**. This demonstrates that the overall direction and control is a good fit for the organisation at this time. It is clear that the Council put their residents at the forefront of all activity that it engages in, maintaining a high resident satisfaction rating.

3.11.4 The Council exemplifies strong financial management and control that is illustrated by the relatively healthy reserves balances. The Council continues to uphold a 0% council tax increase for all Hillingdon residents for the 9th consecutive year, and up to and including 2018/19 (12 years in total for those aged over 65).

3.11.5 During the last financial year, the council also invested in its road resurfacing programme and this will continue and will include pavements. Safety was also prioritised in 2016 with investment of over £2m in CCTV cameras to enforce "Keep Clear" parking restrictions outside schools across the borough. The environment and safety were also a consideration in investing £5.2m in a new street lighting programme to replace all street lights in Hillingdon with LED lighting.

3.11.6 Education continues to be a Council priority and LBH continues to ensure that every child in the borough has a school place near to where they live. The focus of the Council's school building and expansion programme, one of the largest in London, has turned to secondary schools, with the £35m rebuilt Northwood School opening last year.

3.12 Internal Control

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

3.12.2 The diagram below details the elements of the COSO internal control framework and analyses all **131** **HIGH** and **MEDIUM** risk IA recommendations (per para. 5.8) raised during the 2016/17 year:

The COSO Internal Control Framework
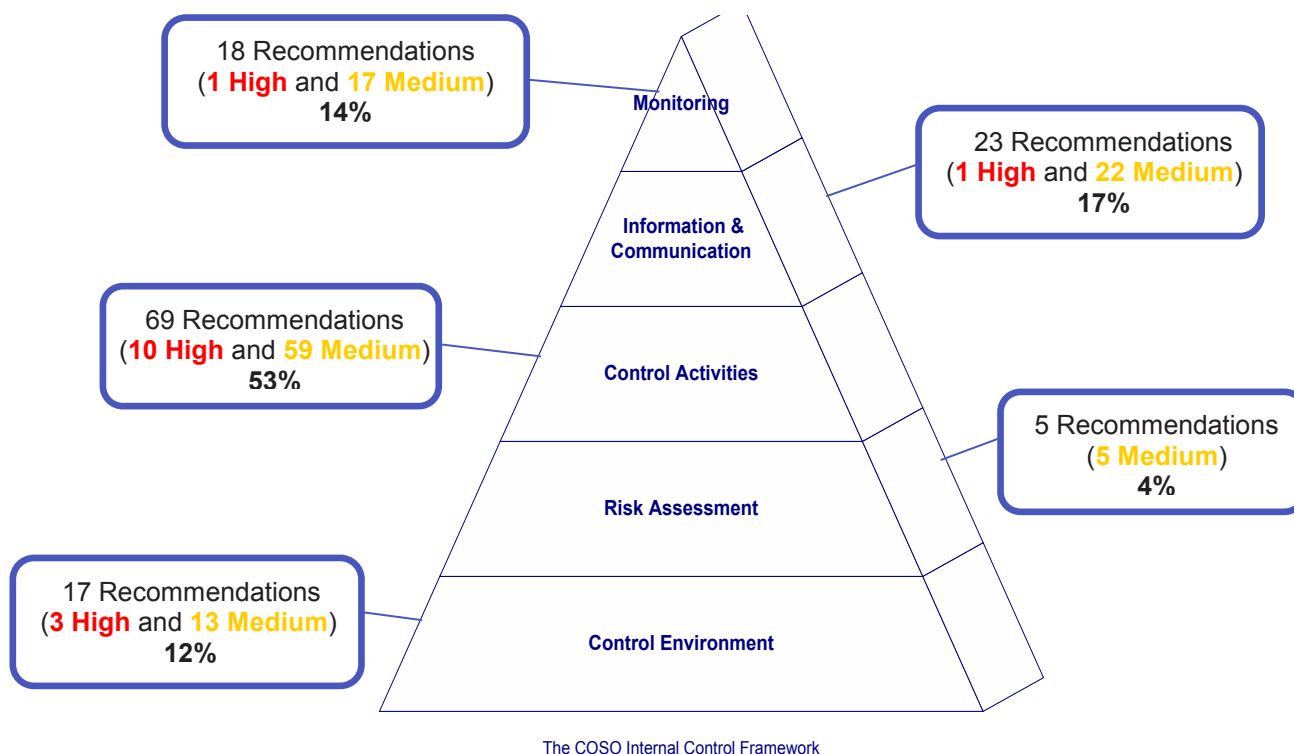
3.12.3 As expected the majority of IA recommendations related to improvements over control activities. These include recommendations relating to written procedures, authorisations, reconciliations and segregation of duties. The other components of the framework have a relative proportionate share of recommendations. As noted at para 3.10, there are some weaknesses within the operational risk management processes. As a result, although there were only a few IA recommendations raised in 2016/17 that related to the risk assessment component of the COSO framework, it should not be inferred that risk assessment is completely robust.

3.12.4 The individual IA assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations have a bearing too. From the IA work undertaken in 2016/17, and the other sources of assurance referred to in para 3.7, **it is the HIA's opinion that overall IA can provide REASONABLE assurance that the system of internal control that has been in place at the Council for the year ending 31st March 2017 accords with proper practice**, except for the significant internal control issues referred to in para 3.8.

4. Analysis of Internal Audit Activity 2016/17

4.1 Internal Audit Assurance Work 2016/17

4.1.1 The 2016/17 IA assurance work is summarised by the assurance level achieved (definitions of the IA assurance levels are included at **Appendix B**) as per the table below:

Assurance Level	Number of 2016/17 IA Assurance Reports	Percentage Split 2016/17	Comparison	
			2015/16	2014/15
SUBSTANTIAL	2	7%	0% (0)	18% (6)
REASONABLE	14	47%	52% (17)	59% (20)
LIMITED	13	43%	45% (15)	12% (4)
NO	1	3%	3% (1)	12% (4)
TOTAL	30	100%	100% (33)	100% (34)

4.1.2 The pie chart below depicts the levels of assurances achieved based on a percentage of the total 2016/17 assurance audits completed by IA:
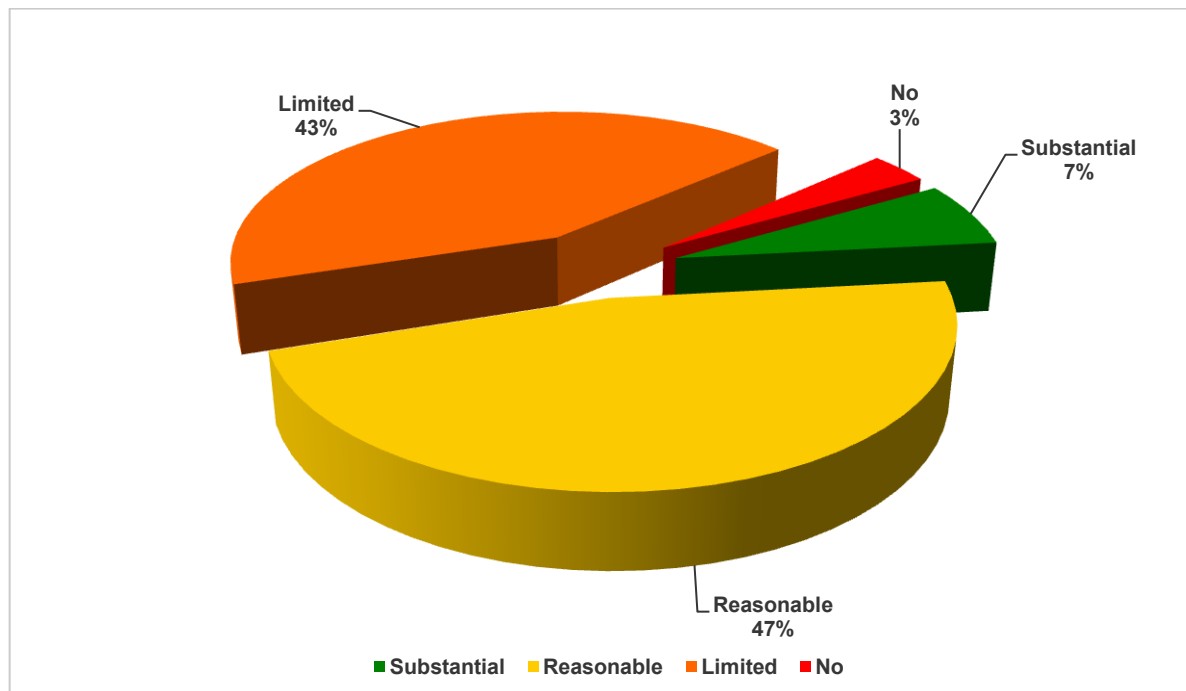
4.1.3 The Chart above highlights the positive news for the Council that 47% of the areas audited in 2016/17 were assessed by IA as providing **REASONABLE** levels of assurance. Further, results from 2016/17 IA Assurance work represent a 2% percent increase in total assurance reports obtaining either a substantial and reasonable opinion when compared to the prior year. This is positive given the risk based focus of IA coverage and the increased alignment of IA work to the key risks facing the Council, and demonstrates an overall improvement in the control environment across the Council in 2016/17.

4.1.4 The individual assurance reviews carried out during 2016/17 are fully listed at **Appendix A** which highlights the assurance levels achieved (as outlined at **Appendix B**) and provides an analysis of the IA recommendations made (in accordance with the risk ratings as outlined at **Appendix C**).

4.1.5 For the **30** IA assurance reviews and **10** follow-up reviews conducted, there were **204** IA assurance recommendations raised in total in 2016/17:

Risk Rating	Number of 2016/17 IA Recommendations	Percentage Split 2016/17	Comparison	
			2015/16	2014/15
HIGH	15	7%	11% (31)	13% (35)
MEDIUM	116	57%	55% (158)	56% (147)
LOW	73	36%	34% (97)	31% (83)
TOTALS	**204**	**100%**	**100% (286)**	**100% (265)**
NOTABLE PRACTICE	6	-	20	37

4.1.6 Given that an increasingly risk based IA approach has been applied in 2016/17, it is in line with IA's expectations that approximately **two thirds of the IA recommendations raised** are **HIGH** or **MEDIUM** risk.

4.1.7 The breakdown of all 2016/17 IA recommendations (plus notable practices) by risk rating (as outlined at **Appendix C**), is provided in the bar chart below, including a comparison with comparative prior year data:

Recommendation Risk Rating
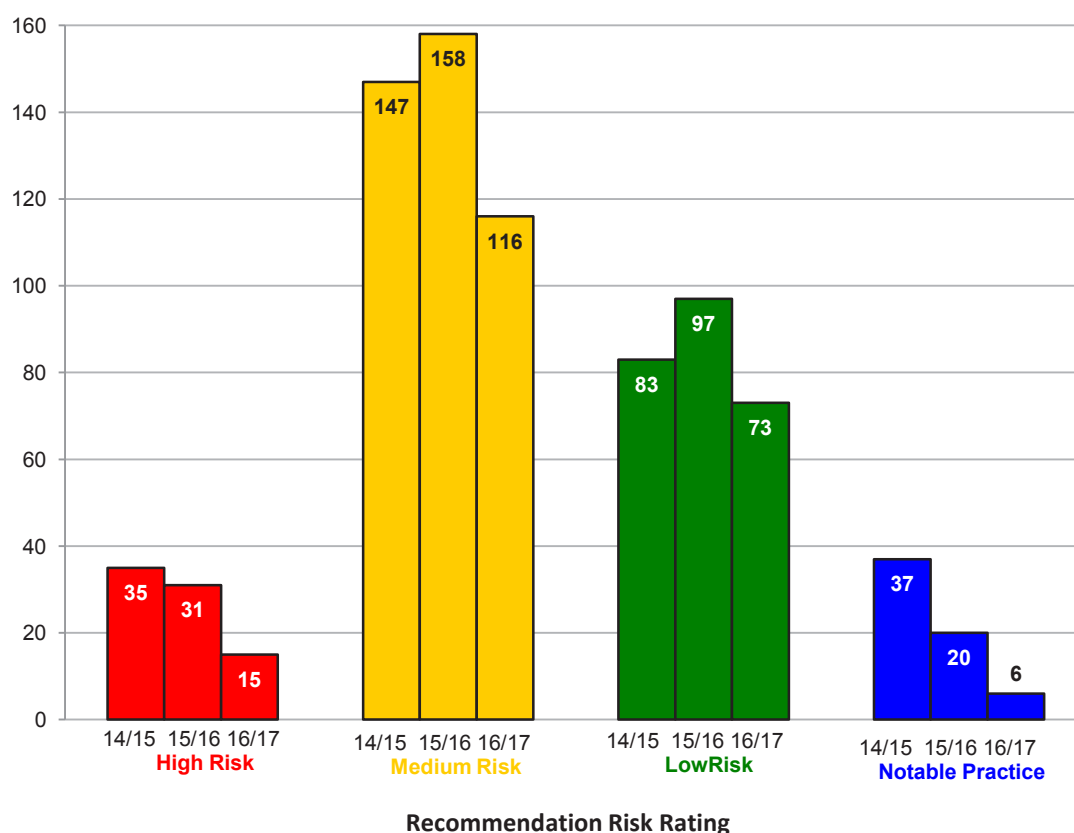
4.1.8 The bar chart above highlights that there were **15 HIGH** risk recommendations raised by IA in 2016/17. We therefore believe that in light of the results, and given the risk based approach to IA work introduced during 2013/14, this demonstrates an overall improvement in the control environment across the Council in 2016/17.

4.2   Internal Audit Consultancy Work 2016/17

4.2.1   During 2016/17 there has been a continued volume of consultancy work, advice and guidance that IA has been asked to provide across the Council. This, in addition to the enhanced role that IA now has in helping Council services improve, is a sign of the achievement of the collaborative approach that IA strives to deliver to help services to succeed.

4.2.2   In addition to the traditional consultancy reviews, this type of work includes IA staff sitting on project/working groups, whilst ensuring IA staff are clear about whether they are there in an assurance or advisory capacity. This type of approach is helping increase IA's knowledge of corporate developments which feeds into the risk based deployment of IA resource on assurance work. Also, participation in project/ working groups as well as secondments within the business is helping individual IA staff develop, whilst at the same time increasing the value IA provides to the Council.

4.2.3   Further to this, in line with the UK PSIAS, IA coverage this year included a range of consultancy work. This included testing/ certification of several grant claims including **the Housing Benefits Subsidy grant claim** on behalf of External Audit (EY). In addition, the Head of IA was an active member or the chair of a number of corporate project groups including the Corporate Risk Management Group, Business Continuity Management Group, Corporate Governance Working Group, Corporate Health & Safety Forum, and the Hillingdon Information Assurance Group. As part of this participation, IA aims to provide insightful, independent and informed advice in order to reduce the risk of the Council failing to achieve its objectives.

4.2.4   As detailed at **Appendix A**, IA also conducted **15** consultancy pieces of work in 2016/17, including reviews. This included support and data analytical work in relation to Council Stores, Public Health - Provider Payments and Children and Young Peoples Service (CYPS) Financial Controls.

4.3   Quality Assurance and Improvement Programme 2016/17

4.3.1   In accordance with the UK PSIAS Attribute Standard 1300 and the IA Charter, a Quality Assurance and Improvement Programme (QAIP) has been developed by IA. This covers all aspects of IA Activity (IAA) and is designed to enable an evaluation of the IAA's conformance with the UK PSIAS and an evaluation of whether internal auditors apply the *Code of Ethics.* The QAIP also helps enable the ongoing performance monitoring of IAA and sets out how IA is maintaining the required quality standards and achieving continuous improvement.

4.3.2   A significant amount of time has been spent refining the IA QAIP during 2015/16 and early 2016/17 enabling the QAIP to be refocused and reflective of the challenges incurred within 2015/16, providing an opportunity to help generate ideas on how IA can further improve to help services continue to succeed. Progress and results of QAIP reviews have subsequently been reported within quarterly updates to CMT and the Audit Committee.

4.3.3   Further, the 2016/17 review of the effectiveness of IA provided additional assurance over the quality of IA processes within the year. The External Quality Assurance (EQA) review, planned for 2017/18, should provide further assurance over the quality of IA practices, with findings incorporated into the QAIP for ongoing monitoring and reporting.

5. Internal Audit Follow Up 2016/17

5.1   IA monitors all **HIGH** and **MEDIUM** risk recommendations raised (excluding those at schools), through to the point where the recommendation has either been fully implemented, or a satisfactory alternative risk response has been proposed by management.

5.2   IA does not follow-up **LOW** risk IA recommendations as they are minor risks including compliance with best practice, or issues that have a minimal impact on a Service's reputation i.e. adherence to local procedures. It would also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations. The full definitions of the IA recommendation risk ratings are included at **Appendix C**.

5.3   The implementation of recommendations raised by IA continues to be monitored through TeamCentral (a module of the IA software TeamMate) which has become more embedded across the Council within the year. Whilst TeamCentral automates the follow-up process, we facilitate this area of work allowing the rest of the IA team to focus on delivery of the IA plan, streamlining the process of following up IA recommendations. TeamCentral provides CMT and other senior managers with greater oversight and ownership of IA recommendations and the underlying risks.

5.4   IA will support and advise managers in formulating a response to the risks identified. As an organisational improvement function, IA will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways; Treat, Terminate, Tolerate, Transfer - **the 4 T's**. The full definitions of the response to risk are included at **Appendix C**.

5.5   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 a set time period after their issue and management confirmation that recommended action has been implemented. 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.

5.6   Within 2016/17 we have undertaken 10 dedicated follow-up reviews which found that **34 (45%)** of the **76** recommendations followed-up were deemed **Implemented**. Of the remaining recommendations we confirmed that **39%** (30) were deemed **Partly Implemented** and **16%** (12) were deemed **Not Implemented** at the time of follow-up and were therefore were provided with revised implementation dates. The detailed results from our follow-up work are summarised within **Appendix A**.

5.7   The **30** IA assurance reviews have resulted in **204** IA recommendations being raised in **2016/17** as well as **6 NOTABLE PRACTICES** (refer to **Appendix A** for further details). Given that we apply a risk based IA approach to our coverage, it is a positive outcome that there were approximately **eight times as many MEDIUM risk recommendations than HIGH risk recommendations raised** in 2016/17.

5.8   The table below summarises the **status of IA 2016/17 recommendations** raised as at 19th June 2017:

2016/17 IA Recommendation Status as at 19th June 2017	HIGH	MEDIUM	LOW	Total	NOTABLE PRACTICE
Total No. of Recommendations Raised (**per Appendix A**)	15	116	73	**204**	6
Total No. of Recommendations Risks Tolerated by Management	-	-	-	**0**	-
No. Not Yet Due for Implementation	9	71	-	**80**	-
No. Implemented	6	35	-	**41**	-
No. of Recommendations Outstanding	**0**	**10**	**-**	**10**	-

5.9   Positive management action was proposed to address all **131** of the 2016/17 **HIGH** and **MEDIUM** risk recommendations raised, 80 of which have not yet reached their target date for implementation. IA is pleased to report that **80%** (41) **HIGH** and **MEDIUM** risk recommendations which were due for implementation have been confirmed by management as being implemented (as at 19th June 2017). **This is an excellent outcome for the Council and IA, which comes directly as a result of the strong collaborative approach between IA and senior management across the organisation.**

5.10   IA is currently undertaking verification testing on all **HIGH** and **MEDIUM** risk recommendations to confirm and support management's assertion that recommended action has been successfully implemented and is now embedded within the control environment. Further, in 2017/18 we will be continue to undertake dedicated follow-up reviews of limited and no assurance reports issued within prior years, to provide greater assurance to senior management and the Audit Committee over the improvements within the control environment.

6. Review of Internal Audit Performance 2016/17

6.1   Key Performance Indicators

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

6.1.2   Actual cumulative IA performance for 2016/17 against its KPIs is highlighted in the table below:

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 1	**HIGH** risk IA recommendations where positive management action is proposed.	**98%**	**100%**	**GREEN**
KPI 2	**MEDIUM** risk IA recommendations where positive management action is proposed.	**95%**	**100%**	**GREEN**
KPI 3	**HIGH** risk IA recommendations where management action is taken within agreed timescale.	**90%**	**100%***	**GREEN**
KPI 4	**MEDIUM** risk IA recommendations where management action is taken within agreed timescale.	**75%**	**78%***	**GREEN**
KPI 5	Percentage of IA Plan delivered to **draft report** stage by 31 March.	**90%**	**92.7%**	**GREEN**
KPI 6	Percentage of IA Plan delivered to **final report** stage by 31 March.	**80%**	**83.8%**	**GREEN**
KPI 7	Percentage of draft reports issued as a final report within 15 working days.	**75%**	**53%**	**RED**
KPI 8	Client Satisfaction Rating.	**85%**	**89%**	**GREEN**
KPI 9	IA work fully compliant with the **PSIAS** and **IIA Code of Ethics.**	**100%**		

6.1.3　**KPI 3** and **KPI 4** refer to whether action has been taken on **HIGH** and **MEDIUM** risk IA recommendations within agreed timescales. As highlighted in the table above* and detailed at para. 5.8, **41** of the **HIGH** and **MEDIUM** risk IA recommendations raised in 2016/17 have been stated as implemented by management within the TeamCentral tracking system.

6.1.4　Also highlighted above, performance against **KPI 7** is reported as **RED** with **53%** for 2016/17 (55% in 2015/16 and 56% in 2014/15). This is due to 14 instances (out of 30 assurance reviews) where **management responses to the draft reports were not received within the target timescales** of 15 working days. Whilst IA facilitates this process, we are reliant on timely management responses to achieve this indicator.

6.1.5　It is noted that 7 of the 14 instances relate to limited or no assurance reports which have required multiple discussions of issued raised in order to move forward with the completion of the associated Management Action Plans. However, in the other cases there were significant delays (over 28 weeks in one case) before management responses were provided. We are happy to report that the time taken to finalise reports from draft stage in other reports is **on average 22 working days**. Nevertheless, these delays result in CMT and the Audit Committee not always receiving assurance from IA in a timely manner.

6.1.6　Management feedback continues to be positive on our assurance coverage and particularly on our consultancy work. This year's actual performance against **KPI 8** of 89% has shown a considerable increase when compared to prior years. Further analysis on achievement of this KPI is detailed below under section 6.2.

6.2　Client Feedback Questionnaires

6.2.1　As part of continuous improvement, IA introduced a new Client Feedback Questionnaire (CFQ) in 2013 which is sent out at the completion of all audit reviews to obtain formal management feedback. The **IA CFQ target** previously agreed with CMT and the Audit Committee was for IA to achieve **an overall average score of 3.4 (85%) or above** across the eight CFQ areas. As a recap on the CFQ scores, **4** means the client strongly agrees; **3** is agree; **2** is disagree; and **1** is strongly disagree.

6.2.2　There is not an option on the CFQ for the client to indicate that they 'neither agree or disagree'. This is a deliberate decision by the HBA to enable management to form an overall opinion on the work that IA does i.e. did the audit review add value or not? Inherently with any feedback mechanism such as this, there is a risk that the CFQ results can become skewed where a client is dissatisfied i.e. if there are large number of recommendations or a poorer assurance level than expected/ anticipated, the client may be inclined to dismiss the value of the IA work with a low CFQ score.

6.2.3　The table below shows the average score from the **41** CFQs completed in relation to the 2016/17 IA Plan (as per **Appendix A**):

IA CFQ Areas	Average Score 2013/14	Average Score 2014/15	Average Score 2015/16	Average Score 2016/17	% Change (15/16-16/17)
Q1. Planning: The planning arrangements for the IA review were good	3.20	3.52	3.41	3.49	+2.4%
Q2. Scope: The scope of the IA review was relevant	3.20	3.48	3.50	3.44	-2.1%
Q3. Conduct: The IA review was conducted in a highly professional manner	3.20	3.73	3.65	3.76	+3.7%

IA CFQ Areas	Average Score 2013/14	Average Score 2014/15	Average Score 2015/16	Average Score 2016/17	% Change (15/16-16/17)
Q4. Timing: The IA review was carried out in a timely manner	3.10	3.59	3.35	3.61	+6.8%
Q5. Report: The IA report was presented in a clear, logical and organised way	3.20	3.50	3.47	3.61	+3.5%
Q6. Recommendations: The IA recommendations were constructive and practical	3.10	3.50	3.18	3.51	+9.2%
Q7. Value: The IA review added value to your service area	3.10	3.28	3.18	3.44	+7.5%
Q8. Overall: I look forward to working with IA in future	3.40	3.40	3.47	3.66	+4.9%
Average Total Score	3.19 (79.7%)	3.5 (87.5%)	3.43 (85.3%)	3.56 (89.1%)	

6.2.4 Analysis of the above results provides a positive picture. Further, when compared to prior years this shows a significant and continual improvement, particularly when taking into account the continuing complexity and higher risk areas reviewed and number of limited assurance opinions issued. In particular the significant increases noted scores received for timing, recommendations and value represent the positive recognition of IA work across the Council, the quarterly planning process undertaken and collaborative approach undertaken with Management.

6.2.5 From the **41** CFQs returned in 2016/17, IA has received a range of formal client comments on IA performance highlighted below:

Anti-Social Behaviour Team (ASBIT)

- *"Despite initial worries, the Auditor and her colleague made the process very clear to managers and took time to speak to officers in the team. We can now understand the importance and assistance that Internal Audit can provide."*

Better Care Fund

- *" Part of the difficulty with this review was that a long period of time elapsed between it starting and concluding and the fact that the plan was only for a year the landscape had largely changed by the time of the review's conclusion"*

Council Stores

- *"All staff felt included and that they were working with audit and not against them which was why it went so well."*

Contract Management - Parking Services

- *"A good, focused, review. The auditor was helpful and constructive in her approach to reviewing this area of work"*

ICS Data Quality

- *"Practical solutions/recommendations suggested which will add value to our service delivery and contribute to improvements to data accuracy."*

Semi-Independent Living

- *"Really impressed with the Auditor's work. Excellent attitude, approach and 'sweet and sour' challenge. Findings and recommendations will help strengthen our service delivery and quality assurance."*

6.2.6 Whilst the HBA proactively seeks informal feedback from management on IA, we are extremely grateful to management for formal feedback received in CFQs. A high completion rate of CFQs helps IA identify areas where we are able to continue to improve as a service.

7. Forward Look to 2017/18

7.1 Looking ahead to 2017/18, we plan to commence a project to undertake an **'Assurance Mapping'** exercise across the Council. Assurance mapping is a technique that uses a visual representation of assurance activities to demonstrate how they apply to a specific risk or set of compliance requirements. The assurance activities documented typically involve functions including compliance, IA and external audit. Assurance in organisations is provided through the 'three lines of defence' model:

1. assurances from management that designed controls are being implemented on a day-to-day basis;

2. assurances from the risk management and compliance functions; and

3. assurance from the IA function (as well as from third parties such as external auditors and other specialists which can also be taken into account).

7.2 While good risk management practices will help the Council to identify and focus well on its major risks, good governance also requires effective management and mitigation of those risks. An effective and efficient framework is needed to provide sufficient, continuous and reliable evidence of assurance on organisational stewardship and the management of the major risks. An **'Assurance Map'** is the tool that enables this evidence to be assembled. This will be a significant undertaking and relatively resource intensive exercise for IA, but it will provide a structured means of identifying and mapping the main sources and types of assurance at LBH and coordinating them to the best effect.

7.3 During 2017/18 the IA service will be subject to an **External Quality Assessment (EQA)** undertaken by a peer authority within the London Audit Group (Lambeth). This, initially planned for 2016/17, will consist of an independent review of our conformance with the PSIAS and areas to be reviewed include IA's purpose and positioning, structure and resources, audit execution and the impact on the organisation. The EQA will satisfy PSIAS 1312 requiring 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. The results may provide areas of further improvement which we will then incorporate into our QAIP.

7.4 The **skill set within IA is set to develop further** following the recent IA Trainee recruitment exercise. This approach, in line with the IA Strategy of 'growing our own', provides other members of the IA team with an opportunity to take on more responsibility, facilitating their ongoing professional and personal development. Further, recent exam success of two staff completing their Chartered Member of the Institute of IA (CMIIA) studies provides enhanced robustness to the IA team and enables renewed focus to further develop the skill set of individuals to add value to the service and the Council.

7.5 IA would like to take this opportunity to formally thank all staff throughout the Council with whom it had contact during the year. There has been an increased collaborative approach in IA's working relationship with staff and management who have generally responded very positively to IA findings. There are no other matters that we need to bring to the attention of the Council's CMT or Audit Committee at this time.

Muir Laurie FCCA, CMIIA
Head of Business Assurance (& Head of Internal Audit)

19th June 2017

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2016/17

Key:

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

2016/17 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 19th June 2017	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
16-A4	Physical Access Controls (including Security Arrangements)	Final report issued on 7th Nov 2016	No	3	5	0	0	✓
16-A9	Health Visiting	Final report issued on 20th Jul 2016	Limited	1	1	0	0	✓
16-A1	Lease Agreements	Final report issued on 4th Nov 2016	Limited	1	1	0	0	✓
16-A16	Sheltered Housing	Final report issued on 17th Nov 2016	Limited	3	6	1	0	✓
16-A24	Anti Social Behaviour Investigations Team (ASBIT)	Final report issued on 1st Dec 2016	Limited	1	4	4	0	✓
16-A6a	Contract Management - Parking Services	Final report issued on 16th Mar 2017	Limited	0	9	2	0	✓
16-A32	Building Control	Final report issued on 19th Mar 2017	Limited	1	3	3	0	✓
16-A27	Semi-Independent Living (including Contract Management)	Final report issued on 26th Apr 2017	Limited	0	8	3	0	✓
16-A6b	Contract Management (Social Care)	Final report issued on 3rd May 2017	Limited	1	6	0	0	✓
16-A47	Estates Management - Leases	Final report issued on 4th May 2017	Limited	0	3	3	0	✓
16-A49	Data Quality within Trading Standards and Regulatory Services	Final report issued on 26th May 2017	Limited	2	6	3	0	Not yet due
16-A28	Insurance Service	Final report issued on 1st June 2017	Limited	0	7	4	0	Not yet due
16-A41	Service Planning	Final report issued on 19th June 2017	Limited	1	0	2	1	Not yet due
16-A11	Risk Management	Final report issued on 7th Jul 2016	Reasonable	0	5	3	0	N/A

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2016/17 (cont'd)

2016/17 IA Assurance Reviews (cont'd):

IA Ref.	IA Review Area	Status as at 19th June 2017	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
16-A12	Review of the Effectiveness of IA	Final report issued on 7th Jul 2016	Reasonable	0	2	3	2	N/A
16-A5	New Years Green Lane (NYGL)	Final report issued on 20th Jul 2016	Reasonable	0	6	2	0	✓
16-A3	Housing Benefits	Final report issued on 26th Jul 2016	Reasonable	0	3	5	1	✓
16-A10	Fees and Charges	Final report issued on 30th Sep 2016	Reasonable	0	4	1	0	✓
16-A7	Corporate Debtors	Final report issued on 4th Oct 2016	Reasonable	0	9	5	0	✓
16-A13	Review of the Effectiveness of the Audit Committee	Final report issued on 18th Nov 2016	Reasonable	0	4	3	0	✓
16-A17	Council Stores	Final report issued on 1st Dec 2016	Reasonable	0	3	3	0	✓
16-A38	Tenancy Management	Final report issued on 4th Jan 2017	Reasonable	0	1	1	0	✓
16-A15	ICS Data Quality- Financial Controls	Final report issued on 6th Mar 2017	Reasonable	0	3	3	0	✓
16-A35	Fostering Pathway	Final report issued on 23rd Mar 2017	Reasonable	0	5	0	0	✓
16-A31	Local Land Charges	Final report issued on 24th Mar 2017	Reasonable	1	0	5	0	✓
16-A25	Better Care Fund	Final report issued on 29th Mar 2017	Reasonable	0	2	1	0	✓
16-A33	Corporate Fraud Investigations Team	Final report issued on 3rd May 2017	Reasonable	0	7	4	0	✓
16-A30	Planning Application Processing Team - Quality Control	Final report issued on 16th June 2017	Reasonable	0	2	2	0	Not yet due
16-A42	Tenancy Management - Enforcement and Risk Management	Final report issued on 6th Mar 2017	Substantial	0	0	2	2	✓
16-A46	Payroll	Final report issued on 30th Mar 2017	Substantial	0	1	5	0	✓
		Total number of IA Assurance Recommendations raised in 2016/17	204	15	116	73	6	
		Total percentage of IA Assurance Recommendations raised in 2016/17	100%	7%	57%	36%	-	

22.

APPENDIX A (cont'd)

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2016/17 (cont'd)

2016/17 IA Follow-Up Reviews:

IA Ref.	IA Follow-Up Review Area	Status as at 19th June 2017	Recommendations				CFQ Received
			Implemented	Partly Implemented	Not Implemented	Total	
16-A14	Home to School Transport - Safeguarding Arrangements	Final report issued on 6th Jul 2016	3	6	-	9	✓
16-A23	Music Service	Final report issued on 8th Aug 2016	4	3	1	8	✓
16-A21	Deprivation of Liberty Safeguards (DoLS)	Final report issued on 13th Oct 2016	6	-	-	6	✓
16-A22	Library Imprest Accounts	Final report issued on 24th Oct 2016	1	-	5	6	✓
16-A40	Disabled Facilities Grant	Final report issued on 12th Jan 2017	6	1	-	7	✓
16-A43	Housing Needs - Allocations and Assessments	Final report issued on 7th Mar 2017	6	4	-	10	✓
16-A44	Fleet Management	Final report issued on 7th Mar 2017	1	5	3	9	✓
16-A45	New Years Green Lane	Final report issued on 7th Mar 2017	3	2	1	6	✓
16-A34	IT General Controls (Oracle)	Final report issued on 30th Mar 2017	2	2	-	4	✓
16-A36	Ofsted Improvement Action Plan	Final report issued on 19th June 2017	2	7	2	11	Not yet due
	Total Number		**34 (45%)**	**30 (39%)**	**12 (16%)**	**76 (100.0%)**	

2016/17 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 19th June 2017	CFQ Received
16-C4	Stores - Year End Stock Take	Memo issued on 21st April 2016	✓
16-C2a	Children and Young Peoples Service (CYPS) Financial Controls - Allowances	Memo issued on 19th May 2016	✓
16-C2b	Children and Young Peoples Service (CYPS) Financial Controls - P'Cards & Imprest	Memo issued on 19th May 2016	✓
16-C8	Stores - Stock Transfer	Memo issued on 20th May 2016	✓

23.

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2016/17 (cont'd):

2016/17 IA Consultancy Reviews (cont'd):

IA Ref.	IA Review Area	Status as at 19th June 2017	CFQ Received
16-C6	Private Sector Landlord Scheme	Memo issued on 3rd June 2016	N/A
16-C3	Benefits – BACs processing	Memo issued on 14th July 2016	✓
16-C9	Data Analytics (Personal Protective Equipment)	Memo issued on 18th July 2016	✓
16-C5	Digital broadcasting of Council meetings	Memo issued on 19th July 2016	✓
16-C13	Data Analytics (consent to drive vs. mileage claimed)	Memo issued on 3rd August 2016	✓
16-C7	Public Health – Provider Payments Process (Pharmacy)	Memo issued on 11th August 2016	✓
16-C12	Public Health – Provider Payments Process (GPs) - Combined with 16-C7	Memo issued on 11th August 2016	
16-C11	Information Governance - Data Protection Training	Memo issued on 5th September 2016	✓
16-A26	Business Support / Technical Admin – Data Protection	Memo issued on 4th November 2016	N/A
16-C14	SEND Ofsted Inspection Project Management Support	Consultancy support provided	N/A
16-C15	Mayor's Charity Accounts	Independent Examiners Report issued on 26th Jan 2017	N/A

2016/17 IA Grant Claims certified:

IA Ref.	IA Review Area	Status as at 19th June 2017
16-GC1	Troubled Families Grant - Quarter 1	Certified and memo issued on 3rd May 2016
16-GC2	Social Care Capital Grant	Certified and memo issued on 30th June 2016
16-GC5	Troubled Families Grant - Quarter 2	Certified and memo issued on 30th June 2016
16-GC3	Bus Subsidy Grant	Certified and memo issued on 1st September 2016
16-GC4	Housing Benefit Subsidy Grant	IA testing completed on 12th September 2016
16-GC6	Disabled Facilities Grant	Certified and memo issued on 20th September 2016

<u>**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2016/17 (cont'd)**</u>

2016/17 IA Grant Claims certified (cont'd):

IA Ref.	IA Review Area	Status as at 19th June 2017
16-GC8	Hillingdon Teaching Schools Alliance (HTSA)	Certified and memo issued on 13th December 2016
16-GC7	Troubled Families Grant - Quarter 3 - Part 1	Certified and memo issued on 12th December 2016
	Troubled Families Grant - Quarter 3 - Part 2	Certified and memo issued on 4th January 2017
	Troubled Families Grant - Quarter 4 - Part 1	Certified and memo issued on 25th January 2017
16-GC9	Troubled Families Grant - Quarter 4 - Part 2	Certified and memo issued on 22nd February 2017
	Troubled Families Grant - Quarter 4 - Part 3	Certified and memo issued on 7th March 2017

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

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

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

   - establishing and monitoring the achievement of the authority's objectives;

   - the facilitation of policy and decision-making;

   - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;

   - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;

   - the financial management of the authority and the reporting of financial management; and

   - the performance management of the authority and the reporting of performance management.

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

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

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

RISK	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**.

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.

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Business Assurance - IA Progress Report for 2017/18 Quarter 1 (including the Quarter 2 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 2017/18 Quarter 1 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 1 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 2 IA Plan which has been produced in consultation with senior managers. The Plan sets out the programme of IA coverage which is due to commence in the 1st July to 30th September 2017 period.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the IA Progress Report for 2017/18 Quarter 1 and consider the Quarter 2 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

IA provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 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.

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

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

The Business Assurance service holds various background research documents in relation to the Quarter 2 IA Plan.

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BUSINESS ASSURANCE

Internal Audit Progress Report to Audit Committee: 2017/18 Quarter 1
(including the Quarter 2 Internal Audit Plan)

19th June 2017

HILLINGDON
LONDON

Contents

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

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Page 60

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 IA assurance, consultancy and grant claim verification work covered during the period 8th March 2017 to 19th June 2017. In addition, it provides an opportunity for the Head of Business Assurance (HBA), as the Council's Head of Internal Audit (HIA), to highlight any significant issues which have arisen from IA work in Quarter 1. It also highlights to CMT, the Audit Committee and other IA stakeholders the revisions to the Quarter 1 IA plan since its approval in March 2017 (refer to **Appendix B**).

1.2.2 A key feature of the Quarter 1 IA progress report is the inclusion of the 2017/18 Quarter 2 IA plan (refer to **Appendix C**). This has been produced in consultation with senior managers over the last few weeks and sets out the planned programme of IA coverage due to commence in the 1st July to 30th September 2017 period.

2. Executive Summary

2.1 Since the last IA Progress Report to CMT and the Audit Committee dated 7th March 2017, **14 assurance reviews** have concluded, **2 follow-up reviews** and **2 consultancy reviews** have been finalised as well as **1 grant claim** certified. However, as highlighted at **Appendix A** the vast majority of the work finalised in Quarter 1 has been, as we would expect, in relation to the finalisation of the 2016/17 IA plan.

2.2 As a result of this, **93%** of the 2016/17 IA plan was delivered to draft report stage by 31st March 2017. This is 3% over the target set and represents a 2% increase when compared to the prior year. This is a significant achievement for the IA service, achieved against a backdrop of reduced IA staff resources during the year and the resulting challenges and impact that can have. We are pleased to report that **100%** of the 2016/17 IA plan was completed to final report by 19th June 2017 (84% by 31st March 2017). Further details of this included within the HIA Annual IA Report and Opinion Statement, presented alongside this report.

2.3 IA work on the 2017/18 Quarter 1 IA plan commenced on 3rd April 2017 and the planning stage has now been completed on all Quarter 1 pieces of IA work. Good progress has been made on the plan with **3** IA assurance reviews at an advanced stage of reporting and a further **4** assurance reviews at fieldwork stage. We have also continued to provide a range of advisory and consultancy work across the Council within the quarter, with positive feedback being received from clients that this work is highly valued. There have been **2** 2017/18 consultancy reviews completed this quarter which included work around Council's Stores at Harlington Road Depot and a review of the Council's compliance with the Payment Card Industry Data Security Standard (PCI DSS).

2.4   There have been **3** amendments to the Quarter 1 IA operational plan (refer to **Appendix B** page 10). Following IA undertaking its initial planning, **2** assurance reviews were both changed by management to that of a consultancy nature whilst it was agreed to defer the IA consultancy review of TeamDrive. During the Quarter there have also been **2 additional requests for consultancy work** (refer to **Appendix B)**. In addition, we have commenced follow-up verification work, aimed to provide enhanced assurance to CMT and the Audit Committee that IA recommendations have been fully embedded within the control environment to mitigate the risks highlighted.

2.5   Further details of IA work carried out in the Quarter 1 period are included below at section 3 of this report.

3. Analysis of Internal Audit Activity in 2017/18 Quarter 1

3.1   Assurance Work in Quarter 1

3.1.1   All IA assurance reviews carried out in Quarter 1 are individually listed at **Appendix A**. This list details the assurance levels achieved and provides an analysis of recommendations made (in accordance with the assurance levels and recommendation risk categories outlined at **Appendix D**).

3.1.2   On 3rd April 2017, IA formally commenced work on the 2017/18 Quarter 1 IA plan. However, during the early part of the quarter, IA resource was primarily focussed on finalising completion of the 2016/17 IA plan. The status update of 2016/17 IA work as presented to the Audit Committee at its meeting on 16th March 2017, highlighted 16 IA Assurance reviews were ongoing as at the 7th March 2017, 10 of which extended into Quarter 1 of 2017/18. Each of these 16 IA Assurance reviews have now progressed to final report stage following management responses to the recommendations raised.

3.1.3   A detailed summary of all 2016/17 IA work finalised within Quarter 1 of 2017/18 is available in **the 2016/17 Annual IA Report and Opinion Statement** presented to the Audit Committee on 29th June 2017, alongside this progress report.

3.1.4   As at 19th June 2017, **3** 2017/18 assurance reviews have progressed to draft report stage. Each of the remaining **5** Quarter 1 assurance audits have commenced planning, with **4** at an advanced stage of fieldwork and testing (refer to **Appendix A** for further details). The remaining planned audit of 'Volunteering' has been slightly delayed as we await the issue of the Corporate Policy. The summary results of these audits will be included in the Quarter 2 progress report due to be presented to Audit Committee on 27th September 2017.

3.2   Consultancy Work in Quarter 1

3.2.1   IA continues to undertake a variety of consultancy work across the Council. The consultancy coverage includes IA staff attending working and project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach continues to help increase IA's knowledge of corporate developments that feed into the risk based deployment of IA resource on assurance work. Also, participation in working and project groups 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 1 with **2** consultancy reviews completed within the period with a further **4** reviews currently at an advanced stage. Two further consultancy reviews were added following approval of the Quarter 1 IA plan with these detailed at **Appendix B**.

3.2.3   The planned IA consultancy review of **Payment Card Industry Data Security Standard (PCI DSS)** was concluded within the quarter. The PCI DSS is a proprietary information security standard for organisations that handle branded credit cards from the major card schemes. The PCI Standard is mandated by the card brands and administered by the Payment Card Industry Security Standards Council.

3.2.4   Our testing identified extensive procedural notes, by way of document guides and usage policies in place, to ensure that, in theory PCI Compliance is adhered to through normal business as usual practices. Job descriptions whilst in place were found to make no reference to PCI guidelines and compliance. This risk is mitigated in part by the procedures and the requirement for each user of the payment system, PAYE.net, to sign a usage policy as part of their induction process.

3.2.5   During the course of this review we sampled 36 calls that contained payments to ensure that card details were not being recorded; a requirement of PCI DSS. It was found that 4 of the 36 call recordings sampled contained payment information, including the card number, expiry date and the Card Verification Value (CVV) number. Proportionate and positive management action is in progress to implement the IA suggested improvement actions arising from this review, which will help mitigate the risks highlighted by IA.

3.2.6   IA was requested to provide independent oversight and verification of the 2016/17 **year end stock take of the Council's Stores** at Harlington Road Depot (HRD). There are a total of 415 different stock items (totalling 24,538 units) held at the HRD stores. We are pleased to report that discrepancies were found with only 17 stock items during the initial stock-check. Of these, 12 were found during a recount of the item. Following the enquiry of all stock discrepancies, the Tranman system was updated with the current stock levels and a post stock-check report was produced. This illustrated 415 lines totalling 20,541 units. The officers present conducted a comparison between the pre and post stock-check reports, identifying an overall negative variance of £1,447.69.

3.2.7   Finally, IA continues to provide advice in relation to the 2016/17 the **Annual Governance Statement** (AGS) which includes active participation in the AGS Group meetings. The HBA has liaised with the Head of Policy & Partnerships on the draft AGS in an attempt to ensure it reflects the results of IA coverage in 2016/17.

3.3   Grant Claim Verification Work in Quarter 1

3.3.1   As detailed at **Appendix A** the planned quarterly verification work on the **Troubled Families (TFs) Grant**, in which IA test a sample of TFs that had been identified as being 'turned around' by the Council's TFs Team, didn't progress this quarter. This was as a result of focused work by the TF team following a spot check review undertaken by DCLG on 7th April 2017. Consequently, families identified within the quarter 1 period will be included within the quarter 2 return to DCLG and certified by IA as part of the Quarter 2 IA Plan.

3.3.2   There has been no other grant claim verification work carried out by IA this quarter.

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

3.4.1   IA continues to monitor all **HIGH** and **MEDIUM** risk recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management.

3.4.2   Follow-up work within this quarter has commenced on verifying management's assertion that management action has been taken, aimed to provide enhanced assurance to CMT and the Audit Committee that IA recommendations have been implemented and fully embedded within the control environment to mitigate the risks identified. Due to the number of recommendations this project will continue into quarter 2, following which we aim to provide a more detailed quarterly snapshot to the CMT and the Audit Committee of progress against implementation of IA recommendations.

3.4.3 The results from our follow-up work are reported in detail within the **2016/17 Annual IA Report and Opinion Statement**, presented to CMT and the Audit Committee alongside this progress report.

3.5 Other Internal Audit Work in Quarter 1

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 2 of 2017/18 (refer to **Appendix C**) in consultation with management. 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.

3.5.2 Due to focus within the quarter on delivery of the 2016/17 IA Plan, preparing the Annual HIA report and opinion statement, no quarterly **Quality Assurance and Improvement Programme (QAIP)** exercise has been undertaken this quarter. The QAIP is designed to provide assurance that IA work continues to be fully compliant with the UK PSIAS and also helps enable the ongoing performance monitoring and improvement of IA activity. The next QAIP exercise is planned for July 2017 and will predominately focus on IA management review points and closure of IA files.

4. Analysis of Internal Audit Performance in 2017/18 Quarter 1

4.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. In line with best practice, for the 2017/18 year IA will report quarterly to CMT and the Audit Committee on the 9 KPIs agreed with the Audit Committee at the meeting held on 16th March 2017.

4.2 We believe that the 2017/18 IA KPIs are meaningful and will provide sufficient challenge to the IA service. They measure the quality, efficiency and effectiveness of the IA service and thus assist us in providing an added value assurance and consulting service to our range of stakeholders. We believe that these KPIs effectively capture and measure IA delivery as well as seek continuous improvement within the service.

4.3 As at 19th June 2017, there is only **1** 2017/18 IA assurance report at draft report issued stage, therefore it would not be of sufficient value at this stage to report on 2017/18 performance against the IA KPIs. The analysis of overall IA performance for the 2016/17 period is reported in full within the **2016/17 Annual IA Report and Opinion Statement** presented to the Audit Committee alongside this progress report.

5. Forward Look

5.1 Looking ahead to 2017/18, we plan to commence a project to undertake an **'Assurance Mapping'** exercise across the Council. Assurance mapping is a technique that uses a visual representation of assurance activities to demonstrate how they apply to a specific risk or set of compliance requirements. The assurance activities documented typically involve functions including compliance, IA and external audit. Assurance in organisations is provided through the 'three lines of defence' model:

- assurances from management that designed controls are being implemented on a day-to-day basis;

- assurances from the risk management and compliance functions; and

- assurance from the IA function (as well as from third parties such as external auditors and other specialists which can also be taken into account).

5.2   While good risk management practices will help the Council to identify and focus well on its major risks, good governance also requires effective management and mitigation of those risks. An effective and efficient framework is needed to provide sufficient, continuous and reliable evidence of assurance on organisational stewardship and the management of the major risks. An **'Assurance Map'** is the tool that enables this evidence to be assembled. This will be a significant undertaking and relatively resource intensive exercise for IA, but it will provide a structured means of identifying and mapping the main sources and types of assurance at LBH and coordinating them to the best effect.

5.3   During 2017/18 the IA service will be subject to an **External Quality Assessment (EQA)** undertaken by a peer authority within the London Audit Group (Lambeth). This, initially planned for 2016/17, will consist of an independent review of our conformance with the PSIAS and areas to be reviewed include IA's purpose and positioning, structure and resources, audit execution and the impact on the organisation. The EQA will satisfy PSIAS 1312 requiring 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. The results may provide areas of further improvement which we will then incorporate into our QAIP.

5.4   The **skill set within IA is set to develop further** following the recent IA Trainee recruitment exercise. This approach, in line with the IA Strategy of 'growing our own', provides other members of the IA team with an opportunity to take on more responsibility, facilitating their ongoing professional and personal development. Further, recent exam success of two staff completing their Chartered Member of the Institute of IA (CMIIA) studies provides enhanced robustness to the IA team and enables renewed focus to further develop the skill set of individuals to add value to the service and the Council.

5.5   IA would like to take this opportunity to formally thank all staff throughout the Council with whom it had contact during the year. There has been an increased collaborative approach in IA's working relationship with staff and management who have generally responded very positively to IA findings. There are no other matters that we need to bring to the attention of the Council's CMT or Audit Committee at this time.

Muir Laurie FCCA, CMIIA
Head of Business Assurance (& Head of Internal Audit)

19th June 2017

APPENDIX A

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18

Key:

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

2017/18 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 19th June 2017	Assurance Level	Risk Rating H	M	L	NP	CFQ Received?
17-A1	Houses in Multiple Occupation (HMO) registration, including fit and proper person	Draft report issued on 16th June 2017						
17-A8	Thematic review of assets, stock and cash management within Green Spaces, Sport and Culture	Draft report in progress						
17-A9	Public Health - Substance Misuse contract, including Addiction, Recovery, Community, Hillingdon Service (ARCH)	Draft report in progress						
17-A2	Children missing from home, placement and education	Testing in progress						
17-A3	Facilities Management	Testing in progress						
17-A4	Parking Services Administration	Changed by Management to consultancy - See Appendix B						
17-A5	Extra Care	Testing in progress						
17-A6	Planning applications - Quality Control	Testing in progress						
17-A7	CYPS Thematic review	Changed by Management to consultancy - See Appendix B						
17-A10	Volunteering	Planning in progress						
		Total Number of IA Recommendations Raised		-	-	-	-	
		Total % of IA Recommendations Raised		-%	-%	-%	-%	

Page 66

APPENDIX A (cont'd)

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18

2017/18 IA Follow-Up Reviews:

IA Ref.	IA Follow-Up Review Area	Status as at 19th June 2017	Recommendations				CFQ Received?
			Implemented	Partly Implemented	Not Implemented	Total	
17-A11	Follow-Up of implemented recommendations	Verification testing in progress					
	Total Number						

2017/18 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 19th June 2017	CFQ Received?
17-C4	Stores - Year End Stock Take	Memo issued on 20th April 2017	
17-C1	Payment Card Industry Data Security Standard (PCIDSS)	Memo issued on 15th May 2017	
17-C6	Green Spaces - Petty Cash Imprest Account (Duke of Edinburgh)	Draft memo in progress	
17-C2	Data quality for vulnerable service users	Testing in progress	
17-C3	TeamDrive	Audit deferred by management - See Appendix B	
17-C5	Parking Services Administration	Testing in progress	
17-C7	CYPS Thematic review	Testing in progress	

2017/18 IA Grant Claim Verification Reviews:

IA Ref.	IA Review Area	Status as at 19th June 2017	CFQ Received?
17-GC1	Troubled Families Grant - Quarter 1	Incorporated into Quarter 2 Grant Claim certification	

APPENDIX B

REVISIONS TO THE 2017/18 INTERNAL AUDIT PLAN ~ QUARTER 1

Amendments to the 2017/18 Operational IA Plan for Quarter 1:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
17-C5	Parking Services Administration	Consultancy	MEDIUM	**Jill Covill** Head of Business & Technical Support	Further to undertaking detailing planning of this audit, it was agreed that due to planned changes and restructure within the Service, IA resource would be better placed and add greater value in providing consultancy advice at this stage.
17-C7	CYPS Thematic review	Consultancy	MEDIUM	**Tony Zaman** Corporate Director of Social Care	It was agreed with Management that this thematic review would benchmark the authority against other Ofsted reviews seeking to identify areas of best practice for consideration. This review was therefore changed from assurance to that of a consultancy nature.

IA work DEFERRED from the 2017/18 Operational IA Plan for Quarter 1:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
17-C3	TeamDrive	Consultancy	MEDIUM	**Jean Palmer** Deputy Chief Executive & Corporate Director of Residents Services	Further to a comprehensive restructure within the Council's IT department is taking place to create a new operating model. As a result, we have agreed with Management to defer this IA assurance review until the new structure has become embedded to enable sufficient value to be provided from the IA review.

IA work ADDED to the 2017/18 Operational IA Plan for Quarter 1:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
17-C4	Stores - Year End Stock Take	Consultancy	MEDIUM	**Jill Covill** Head of Business & Technical Support	IA was requested to provide independent oversight and verification of the 2016/17 year end stock-check performed on the 31st March 2017.
17-C6	Green Spaces- Petty Cash Imprest Account (Duke of Edinburgh)	Consultancy	MEDIUM	**Paul Richards** Head of Green Spaces, Sport and Leisure	This review has been requested as a result of concerns identified with the petty cash reconciliation process. Further to analysis undertaken by the Finance team, a request was made for IA to provide an independent consultancy advice of the application of the imprest procedures in place.

APPENDIX C

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 2

IA work scheduled to commence in the 1st July to 30th September 2017 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
17-A12	IR35	Assurance	**HIGH**	**Fran Beasley** Chief Executive	At Autumn Statement 2016, the Chancellor confirmed that, in the public sector only, IR35 status will be determined by the client, not the contractor. The changes to the way IR35 is applied to off-payroll working in the public sector took effect from 6th April 2017; shifting responsibility for deciding if the legislation should be applied from the worker's intermediary to the public authority the worker is supplying their services to. This IA review will seek to provide assurance over the application of the changes to IR35, ensuring that appropriate safeguards are in place to comply with IR35 requirements.
17-A13	Child Protection	Assurance	**HIGH**	**Tony Zaman** Corporate Director of Social Care	The Department for Education (DfE) is responsible for child protection in England, setting policy, legislation and statutory guidance on how the child protection system should work. The DfE published an updated version of the key statutory guidance for anyone working with children in England in March 2015, setting out how organisations and individuals should work together and how practitioners should conduct the assessment of children. At the local level, Local Safeguarding Children Boards (LSCBs) co-ordinate, and ensure the effectiveness of, work to protect and promote the welfare of children. The LSCB is responsible for local child protection policy, procedure and guidance.
17-A14	Education for Looked After Children (LAC)	Assurance	**MEDIUM**	**Jean Palmer** Deputy Chief Executive & Corporate Director of Residents Services	In July 2014, the Department for Education produced statutory guidance, issued under section 7 of the Local Authority Social Services Act 1970, on promoting the education of LAC that must be followed. This guidance sets the framework through which local authorities discharge their statutory duty under 22(3A) of the Children Act 1989 to promote the educational achievement of LAC. This duty is discharged by the Virtual School Head.

Page 69

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 2 (cont'd)

IA work scheduled to commence in the 1st July to 30th September 2017 period:

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
17-A15	Benefits	Assurance	**MEDIUM**	**Paul Whaymand** Corporate Director of Finance	Further to a change in the delivery model of the Revs & Bens Service, a decision was made to bring the benefit processing and overpayments functions back in house following poor contractor performance. This review will seek to provide assurance that there has been minimal impact upon service users as a result of the change.
17-A16	CYPS Thematic review	Assurance	**MEDIUM**	**Tony Zaman** Corporate Director of Social Care	We will be undertaking thematic reviews each quarter to provide assurance on the readiness of Children and Young People's Service for an Ofsted inspection. This will seek to demonstrate the Council's commitment to high standards of practice, management and leadership in the safeguarding of children.
17-A17	Social Media	Assurance	**MEDIUM**	**Jean Palmer** Deputy Chief Executive & Corporate Director of Residents Services	This review will seek to confirm that appropriate safeguards are in place over the emerging and variety of social media used to share information and interact online with Residents. These social and sharing tools offer residents, partners, suppliers and colleagues access to information channels and a chance to engage online.
17-A18	Capital Programme	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 **REASONABLE** assurance opinion, this follow-up review, with a refined scope, focuses on the implementation of the 5 **MEDIUM** risk recommendations raised.
17-A19	Scheme of Delegations	Assurance (Follow-up)	**MEDIUM**	**Fran Beasley** Chief Executive	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 1 **HIGH** and 1 **MEDIUM** risk recommendations raised.

Page 70

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 2 (cont'd)

IA work scheduled to commence in the 1st July to 30th September 2017 period:

| IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
17-C8	Thematic review of Bailiff arrangements	Consultancy	MEDIUM	**Paul Whaymand** Corporate Director of Finance	The Ministry of Justice implemented national standards in 2014, following the implementation of the Taking Control of Goods Regulations in 2013 and fee structure via the Taking Control of Goods (Fees) Regulations 2014. There are a number of bailiffs used throughout the Council and this consultancy review will seek to identify the extent of their use, number of agreements held with a view to identifying potential value for money opportunities.
17-C9	Flood and Water Management	Consultancy	MEDIUM	**Jean Palmer** Deputy Chief Executive & Corporate Director of Residents Services	In April 2010, the Flood & Water Management Act became law. As part of the Act the Council, as Lead Local Flood Authority, is responsible for developing, maintaining and applying a strategy for local flood risk management in their areas and for maintaining a register of flood risk assets. This IA review will provide consultancy advice over the coordinated approach undertaken across the various Council services and external parties in ensuring the fulfilment of duties as lead Local Flood Authority, ensuring that flood risk to residents is assessed, managed and reduced.
17-C10	Assurance Mapping	Consultancy	MEDIUM	**Paul Whaymand** Corporate Director of Finance	Assurance mapping is a technique that uses a visual representation of assurance activities to demonstrate how they apply to a specific risk or set of compliance requirements. The assurance activities documented typically involve functions within the 'three lines of defence'. This is an ongoing project for IA, taking the 'risk-set' or 'compliance-set' identified within a particular function or risk group and details where the assurance for each of the risks or compliance requirements can be obtained. When operational, it indicates the strength of the assurances provided and notes the last time an independent review on these assurances was carried out. This gives the user a clear visual representation of the strength of the assurances and will help inform the IA programme.

Page 71

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 2 (cont'd)

IA work scheduled to commence in the 1ˢᵗ July to 30ᵗʰ September 2017 period:

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
17-GC1	Disabled Facilities Capital Grant (DFG)	Grant Claim	N/A	**Jean Palmer** Deputy Chief Executive & Corporate Director of Residents Services	Disabled facilities grants (DFGs) are provided by the Council to help meet the cost of adapting a property for the needs of a disabled person. IA are required to undertake verification work for the DFG claim due for submission by 30ᵗʰ September 2017.
17-GC2	Housing Benefits Subsidy Grant	Grant Claim	N/A	**Paul Whaymand** Corporate Director of Finance	Local authorities responsible for administering housing benefit claim subsidy from the Department for Work and Pensions in accordance with section 140 of the Social Security Administration Act 1992 and the Income-related Benefits (Subsidy to Authorities) Order 1998, SI 562 as amended. Ernst & Young LLP (EY), as the Council's appointed External Auditor for 2016/17, is required to certify the Council's claim. It has been agreed that IA will carry out the initial verification testing to reduce EY's testing and associated external audit fees.
17-GC3	Troubled Families Grant - Quarter 2	Grant Claim	N/A	**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 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'.
17-GC4	Bus Subsidy Grant	Grant Claim	N/A	**Tony Zaman** Corporate Director of Social Care	The Local Authority Bus Subsidy Grant covers both commercial and non-commercial bus routes and is administered centrally by the Department for Transport. The Grant is the partial refund on fuel duty received from the government by operators of local bus services in England. IA will be required to review and confirm the Council has complied with the conditions attached to Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Determination 2016/17.

Page 72

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 2 (cont'd)

IA work scheduled to commence in the 1st July to 30th September 2017 period – Analysis by Corporate Director:

Finance
27% (4)

Chief
Executive's
Office
13% (2)

Residents
Services
33% (5)

Social Care
27% (4)
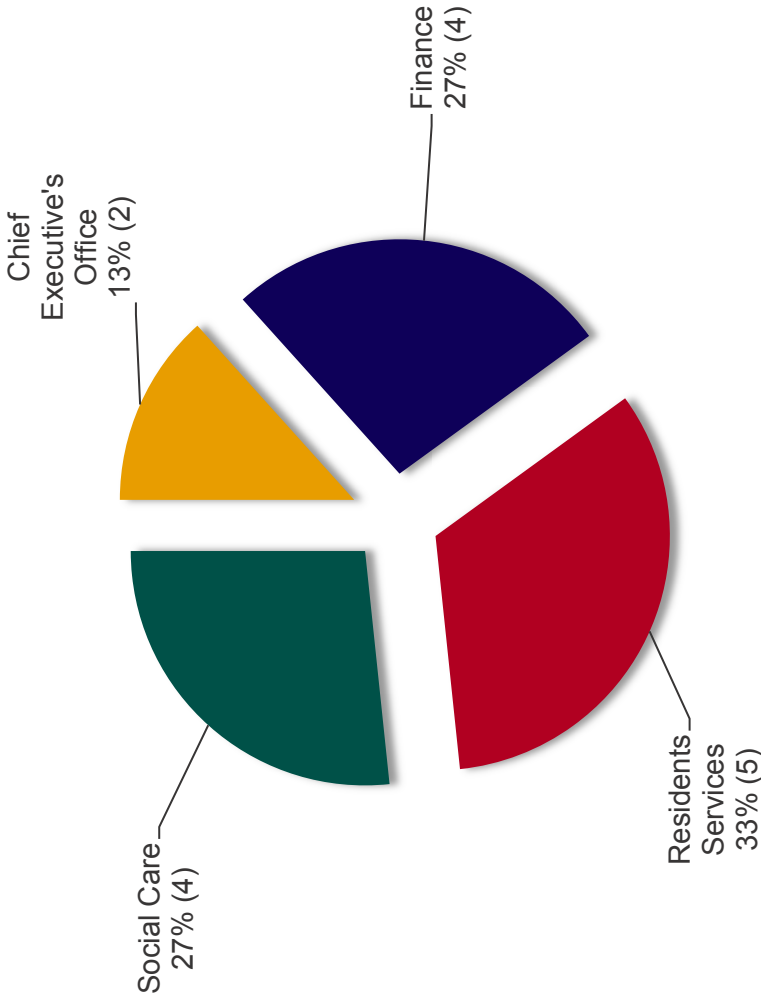
- The relevant Corporate Directors and Deputy Director/ Head of Service will be consulted regarding the exact timing of each individual IA review; and
- Where an IA review is deferred or cancelled within the quarter, the relevant Audit Sponsor will be asked to provide an alternative audit in their Group.

2017/18 Quarter 1 IA Progress Report, including Quarter 2 IA Plan   15.

Page 73

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

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Contact Officers: Garry Coote
Telephone: 01895 250369

REASON FOR ITEM

To inform members of the work undertaken by the Corporate Fraud Investigation Team (CFIT) for the 2016/17 financial year and for April to May 2017.

OPTIONS AVAILABLE TO THE COMMITTEE

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

INFORMATION

1. Roles and Responsibilities

The Council has a responsibility to protect the public purse through proper administration and control of the public funds and assets to which it has been entrusted. The work of the CFIT supports this by providing efficient value for money anti-fraud activities and investigates all referrals to an appropriate outcome. The Team provides support, advice and assistance on all matters of fraud risk including prevention, fraud detection, other criminal activity and deterrent measures.

Corporate Fraud Investigation Team activities since April 2016 included:

- 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
- National Fraud Initiative (NFI)
- Trading Standards
- Blue Badge
- Bad debts
- Unaccompanied Asylum Seekers
- Benchmarking

2. Corporate Fraud Investigation Team Objectives

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

3. Performance Outcomes 2016/17 financial year and April to May 2017

3.1 Social Housing Fraud

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

The CFIT investigates suspected cases of social housing fraud which are identified either by direct referral from Housing Officers, data matching exercises, verification and repairs visits or telephone calls to the fraud hotline. Through this work recovered properties are available to be re-let to residents in genuine housing need.

The Audit Commission, in their report 'Protecting the Public Purse 2014' estimated that nationally it costs councils on average £18,000 a year for each family placed in temporary accommodation.
The target set by CFIT for 2016/17 was to recover 52 properties (1 a week). In 2016/17 this was exceeded as 64 properties were recovered. The target for 2017/18 has been set at recovering a further 52 properties, as at 15th May 3 properties have been recovered.

In total since the commencement of this project in 2010 the CFIT have recovered 327 properties which using the Audit Commission calculation equates to savings of just over £5.8 million.

To promote this project the Blow the whistle on Housing Cheats poster appears in Hillingdon People and Council reception areas. This helps to generate calls to the fraud hotline. All referrals are fully investigated.

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

CFIT Officers attend Housing Department Team Meetings to promote the identification of social housing fraud to generate referrals.

Currently Hillingdon is pursuing one case for prosecution. This case was referred by a resident who suspected a neighbour of sub-letting their flat. CFIT Officer carried out an evening visit and found the flat was occupied by an unauthorised person who said they had rented the flat through Spare room.co.uk and she was paying £750 per calendar month. The CFIT Officer arranged for Homeless Prevention to assist this sub-tenant to source alternative accommodation. The council tenant has been given notice to quit and the possible prosecution action is on-going under the Prevention of Social Housing Fraud Act 2013.

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

Table 1

Social Housing Fraud – number of properties recovered and savings achieved		
2016	Number	Savings
2016/17	64	£1,152,000
April 2017	1	£18,000
May 2017	2	£36,000

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

Chart 1 shows the cummulative properties recovered and saving from April 2016 to March 2017.
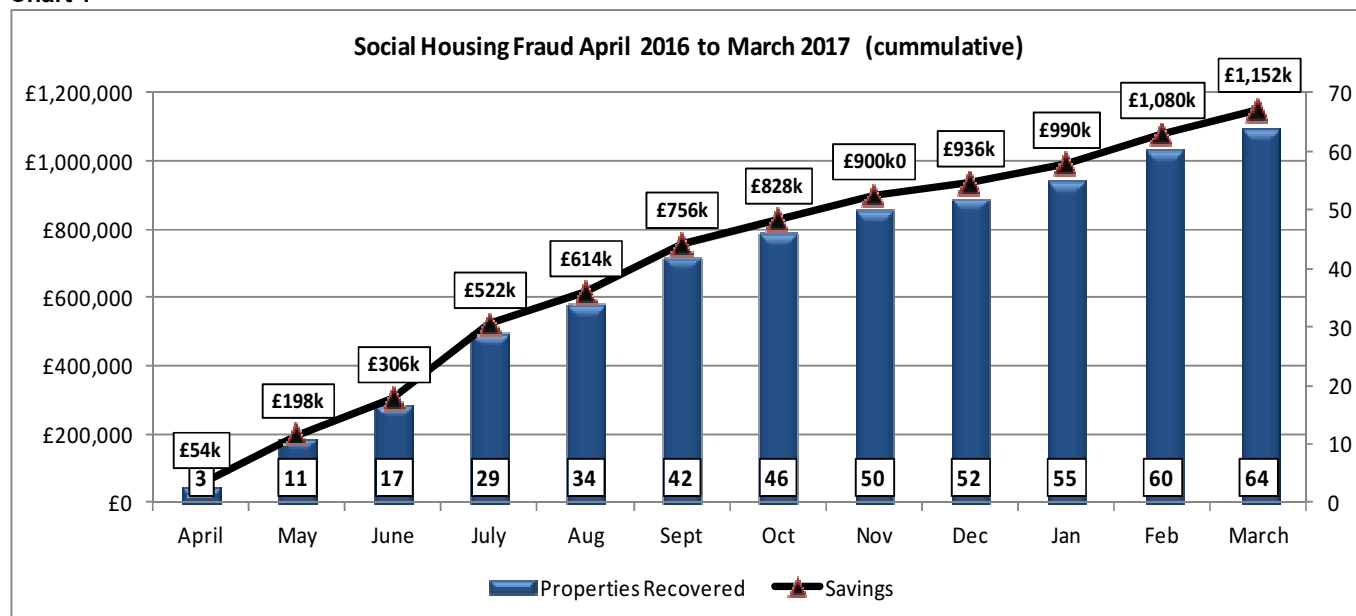
Chart 1

Chart 2 shows the cummulative properties and saving from April to May 2017.
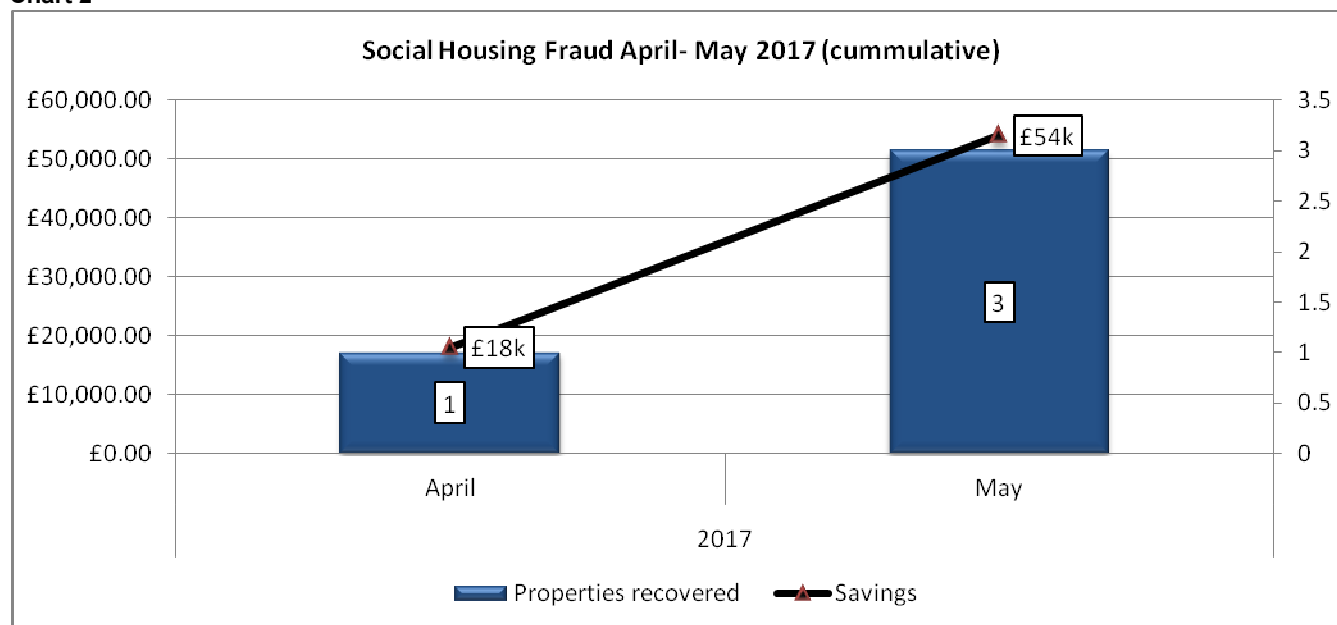
Chart 2

Table 2 shows a summary of the project outcomes since it commenced in October 2010 and the associated savings.

Table 2

Total Social Housing recovery and Savings since project commenced		
	Number of properties recovered	Savings
1.10.10-31.3.11	2	£36k
2011/12	28	£504k
2012/13	42	£756k
2013/14	58	£1,044k
2014/15	56	£1,008k
2015/16	74	£1,332k
2016/17	64	£1,152k
April to May 2017	3	£54k
Total	**327**	**£5,886k**

Under the Government's National Fraud Initiative the CFIT have recently been provided with data which highlights Hillingdon tenants who may also have tenancies in other Local authorities.

3.2 Council Tax and Business Rates Inspections

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

In 2016/17 there were 9,956 visits. Visits were made to 951 properties from April to May 2017. The visiting programme is very intense and officers are trained in all areas of work to ensure an efficient and planned approach to all visits.

Council Tax Inspections are generally reactive and identify the status of those claiming discounts and exemptions. Where the visit establishes the wrong amount of Council Tax is being charged the account is changed and the person re-billed.
In April 2016 the criteria for exemptions changed. Any new cases from April are only entitled to 21 days exemption rather than 6 months as previously. This change has reduced the need for repeated visits and therefore the numbers of Council Tax inspections have reduced from September 2016.

5,670 Council Tax inspection visits were made in 2016/17. From April to May 2017 a further 306 visits have been made.

Business Rate inspection visits are carried out to check occupation status of commercial premises to ensure the Council maximises the non domestic rate revenue. Similarly, the new build visits are carried out to ensure properties are rated for domestic or business rates as soon as they are completed. It was estimated that from January 2016 to March 2017 there would be approximately 1,300 new build properties being developed in Hillingdon. This represents a significant amount of additional revenue. 4,286 visits were made in 2016/17 to check Business Rates and New Build Inspections. From April to May 2017 an additional 645 visits have been made.

The robust visiting programme continues in 2017/18 working with internal partners such as planning to monitor new developments with the aim of maximising revenue potential. Table 3 and charts 3 and 4 show the number of visits carried out for 2016/17 and for April to May 2017.

Table 3

Council Tax and Business Rates Inspections		
	Number of Council Tax Inspections	**Number of Business rates and New Build Inspections**
2016/17	5,670	4,286
April 2017	194	275
May 2017	112	370
Income①	Increase in CT revenue	Increase in Business Rate/New Build revenue

①Data is not specifically recorded of the increased revenue from CFIT inspections. This additional income contributes to the overall Council Tax and Business Rates revenue.
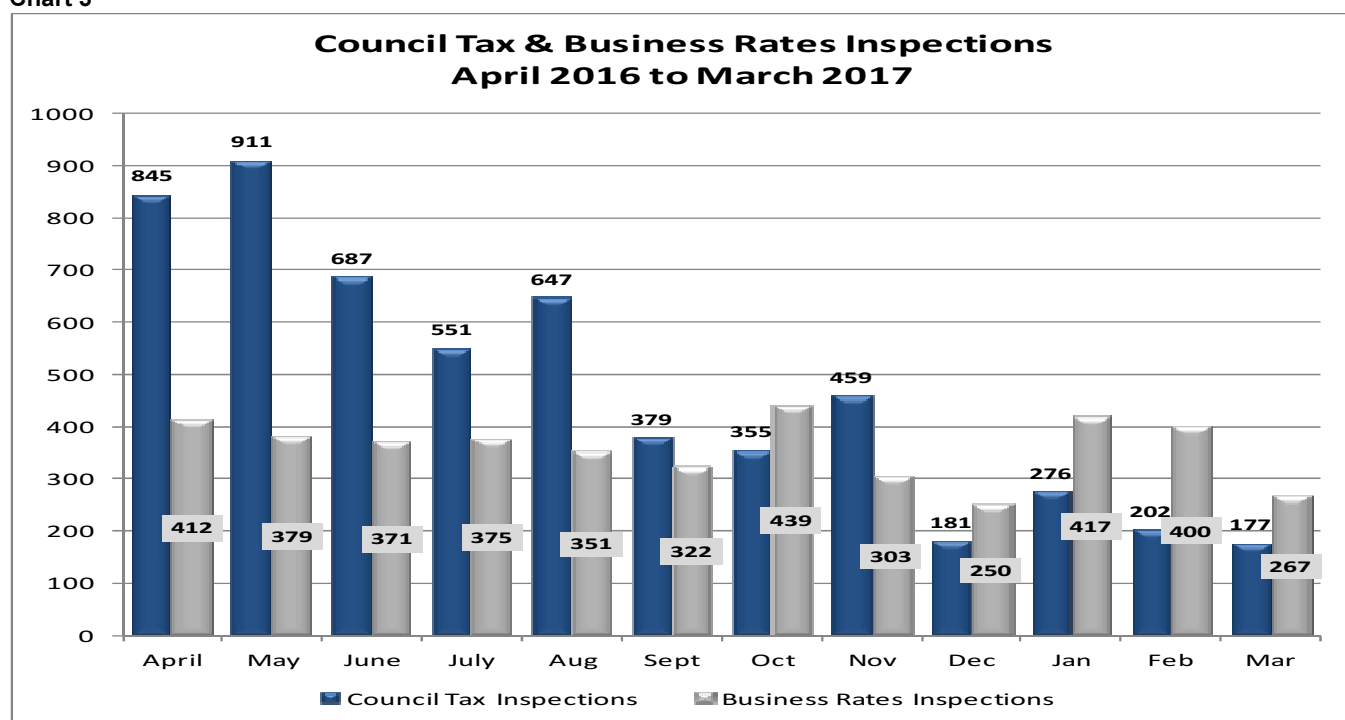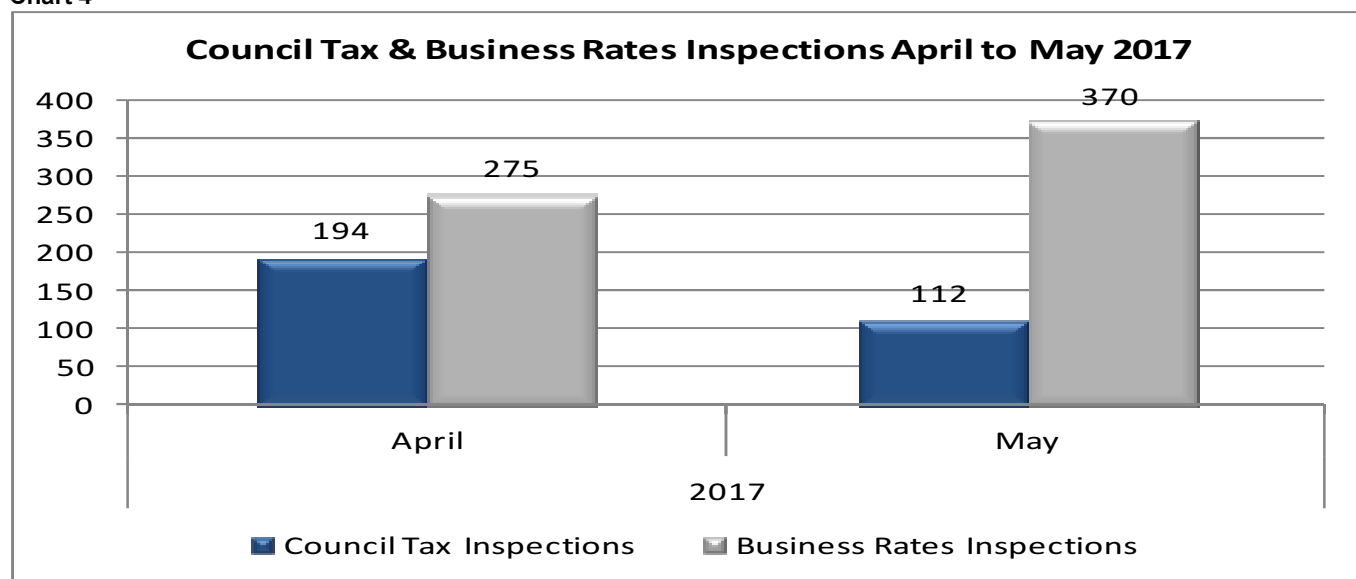
Chart 3

Council Tax & Business Rates Inspections April 2016 to March 2017

Chart 4

Council Tax & Business Rates Inspections April to May 2017

3.3 Single Person Discount (SPD)

The CFIT have been working on a project since January 2015 to identify incorrect claims for Single Person Discount. The project is producing very positive results in terms of reducing the number of SPD claims and generating additional income to the Authority. There are currently 29,410 SPD claims in Hillingdon. Since the commencement of this project SPD numbers are the lowest they have been for the last five years.

The CFIT are operating 5 work streams to match internal data sources against SPD claims.

Under the first work stream Hillingdon First card applications are automatically data matched to SPD records on a daily basis. This process establishes if more than one person is registered for a Hillingdon First card at an address where SPD is being claimed.

The second work stream concerns 'notices of the intention to marry' submitted to the Registrar's Office. Couples have to include their current residence on these applications and these details are matched to SPD claims.

The third work stream involves data matching SPD records with the Electoral register. This establishes if more than one person is registered at an address.

The fourth work stream concerns SPD reviews where visits are made to verify occupancy of a property where SPD is being claimed. Properties in the higher council tax bandings are being targeted as if these are found to be incorrect there will be a greater financial return.

A fifth work stream commenced in August 2016. This involves in-house data matching against SDP records to compare information on different systems.

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

In 2016/17 the CFIT have cancelled 583 SPD claims resulting in overpayments of £313k as shown in table 4.

Table 4

Council Tax - Single Person Discount – 2016/17		
Work streams	Number of claims stopped	Overpaid SPD
Hillingdon First Card data matching	70	£22k
Notices of intention to marry checks	94	£39k
Electoral registration data matching	306	£179k
SPD reviews	44	£33k
In-house data matching reports	69	£40k
Total	**583**	**£313k**

Charts 5 and 6 show summaries of the SPD overpayments and the number of households where claims have been cancelled from the intervention of the CFIT in 2016/17.

Chart 5

Summary of overpaid SPD 2016/17

- Hillingdon First Card data matching: £22k
- Notices of intention to marry checks: £39k
- Electoral registration data matching: £179k
- SPD Reviews: £33k
- In-house data matching reports: £40k

Chart 6

Number of households where SPD claims cancelled 2016/17

- In-house data matching reports: 69
- SPD Reviews: 44
- Electoral registration data matching: 306
- Notices of intention to marry checks: 94
- Hillingdon First Card data matching: 70

From April to May 2017 the CFIT have cancelled 97 SPD claims resulting in overpayments of £61k as shown in table 5, charts 7 and 8.

Table 5

Council Tax - Single Person Discount – April-May 2017		
Work streams	Number of claims stopped	Overpaid SPD
Hillingdon First Card data matching	24	£10k
Notices of intention to marry checks	4	£1k
Electoral registration data matching	50	£38k
SPD reviews	7	£4k
In-house data matching reports	12	£8k
Total	**97**	**£61k**

Chart 7

Summary of overpaid SPD April – May 2017

- Hillingdon First Card data matching: £10k
- Notices of intention to marry checks: £1k
- Electoral registration data matching: £38k
- SPD Reviews: £4k
- In-house data matching reports: £8k

Chart 8

Number of households where SPD claims cancelled April - May 2017

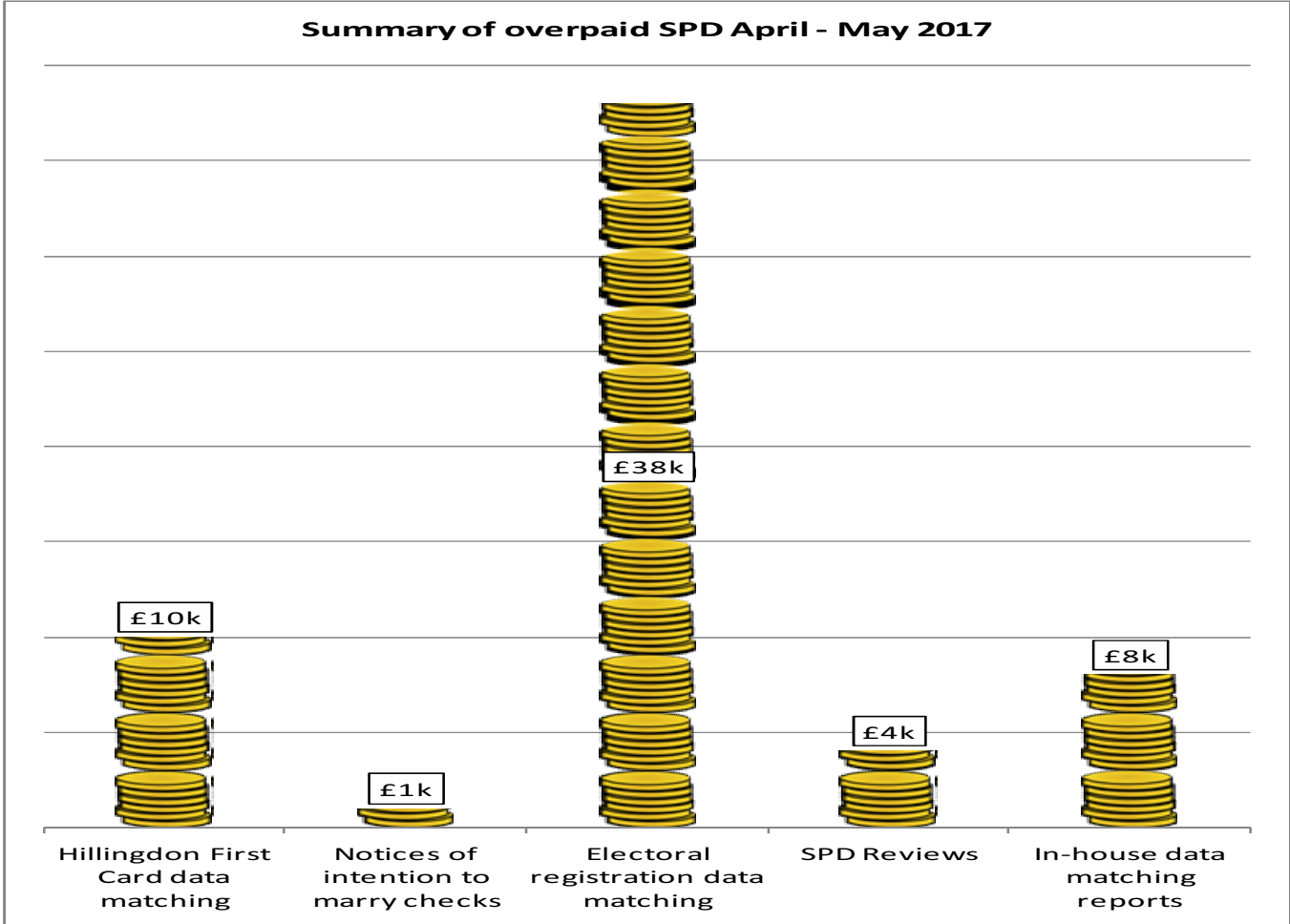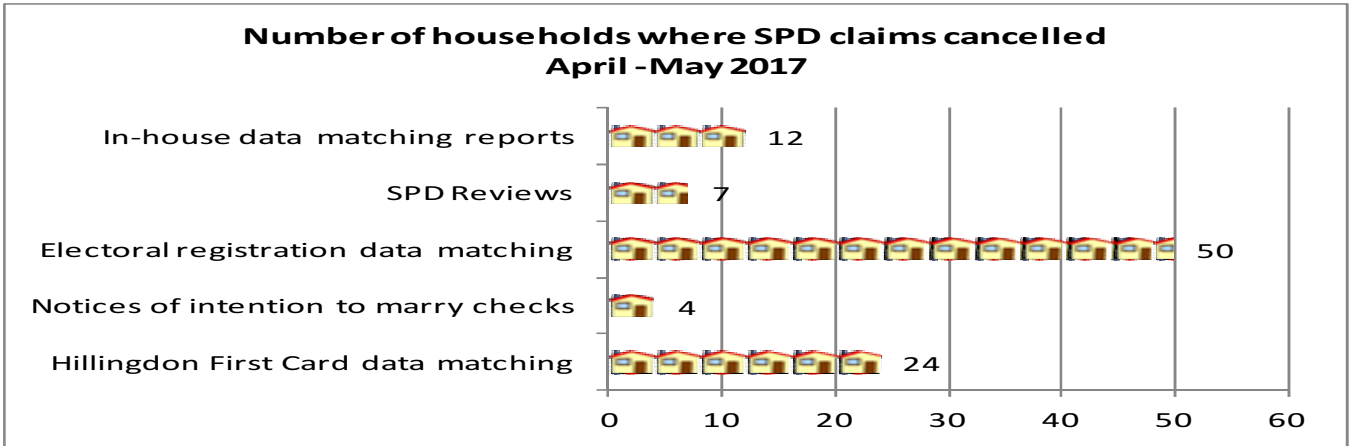| Category	Number
In-house data matching reports	12
SPD Reviews	7
Electoral registration data matching	50
Notices of intention to marry checks	4
Hillingdon First Card data matching	24

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

Are you receiving single person discount on your council tax?

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

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

You can be prosecuted for a false claim

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

HILLINGDON
LONDON
www.hillingdon.gov.uk

The poster opposite appears in issues of Hillingdon People and notice boards around the Borough to raise the profile of Single Person Discount abuse.

3.4 Residency and Verification Checks

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

In 2016/17 there were 16 bed and breakfast accommodations recovered as they were unoccupied by clients who claimed to have been homeless. Another exercise of unannounced visits to Bed & Breakfast/temporary accommodation is currently in progress and the results will be included in the next report.

The average duration of a bed & breakfast placement is 23 weeks at an average nightly charge of £46. Therefore for the 16 cancellations in 2016/17 approximately £118k was saved through this activity. We have also cancelled 2 other temporary accommodations following referrals from a Housing Officers.

From March 2016 the CFIT have taken over the responsibility of verifying the circumstances of people on the housing waiting list prior to their imminent offer of permanent accommodation. This is to ensure they are still eligible before the offer is made. The verification process put in place by the CFIT is more robust and includes a wider range of thorough checks. These checks are being processed quicker and are now carried out within 2 days. Verifications take place over a 24 hour period 7 days a week. The service provided has been well received by residents who have been grateful for the flexibility of visit times to suit their availability. In 2016/17 there were 2,125 verification checks carried out. Of these 60 were found to not be eligible for housing support. From April to May 2017 a further 332 verification checks have been carried out and of these 6 have been cancelled due to non eligibility for housing.

Table 6

Residency & Verification Check cancellations			
	2016/17	Weekly Savings	April-May 2017
Temporary Accommodation (B&B) Cancelled	16	« £4,830	0
CFIT verification check cancellations	60		6
Other Temporary accommodation Cancelled	2		0
Total savings		£118,496	

« Average B&B placement = 23 weeks calculates to £118,496

During the verification process Officers identified rent and Council Tax arrears. Non-payment of these arrears prohibits residents from being allocated a property. In 2016/17 £14.8k was paid by residents to clear these debts. From April to May 2017 £9.8k of arrears has been paid.

3.5 Right to Buy

In 2016/17 the CFIT verified 92 Right to Buy applications, of which 7 were cancelled. The total amount of discount saved for 2016/17 is £709,930
Since April 2017 the CFIT has verified 12 Right to Buy (RTB) applications of which none have been cancelled. Table 7 shows a breakdown of cancelled applications from 2014 to 2017.

Table 7

Right to Buy Cancellations		
	Cancelled Applications	Value of discount
2017/18	0	0
2016/17	7	£709,930
2015/16	9	£823,850
2014/15	7	£527,400

3.6 Proceeds of Crime Investigations (POCA)

The role of the Accredited Financial Investigator (AFI) is crucial in the fight against crime. The aim is not only to prosecute serious offenders but also to look at recovering additional monies where the offender has benefited financially from their crimes and a criminal lifestyle can be demonstrated.

These investigations are complex and are often challenged by the offender which results in lengthy legal processes. Therefore it may take many months for a case to reach court and a confiscation order agreed and paid. Hillingdon Council has two fully qualified AFI's based within its Trading Standards Service.

Under the Home Office Incentivisation scheme, Hillingdon Council receives 37.5% of what it recovers. Since April 2016/17, Hillingdon Council has received £156,763.42 in incentivisation payments. Hillingdon is due to receive a further £20,200 in June 2017 and a further £38,800 in September 2017.

Four cases are currently under investigation; three relate to breaches of trading standards legislation and are concerned with the supply of counterfeit goods. The fourth relates to a breach of planning control and is concerned with the unlawful subdivision of a family dwelling house into flats.

In November 2016, we successfully obtained a confiscation order in the sum of £142,490, and in February obtained a confiscation order in the sum of £100,000. Both these cases related to breaches of planning control and concerned single family dwelling houses being unlawfully converted into flats. This money is still being processed and will not be received until 2017/18.

A project team, comprising of officers from planning, trading standards, private sector housing and legal services, continues to identify and assess further suitable cases.

Table 8 shows the Confiscation Orders and the Incentivisation amount awarded to Hillingdon since 2012 against the type to fraud committed.

Table 8

Type of case	Confiscation Order amount	Incentivisation Amount (37.5%)
2012		
Benefit Fraud	£41,128.25	£15,423.09
Benefit Fraud	£65,706.32	£24,639.87
Total amount to be paid to Hillingdon for 2012		£40,062.96
2013		
Benefit Fraud	£4,750.00	N/A. Compensation of £4,750 to be paid from confiscation order.
Total amount to be paid to Hillingdon for 2013		£4,750.00
2014		
Trading Standards - unfair trading practices	£333,000.00	£124,785.00
Trading Standards - unfair trading practices	£334,000.00	£125,250.00

Type of case	Confiscation Order amount	Incentivisation Amount (37.5%)
Trading Standards - unfair trading practices	£333,000.00	£124,785.00
Corporate Fraud	£75,536.77	£28,326.29
Planning	£170,000.00	£63,750.00
Total amount to be paid to Hillingdon for 2014		£466,896.29
2015		
Trading Standards - counterfeit goods	£1,894.99	£710.62
Trading Standards - counterfeit goods	£5,715.71	£2,143.39
Trading Standards - counterfeit goods	£40,000.00	£15,000.00
Total amount to be paid to Hillingdon for 2015		£17,854.01
2016		
Planning	£9,500.00	£3,562.50
Planning	£142,490.00	£53,433.75
Total amount to be paid to Hillingdon for 2016		£56,996.25
2017		
Planning	£100,000.00	£37,500.00
Total amount to be paid to Hillingdon for 2017		£37,500.00

3.7 Housing Waiting List

A project was set up by the CFIT in April 2015 to review the current Housing Register Waiting List, at that time there were 3,567 applications on the waiting list. The purpose of the project was to identify through checking council records, such as Council Tax information and electoral registration, people on the waiting list who were no longer entitled to Social Housing. Their circumstances had either changed or they provided false information on their application. Removing these people from the waiting list means that the Council will have accurate data relating to current social housing needs for effective forward planning.

Since the project commenced on 27th April 2015, the CFIT reviewed all cases. Cases where a change was readily identifiable were targeted for investigation and if they were no longer eligible they were removed. This has meant that 2,329 applications have been removed from the waiting list. Of these, 504 were removed in 2016/17, a further 35 have been removed in April and May 2017. In the process of this exercise the CFIT has also identified 38 cases where the household has been incorrectly claiming Single Person Discount for Council Tax which totals £16k. This review project will be ongoing in 2017/18 to carry out enhanced checks on the remaining cases on the waiting list.

In November 2016 the project team began to review all Band C applications on the housing waiting list. Review forms are being sent to all relevant applicants, the returned forms are then checked, verified and assessed. The review will identify any changes in the applicant's housing need, appropriate action will be taken and the applicant's information updated. To date 474 review forms have been sent out and 210 (44%) forms have been returned. The review of the information on these forms has been carried out and 116 (55%) applications have been closed due to no longer having a housing need. A further 61 (29%) applications qualified for a band increase. The 192 cases where the review form was not sent back in the required timescale have also been removed from the Waiting List.

Table 8

Housing Waiting List

	Cases Removed From Waiting List
April to May 2017	35
2016/17	504
2015/16	1,790
Total	**2,329**

3.8 National Fraud Initiative (NFI)

The NFI is a vital tool in combating fraud; it facilitates the integration of thousands of data sets and records across participating agencies. Hillingdon is a key stakeholder in the initiative and provides data to enable the implementation of effective measures to prevent and safeguard public funds. The CFIT has provided data to the NFI who carried out the matching process. The matched data has been received and includes the following:

- payroll
- pensions
- trade creditors' payment history and trade creditors' standing data
- housing (current tenants) and right to buy
- housing waiting lists
- housing benefits (provided by the DWP)
- council tax reduction scheme
- council tax (required annually)
- electoral register (required annually)
- students eligible for a loan (provided by the SLC)
- private supported care home residents
- transport passes and permits (including residents' parking, blue badges and concessionary travel)
- insurance claimants
- licences – market trader/operator, taxi driver and personal licences to supply alcohol
- personal budget (direct payments)

The matched data is currently being reviewed by Hillingdon and the outcomes of these reviews will be included in future reports.

In February 2016 the Cabinet Office released the latest estimates of savings for Local Authorities from the identification of fraud from the NFI. Estimates are based on the assumption that the fraud, overpayment and error would have continued undetected without the NFI data matching. Table 9 provides a summary of some of these estimates, with the rationale for their calculation.

Table 9

NFI Savings Estimate - February 2016		
Data Match	**Rationale**	**Estimated Savings**
Tenancy Fraud	Based on average 4 year fraudulent tenancy, includes temporary accommodation for genuine applicants, legal costs to recover property, re-let costs & rent foregone for the	£93k per property recovered

	void period between tenancies	
Right To Buy	Reflects the maximum value of Right To Buy discount for London	£104k per application withdrawn
Council Tax - SPD	Annual value of discount	2 years value of SDP

3.9 Trading Standards

Since 1 April 2017, there have been 42 complaints and service requests recorded for action. This includes 3 cases of doorstep crime where elderly residents have been targeted by rogue traders. 10 complaints relating to product safety, 4 to underage sales of age restricted goods such as alcohol and tobacco, and 4 to Intellectual property crime (counterfeiting).

As part of our participation in the National Safety at Ports project for which Hillingdon receives funding from National Trading Standards, since April 2017 Officers have examined 7 consignments of imported goods at the freight sheds at Heathrow. The purpose of the project is to prevent unsafe consumer goods from entering the country, therefore stopping them before they reach the marketplace. Recent seizures include consignments of unsafe cosmetics, unsafe Henna hair dye, and unsafe children's LED light sticks. All these goods will be destroyed.

The Trading Standards Service is currently investigating the trading activities of an airport Meet & Greet parking company. Their customers believed their vehicles would be parked in a secure parking facility. However, the company parked their customers' vehicles in Council pay and display car parks in Yiewsley and West Drayton. These vehicles didn't display valid parking charge tickets and therefore were issued with parking fines. These parking enforcement fines were recorded against the legal owners of the cars who contacted Hillingdon Council to explain that they were not responsible for their car being parked in these car parks they had paid the Meet & Greet company in good faith to park their vehicles in a secure facility not a public car park.

3.10 Blue Badge

Two targeted operations in conjunction with the police took place in May and June 2016. A proactive operation ran in Uxbridge town centre resulted in 53 badges checked; 1 penalty charge notice (PCN) was issued. This reactive operation was run as a result of reports received from Hillingdon residents. This operation focussed on badge abuse around a local school. The key suspect was identified, a PCN was issued and the Blue Badge was seized. Further operations are planned for this financial year.

3.11 Bad Debts/Social Services Care Costs Avoidance

In May 2016 the CFIT began working with the Council's Specialist Recovery Team (SRT). The CFIT have taken over cases where it proves difficult to recover the debt even after bailiff involvement. The CFIT have developed a comprehensive investigations process because of their enhanced access to external systems and availability to visit 24 hours a day 7 days a week.

Since the project started in May 2016 accounts owing a total of £43k now have direct debits set in place to repay this money.
Based on the success of this project since May the CFIT have set up a project team to manage an intelligence led approach to bad debts. The team have developed a new risk assessment process to identify relevant cases. This will support case profiling, allowing the

CFIT to effectively target resources to maximise revenue to the Council. This will commence in 2017/18.

A new project commenced in May 2017 in partnership with Social Services to look at non-payment of care contributions and non declaration of income/capital by service users as part of the financial assessment to calculate their financial contributions. Care costs demands are rising and represent a significant cost to the Council, therefore this is a high risk area which needs to be reviewed. To date 1 case is under investigation and initial findings indicate that a large amount capital has been undeclared on the financial assessment. Progress on this project will be included in the next report.

3.12 Unaccompanied Asylum Seekers (UAS)

In May 2016 the CFIT was asked by the Corporate Director of Children's Social Care to work with staff to verify the circumstances of asylum seekers financially supported by social care.

In 2016/17 we identified 64 cases for investigation saving £192k. From April to May 2017 a further case has been identified resulting in a saving of £7,175.

Proactive visits have also highlighted clients who were not residing in the accommodation provided and cases where subletting had been identified. Visits are being made to all asylum seekers accommodation to verify occupancy.

The CFIT is currently arranging interviews with any UAS clients who have failed to pay their rent contribution to agree a payment plan in relevant cases.

All UAS cases are being reviewed by the CFIT to ensure all welfare benefits entitlements are being realised.

All the savings we have logged are based on payments that were due to be paid in 2016/17 and from April to May 2017.

3.13 Benchmarking

Benchmarking will enable an assessment of the success of fraud detection in Hillingdon and judge the performance of the CFIT. Currently there is no readily available benchmarking data as this has not been a government requirement.

The CFIT was involved with 3 projects to facilitate bench marking

The CFIT in Hillingdon invited Fraud Managers from LB Brent, LB Ealing, LB Harrow and LB Hounslow to join them in a Sharing Good Practice Group. The Group met in November. From this meeting it was apparent that Hillingdon's fraud initiatives were more developed and cover a much wider remit. Therefore Hillingdon has lead on establishing key metrics for social housing as this was the only area the other Authorities were working on. All members of the group were to collect data for 2016/17 and were scheduled to meet again in April 2017 to benchmark results. However, in April, the 3 boroughs of LB Brent. LB Ealing and LB Hounslow, which had been organised as one Fraud Team covering the 3 areas was disbanded and are unable to continue with this work until they are fully operational. Representatives from LB Harrow are keen to continue this work and a meeting is planned for July 2017.

The Chartered Institute of Public Finance and Accountancy (CIPFA) are currently gathering some data from Local Authorities which will enable some benchmarking to take place. The CFIT Manager attended a meeting with CIPFA in January to discuss how this could be developed. Hillingdon represented all local authorities because Hillingdon is recognised as a

leading authority in this fraud detection with extensive initiatives. At the meeting it was agreed that Hillingdon Corporate Fraud Investigation Manager and Team Managers would join a working party, managed by CIPFA, to look at practice across Local authorities and develop meaningful benchmarking processes. The first meeting with CIPFA took place in February 2017 where CIPFA agreed to run a series of Workshops across London during the summer.

The CFIT manager is an executive member of the London Borough Fraud Investigation Group. In this role the Manager has agreement to lead a Benchmarking Group with all London Councils to agree metrics and collect data for 2016/17. This group met as planned at the end of February 2017 and are now conducting a survey to compare agreed metrics across all London Boroughs. These surveys are due to be returned by the end of July 2017.

Updates on benchmarking will be included in future reports.

4. Resource Allocation 2016/17

The resource allocation for fraud related work is undertaken using a risk based approach which takes into account both the national and local context in relation to the fraud environment.

4.1 National context

It is accepted that fraud affects the UK across all sectors and causes significant harm. The last, reliable and comprehensive set of fraud impact figures was published by the National Fraud Authority in 2013 and indicates that fraud may be costing the UK £52bn a year. Within these figures the estimated loss to Local Authorities totalled £2.1bn. The estimated losses to Local Authorities in 2013 were broken down as shown in Table 10.

Table 10

Fraud Type	Estimated Loss	Fraud Type	Estimated Loss
Procurement Fraud	£876m	Blue Badge	£46m
Housing Tenancy Fraud	£845m	Grant Fraud	£35m
Payroll Fraud	£154m	Pension Fraud	£7.1m
Council Tax Fraud	£133m		

Source; Annual Fraud Indicator 2013

Since these figures were produced the National Fraud Initiative (NFI) lead by the Cabinet Office has implemented compulsory data matching standards which Local Authorities must adhere to. Hillingdon supplies the required data sets listed in 3.8 of this report. This facilitates the detection of the fraud types identified by the National Fraud Authority. Hillingdon is a stakeholder in this initiative to enable the implementation of effective measures to safeguard public funds.
In 2014/15 Hillingdon was selected by the Home Office as a pilot site to data match all Council procurement records with police records. This project did not identify any suspicious procurement activity.

4.2 Local context

The national context contributes towards driving the work programme locally. In Hillingdon particular emphasis has been placed on the detection of fraud related to all aspects of housing, including Housing Tenancy fraud. It is acknowledged that this area has significant potential for abuse and therefore represents a high level of risk to the Authority.
Over the last year the CFIT have diverted some additional resources to this area of work to ensure effective management of this risk. Fraud detection within housing covers areas such as, verification of housing applications, reviews of eligibility of people on the housing waiting list, scrutiny of Right to Buy applications, bed & breakfast residency, temporary accommodation residency and social housing sub-lets/ non-occupation. The works in these

areas are detailed in the report. A Business Case is currently being prepared to request additional resources to manage this area of risk. This would release some of diverted staff resource to address other risk areas such as Blue Badge and criminal investigation work.

4.3 Risk based approach to resource allocation

In the CFIT work plan risk ratings are applied to areas of fraud detection and prevention activity. High level risks represent a significant threat to the Council's reputation, statutory compliance, finances and key corporate objectives. Medium level risks represent the potential for significant threats that could have an adverse impact on the Council's reputation, adherence to Council Policy and departmental budgets. Low level risks relate to minor threats or the opportunity for impact on operational objectives but may be tolerated in the medium term.

The Corporate Fraud Team comprises the current staff resources against their primary function. Activity is flexible to respond to emerging demands. (Table 11)

Table11

	Job Title	FTE	Primary function
Fraud related activities	Service Manager	1	Manage Strategic Corporate Fraud & Trading Standards Service
	Team Leaders	2	Manage fraud operational teams
	Housing Investigation Officers	2	Investigate Social Housing Fraud
	Intel Officers	2	Background checks & intelligence gathering
	Investigation Officers	5	Investigate fraud - internal, housing verification visits, NFI data matching, Right to Buy, Criminal investigations, Blue Badge, Student Discounts, housing waiting list, Asylum partnership working, Bad Debts
	Fraud Staff	12	FTE
Other activities	Trading Standards/POCA Manager	1	Manage Trading Standards Officers and lead POCA investigations
	Trading Standards Officers	4	Investigate areas of consumer protection
	Business Rates Inspectors	4	Inspect business premises and new build properties
	Housing Inspectors	2	Check residency for B&B's, and housing verifications
	Visiting Officers	3	Council tax inspections & housing verifications
	Operational staff	14	FTE
	TOTAL CFIT staff	**26**	**FTE**

CFIT STAFF RESOURCES APRIL 2017
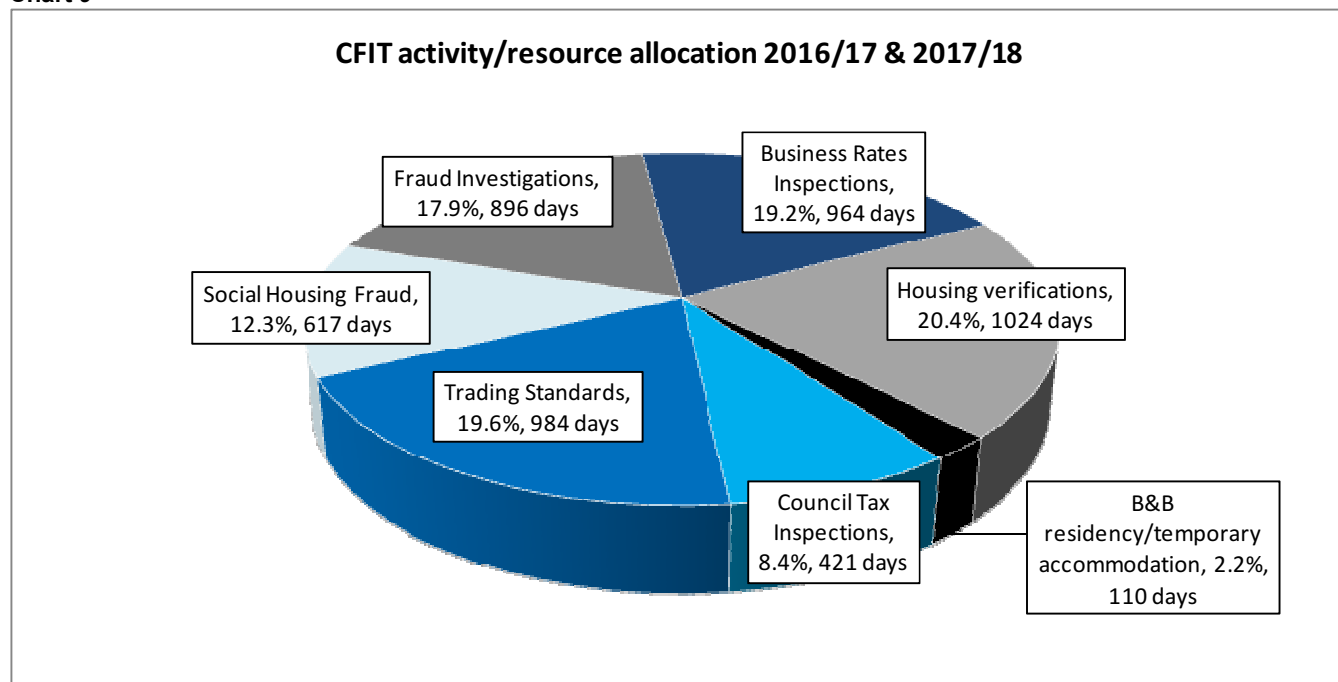
4.4 Review of 2016/17

Activity and resource data for 2016/17 (Chart 9 & Table 11) has been calculated in days per year spent on the allocated tasks and the percentage of total available time. The total available days (5016)① excludes Annual leave, bank holidays for each member of operational staff. Management time has also been excluded.

This data confirms that some staff time was diverted from their primary function to support areas which were high risk and under resourced. Investigation Officers covered Housing Verifications and therefore were not available to spend the required time on other investigation activities. It is calculated that they spent 5.1% (255 days) of their time on Housing verifications. A Business Case will be presented in 2017/18 to request additional Housing Inspectors and Intel support to cover this high risk area, which should produce improved outcomes. This will allow Investigation Officers to focus upon additional fraud work including Blue Badge and criminal investigations.

4.5 Work Plan 2017/18

In 2017/18, if the current level of resource stays the same the CFIT resource activity and allocation will replicate the 2016/17 position. Housing as a high risk area will continue to be a priority with resources diverted to support this work. If the Business case for additional resources is successful the allocation of resources will be reviewed.(Chart 9)

Chart 9

CFIT activity/resource allocation 2016/17 & 2017/18

- Fraud Investigations, 17.9%, 896 days
- Business Rates Inspections, 19.2%, 964 days
- Social Housing Fraud, 12.3%, 617 days
- Housing verifications, 20.4%, 1024 days
- Trading Standards, 19.6%, 984 days
- Council Tax Inspections, 8.4%, 421 days
- B&B residency/temporary accommodation, 2.2%, 110 days

①365 days a year minus 137 for weekends. Bank holiday and annual leave=228 days
  x 22 staff = 5016 days

Table 11

CORPORATE FRAUD INVESTIGATION TEAM – RESOURCE ALLOCATION 2016/17 & 2017/18						
	Risk Rating/Activity	**Outcome**	**Starting point**	**Days a year**	**%**	**Current Demand & capacity**
Business Rates Inspections	*Medium Risk* Inspect & monitor existing business premises, commercial & domestic new builds	Correct charges made to maximise revenue	Revenue Team notify inspections required & ongoing monitoring	964	19.2%	Capacity meets demand and timescale
Housing verifications	*High Risk* Eligibility verification prior to tenancy offers including intelligence gathering	Resources allocated to those in genuine housing need	Referrals from Housing Lettings Team	1024	20.4%	Demand exceeds capacity, Business case for additional resources in progress
B&B residency checks/temporary accommodation	*High Risk* Check occupancy of B&B accommodation	Resources allocated to those in genuine housing need	CFIT pro-active visiting programme	110	2.2%	Capacity meets demand and timescale
Council Tax inspections	*High Risk* Council tax inspections including Single Person Discount.	Maximise revenue	Revenue Team notify inspections required & ongoing monitoring	421	8.4%	Capacity meets demand and timescale
Trading Standards & POCA	*Medium Risk* Investigate areas of consumer protection	Protect Hillingdon residents from unsafe good and unscrupulous traders	Central referrals from CAB and proactive exercises eg under age sales of alcohol & tobacco	984	19.6%	Capacity meets demand and timescale
Social Housing Fraud	*High Risk* Investigate social housing fraud	Recover properties for re-allocation to tenants in genuine housing need	Referrals from housing, CFIT data matching, National Fraud Initiative, pro-active exercises	617	12.3%	Capacity meets demand and timescale
Fraud Investigations	*All Risk Levels* Investigate fraud - internal, housing, NFI data matching, SPD, Right to Buy, Criminal investigations, Blue Badge, Student Discounts, housing waiting list, partnership working, housing applications, cross departmental working, bad debts, mobile working. Intel gathering	Detect, investigate and eliminate fraud, maximise income & ensure effective allocation of resources	Any Hillingdon departments and residents	896	17.9%	Demand exceeds capacity as supporting housing verifications reduced capacity for investigations

	Total	5016

4.6 Fraud Investigation Officer Resources.

There are currently 5 Investigation officers within the CFIT. Their primary function is to carry out fraud investigation work. However they have been supporting Housing verification work and therefore the hours available for their primary role have been reduced from 1140 hours to 896 hours a year. Table 12 shows how these hours have been allocated in 2016/17 and how they are planned to be used in 2017/18.

Work related to the Housing Waiting List and Asylum Seekers can both be reduced in 2017/18 because the CFIT have dealt with any outstanding investigation and established procedures to manage incoming work effectively.

More resources are planned to be allocated to data matching, bad debts and blue badge investigations. Bad debts will be expanded to include a new area of work with Social Services looking at non-payment of care contributions and non declaration of income/capital as part of the financial assessment to calculate service user financial contributions. Care costs demands are rising and represent a significant cost to the Council, therefore this is a high risk area which needs to be reviewed. Increased resources within data matching will be used to conduct additional exercises with a credit reference agency to assist with SDP fraud identification. Blue Badge operations will also be extended.

Table 12

Investigation Officers Resource Allocations				
	2016/17		2017/18	
	Hours	%	Hours	%
Right to Buy	72	8%	72	8%
Data matching/NFI	405	45%	441	49%
Housing Waiting List	72	8%	50	6%
Asylum seekers	152	17%	100	11%
Bad debts/Social Services	27	3%	54	6%
Blue Badge	18	2%	29	3%
Criminal Investigations	150	17%	150	17%
Total Annual Hours	896		896	

Audit Committee Forward Programme 2017/18 and 2018/19

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
27 September 2017	**CR3**
13 December 2017	**CR3**
March 2018 (date tbc)	**tbc**
July 2018 (date tbc)	**tbc**

AUDIT COMMITTEE

Forward Programme 2017/18 and 2018/19

Meeting Date	Item	Lead Officer
27 September 2017	***Private meeting with the Corporate Director of Finance to take place before the meeting**	
	Approval of the 2016/17 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2017	**Corporate Director of Finance /Ernst & Young**
	External Audit Report on the Pension Fund Annual Report and Accounts 2016/17	**Corporate Director of Finance /Ernst & Young**
	Internal Audit Progress Report 2017/18 Quarter 2 & Operational Internal Audit Plan Quarter 3	**Head of Business Assurance**
	External Quality Assessment of Internal Audit 2017/18	**Head of Business Assurance**
	Corporate Fraud Team Progress Report	**Head of Business Assurance**
	Audit Committee Annual Report	**Head of Business Assurance**
	Risk Management Report & Q1 Corporate Risk Register - Part II	**Head of Business Assurance**
	Audit Committee Forward Programme	**Democratic Services**

Meeting Date	Item	Lead Officer
13 December 2017	***Private meeting with the Head of Business Assurance to take place before the meeting**	
	External Audit Annual Audit Letter	**Corporate Director of Finance /Ernst & Young**
	EY 2017/18 Annual Audit Plan; 2017/18 Pension Fund Audit plan	**Corporate Director of Finance / Ernst & Young**
	Internal Audit Charter 2017/18	**Head of Business Assurance**

	Internal Audit Progress Report 2017/18 Quarter 3 & Operational Internal Audit Plan Quarter 4	Head of Business Assurance
	Corporate Fraud Team Progress Report	Head of Business Assurance
	Draft Treasury and Management Strategy Statement 2018/19 to 2022/23	Corporate Director of Finance
	Risk Management Report & Q2 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services
	Risk Management Report and Q2 Corporate Risk Register	Head of Business Assurance

Meeting Date	Item	Lead Officer
March 2018 (Date tbc)	*Private meeting with External Audit (Ernst & Young) to take place before the meeting	
	EY - Annual Grant Audit Letter	Corporate Director of Finance /Ernst & Young
	Annual Governance Statement 2017/18 – Interim Report	Head of Business Assurance
	Balances and Reserves Statement	Corporate Director of Finance
	Revisions to the Treasury Management Strategy Statement and Investment Strategy 2018/19 to 2022/23	Corporate Director of Finance
	Business Assurance - Internal Audit Progress Report Quarter 4 2017/18 & Quarter 1 2018/19 Internal Audit Plan	Head of Business Assurance
	Business Assurance Draft Internal Audit Plan 2018/19	Head of Business Assurance
	Corporate Fraud Investigation Team Progress Report	Head of Business Assurance
	Risk Management Report & Q3 Corporate Risk Register - Part II	Head of Business Assurance

	Head of Business Assurance	Annual Review of the Effectiveness of the Audit Committee 2017/18
	Audit Committee Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
July 2018 Date tbc)	*Private meeting with Head of Business Assurance to take place before the meeting	
	Draft Annual Governance Statement 2017/18	Head of Business Assurance
	Approval of the 2017/18 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2018	Corporate Director of Finance /Ernst & Young
	External Audit Report on the Pension Fund Annual Report and Accounts 2017/18	Corporate Director of Finance /Ernst & Young
	Annual Review of the Effectiveness of Internal Audit 2018/19	Head of Business Assurance
	Annual Internal Audit Report & Head of Internal Audit Opinion Statement 2017/18	Head of Business Assurance
	Internal Audit 2018/19 Quarter 1 Progress Report & Quarter 2 Operational Internal Audit Plan	Head of Business Assurance
	Corporate Fraud Team Progress Report	Head of Business Assurance
	Risk Management Report & Q4 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Terms of Reference	Democratic Services
	Audit Committee Forward Programme	Democratic Services

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