



HILLINGDON
LONDON



Audit Committee

Councillors on the Committee

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

Date: WEDNESDAY 13
DECEMBER 2017

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

Venue: COMMITTEE ROOM 4 -
CIVIC CENTRE, HIGH
STREET, UXBRIDGE UB8
1UW

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

Published: Tuesday 5 December 2017

Contact: Anisha Teji
Tel: 01895 277655
Email: ateji@hillingdon.gov.uk

This Agenda is available online at:

<https://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=256&MId=3009&Ver=4>

Putting our residents first

Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
Phase II, Civic Centre, High Street, Uxbridge, UB8 1UW
www.hillingdon.gov.uk

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Terms of Reference

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

Introduction

The Audit Committee's role will be to:

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

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

Internal Audit

1. Review and 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
- 4 Minutes of the meeting held on 31 October 2017 1 - 2
- 5 External Annual Audit Letter 3 - 32
- 6 Business Assurance - Internal Audit Progress Report for 2017/18 Quarter 3 (including the Quarter 4 IA Plan) 33 - 56
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PART II

- 9 Business Assurance - Corporate Risk Register for Quarter 2 2017/18 73 - 92

Minutes



AUDIT COMMITTEE

31 October 2017

Meeting held at Leader's Office - Civic Centre

	<p>Committee Members Present: Councillors Scott Seaman-Digby (Vice-Chairman), George Cooper, Tony Eginton and Susan O'Brien</p> <p>Also Present: Councillor Ray Puddifoot MBE (Leader of the Council) Councillor Jonathan Bianco (Cabinet Member for Finance, Property and Business Services)</p> <p>LBH Officers Present: Paul Whaymand (Corporate Director of Finance) Anisha Teji (Democratic Services Officer).</p>
26.	<p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>There were no apologies for absence.</p>
27.	<p>DECLARATIONS OF INTEREST IN MATTERS BEFORE THE MEETING (<i>Agenda Item 2</i>)</p> <p>There were no declarations of interest in matters before the meeting.</p>
28.	<p>TO AGREE THE MINUTES OF THE MEETING HELD ON 27 SEPTEMBER 2017 (<i>Agenda Item 3</i>)</p> <p>The minutes from 27 September 2017 were agreed as an accurate record.</p>
29.	<p>TO CONFIRM THAT ITEMS MARKED PART II WILL BE CONSIDERED IN PRIVATE (<i>Agenda Item 4</i>)</p> <p>It was agreed that all the items on the Agenda be considered in public with the exception of Agenda Item 5 - Interviews for the Independent Chairman of the Audit Committee.</p>
30.	<p>INTERVIEWS FOR THE INDEPENDENT CHAIRMAN OF THE AUDIT COMMITTEE (RECOMMEND TO COUNCIL) (<i>Agenda Item 5</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed information relating to an individual and information that could reveal the</i></p>

	<p><i>identity of an individual and the public interest in withholding the information outweighs the public interest in disclosing it. (exempt information under paragraphs 1&2 of part 1 of Schedule 12A to Local Government (Access to information) Act 1985 as amended.</i></p> <p>The Committee interviewed candidates and recommended a single candidate to Council, subject to them obtaining satisfactory references.</p> <p>RESOLVED -</p> <p>1. That the Committee recommended to Council the appointment of an Independent Chairman of the Audit Committee.</p>
	<p>The meeting, which commenced at 10.00 am, closed at 11.30 am.</p>

These are the minutes of the above meeting. For more information on any of the resolutions please contact Anisha Teji on 01895 277655. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

EXTERNAL AUDIT ANNUAL AUDIT LETTER

Contact Officer: Sian Kunert
Telephone: 01895 556578

SUMMARY

This is a covering report to EY's Annual Audit Letter which provides a summary of the expected conclusions from their audit work undertaken for the year ended 31 March 2017.

RECOMMENDATIONS

The committee is asked to note the report.

INFORMATION

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

1. The Council's Financial Statements (including the Pension Fund) – an unqualified opinion on the Council's accounts for the year ended 31 March 2017 was issued.
2. Value for Money conclusion – it was concluded that the Council has put in place proper arrangements to secure value for money in the use of resources.
3. Whole of Government Accounts – it was reported to the National Audit Office that the consolidated return was consistent with the statutory accounts.
4. Grants Certification – there will be a separate letter on grant certification issued to Audit Committee at the start of 2018.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

EY Annual Audit Letter

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London Borough of Hillingdon

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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

The "Terms of Appointment (updated 23 February 2017)" issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

A close-up photograph of a hand holding a blue and silver pen, writing on a document. The hand is positioned in the upper right corner of the frame. The document is white with some text and a blue checkered pattern visible. A yellow rectangular overlay is placed over the lower left portion of the image, containing the text 'Executive Summary'. The background is blurred, showing a desk and some papers.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to London Borough of Hillingdon (the Council) following completion of our audit procedures for the year ended 31 March 2017.

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

Area of Work	Conclusion
Opinion on the Council's and Pension Fund's:	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2017 and of its expenditure and income for the year then ended
<ul style="list-style-type: none"> Financial statements 	
<ul style="list-style-type: none"> Consistency of other information published with the financial statements 	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.
Area of Work	Conclusion
Reports by exception:	
<ul style="list-style-type: none"> Consistency of Governance Statement 	The Governance Statement was consistent with our understanding of the Council.
<ul style="list-style-type: none"> Public interest report 	We had no matters to report in the public interest.
<ul style="list-style-type: none"> Written recommendations to the Council, which should be copied to the Secretary of State 	We had no matters to report.
<ul style="list-style-type: none"> Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014 	We had no matters to report.

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

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 27 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 28 September 2017.

In January 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken. This will include work completed on Housing Benefits, Housing Capital Receipts and Teacher's Pension.

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

Maria Grindley

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose

Purpose

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 27 September 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 16 March 2017 and is conducted in accordance with the National Audit Office's 2016 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements, including the pension fund; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

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

The background image shows a blurred office desk. On the left, a laptop screen displays some data. In the center, a clear glass of water sits on the desk. To the right, there are several papers, including one with a bar chart and another with a pie chart. A pen is also visible on the desk.

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2017.

Our detailed findings were reported to the 27 September 2017 Audit Committee.

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

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p>	<p>Our testing of journal entries did not identify adjustments which were outside of the normal course of business. All journals tested had an appropriate business rationale. We did not identify any significant unusual transactions.</p> <p>We reviewed accounting estimates for evidence of management bias. We undertook audit procedures on accruals, provisions and prepayments and did not identify any evidence of management override.</p> <p>We performed sample testing on additions to the property, plant and equipment balance and found that these items met the relevant accounting requirements to be capitalised.</p> <p>We performed sample testing on the existence and valuation of prepayments, the completeness and valuation of accruals and completeness of provisions and found no indication of management bias.</p>

<p>Revenue and expenditure recognition</p> <p>Auditing standards also require us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▶ reviewing and testing revenue and expenditure recognition policies, to see if they would of themselves lead to over or understatement of amounts; ▶ reviewing and discussing with management any accounting estimates on revenue or expenditure recognition for evidence of bias. We concentrated on estimates requiring more judgement by management, e.g. IAS 19, Property, Plant and Equipment and accruals; ▶ developing a testing strategy to test material revenue and expenditure streams. We looked at all material streams individually and completed sample testing tailored for the individual streams (e.g. where higher risk, more testing performed); ▶ reviewing and testing revenue and expenditure cut-off at the period end date to ensure that transactions were entered in the relevant year (e.g. items were not deferred into the following year to improve the financial position); and ▶ reviewing and testing a selection of capital additions to ensure that these were correctly capitalised.
<p>Our testing did not identify any material misstatements from revenue and expenditure recognition.</p>	<p>Our testing did not identify any material misstatements from revenue and expenditure recognition.</p>
<p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.</p>	<p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.</p>
<p>SERCOP Re-Statement</p> <p>Financial statement presentation</p> <p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year, changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS). They also include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.</p>	<p>We reviewed the draft expenditure and funding analysis, restated CIES, restated MIRS and associated notes.</p> <p>We have nothing to report from this work.</p>

Other Key Findings	Conclusion
Pension disclosures	<p>We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate. We reviewed in detail the assumptions used by the actuaries.</p> <p><u>Barnett Waddingham:</u> We have noted that PWC as part of their central review have reported that the discount rate applied by Barnett Waddingham falls outside the top end of their expected range. Our EY Pensions team agree with this conclusion. In respect of Barnett Waddingham EY Pensions concluded that the methodologies used to derive the discount rate and RPI inflation assumptions are not robust as they do not take adequate account of the duration of the schemes liabilities. In future years this could lead to unacceptable assumptions. Given the size of the Barnett Waddingham element of the Pension Liability this is not considered to be a significant consideration for London Borough of Hillingdon.</p> <p><u>Hymans Robertson:</u> PWC note that the discount rate and RPI inflation assumptions are determined using a cash flow matching approach to derive 3 separate rates (short, medium and long) with a duration of approximately 15, 20, and 25 years respectively. The use of the nearest duration rather than the actual duration of a particular employer makes the methodology slightly less robust. Our EY Pensions team agrees with the reservations on the actuary's methodology used to derive the discount rates but note that overall other assumptions appear reasonable.</p>
Property valuations	<p>We have assessed and are satisfied with the objectivity of the London Borough of Hillingdon valuers: Wilkes Head and Eve (WHE) and Jones Laing LaSalle (JLL).</p> <p>We have undertaken appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuers in relation to the property, plant and equipment, focusing in particular on specialist assets which are valued on a depreciated replacement costs (DRC) basis valued by WHE.</p> <p>We asked our EY internal valuation experts to assist us with providing assurance in this area. EY Property valuations raised a number of questions of WHE on key assumptions applied on DRC valuations. After considering the WHE response and testing a small sample of assets EY property valuation concluded that the assets were fairly stated this year. We will liaise with the finance team to address some of the concerns raised by the EY Property Valuations team on the WHE methodology. This will be important for the 2017/18 valuation.</p>

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

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £14.286 million (2015/16: £13.192 million), which is 2% of Gross Revenue Expenditure reported in the accounts of £689 million adjusted for any additional lines of Expenditure which area also reported below the line</p> <p>We consider Gross Revenue Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.714 million (2015/16: £0.659 million) in respect of uncorrected audit adjustments</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits
- Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



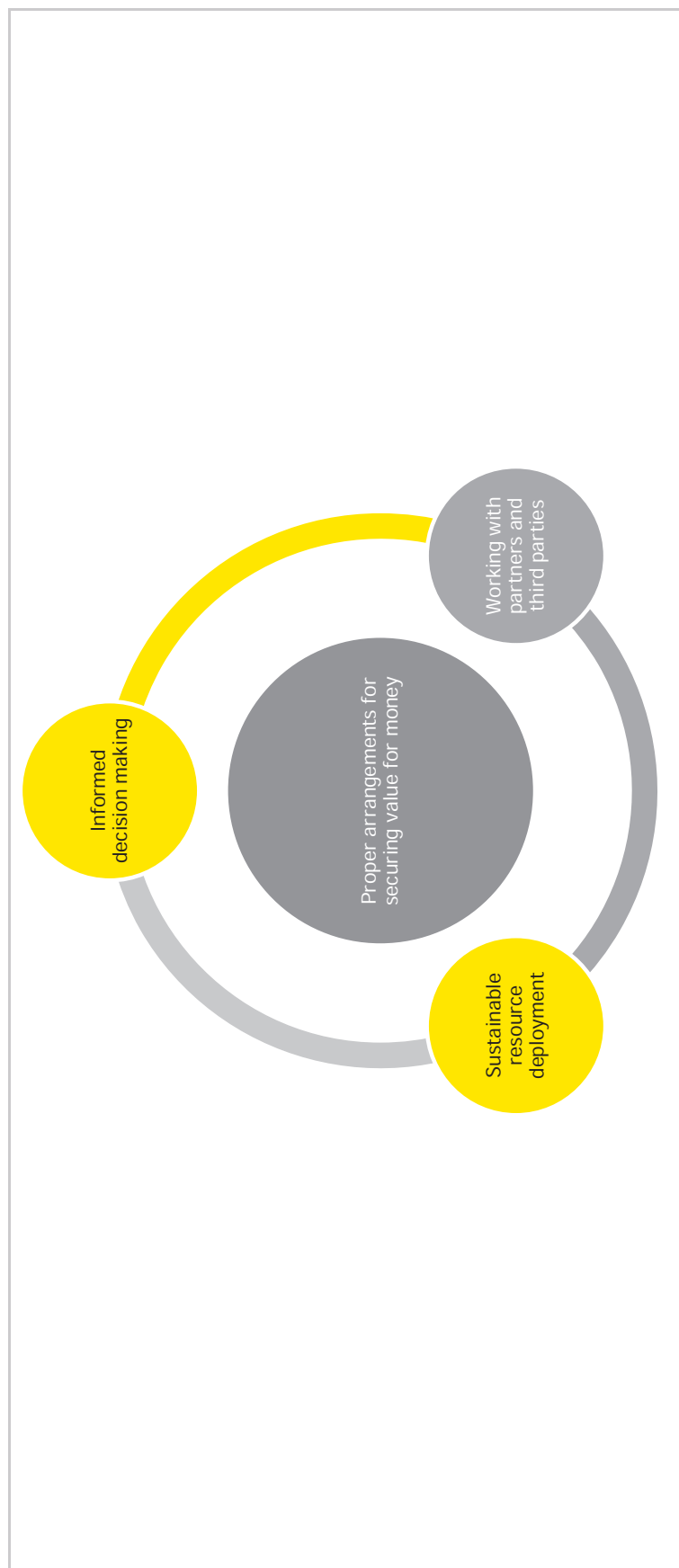
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

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

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



We did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 28 September 2017.

What are our findings?

London Borough of Hillingdon continues to perform well given the financial challenges they continue to face from austerity. The successful delivery of the Council's Business Improvement Delivery Transformation Programme has enabled London Borough of Hillingdon to manage to continue to deliver for local residents whilst delivering the financial savings necessary year on year. Usable Reserves have remained stable year on year at approximately £180m. Investments and Cash Assets also account for an additional £100m as at end of March 2017. These reserves and balances give the Council a good degree of certainty and security in uncertain times.

The Council has continued its use of internal borrowing where possible to continue to invest in capital initiatives. The borrowing position in year was also significantly improved with a reduction of approximately £48m or 15% of the long term borrowing value having been repaid in year. Furthermore no new debt was entered into in 2016/17.

The next few years will undoubtedly bring further challenges including, but not limited to, a further reduction in core Government grants such as the Revenue Support Grant and New Homes Bonus as well as further continued pressures on social care provision. Other challenges and uncertainty include the proposed retention of NDR which was announced by the then Chancellor at the time George Osborne. Recent performance has highlighted that the Council continues to respond well to the challenges it faces and will need to apply such an aptitude in the coming years as well. The Corporate Risk Register details those risks with the Risk Register being used effectively to manage the risk environment in which the Council operates.



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

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

Report in the Public Interest

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

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

Written Recommendations

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

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

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 27 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

A close-up, slightly blurred photograph of a person's hands holding a pair of black binoculars. The person's face is partially visible in the background, looking through the eyepieces. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Accounting and Regulatory Updates

Area	Issue	Impact
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured • How the impairment of financial assets are calculated • Financial hedge accounting • The disclosure requirements for financial assets. <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Remeasure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> • Leases; • Financial instruments; • Insurance contracts; and • for local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</p>	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> • Disaggregate revenue into appropriate categories • Identify relevant performance obligations and allocate income to each • Summarise significant judgements <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>

Area	Issue	Impact
IFRS 16 Leases	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council is has yet to commence work in this area due to the timing of implementation.</p>
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council will need to take a number of steps as outlined below:</p> <ul style="list-style-type: none"> • Critically review and amend the closedown process to achieve draft accounts production by 31st May for 2017/18; • Brought forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations; • Provided training to departmental finance staff regarding the requirements and implications of earlier closedown; • Re-ordered tasks from year-end to monthly/quarterly timing, reducing year-end pressure; • Established and agreed working materiality amounts with auditor <p>As auditors, nationally we have:</p>

Area	Issue	Impact
		<ul style="list-style-type: none"> • Issued a thought piece on early closedown • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>Locally we will: Have regular discussions through the year on the Council's proposals to bring forward the closedown timetable and agree on areas where early work can be completed.</p>

A man with dark hair and a beard, wearing a purple long-sleeved shirt and a grey V-neck sweater, is looking down at a large stack of papers he is holding with both hands. A laptop is visible in the foreground, partially obscured by the papers. The background is a blurred indoor setting with warm, bokeh-style lights.

Appendix A

Audit Fees

Appendix A Audit Fees

Our fee for 2016/17 fee is in line with the scale fee set by the PSAA and reported in our 16th March 2017 Audit Plan.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	£157,268	£157,268	£157,268	£157,268
Total Audit Fee – Certification of claims and returns –	£TBC*	£28,725	£28,725	£24,445
Total Audit Fee – Fee for correspondence with members of the public	£1,444	£0	£0	£0

*We are currently completing our work on this area and will report our findings to the December 2017 Audit Committee. The final fee will depend on the number of errors identified as part of the work.

** We received correspondence from a member of the public which we needed to work through. In line with the protocols in place with the PSAA the additional fee will need to be formally approved by the PSAA before we can raise an invoice for this amount. We have notified officers of this amount.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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Agenda Item 6

Business Assurance - Internal Audit Progress Report for 2017/18 Quarter 3 (including the Quarter 4 IA Plan)

Contact Officer: Muir Laurie
Telephone: 01895 556132

REASON FOR ITEM

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in relation to 2017/18 Quarter 3 and assurance in this respect. It also provides an opportunity for the Head of Business Assurance to highlight to the Audit Committee any significant issues that have arisen which they need to be aware of.

Further, the report enables the Audit Committee to hold the Head of Business Assurance to account on delivery of the Quarter 3 IA Plan and facilitates in holding management to account for managing risk/control weaknesses identified during the course of IA activity.

The attached report also presents the Audit Committee with the Quarter 4 IA Plan which has been produced in consultation with senior managers. This sets out the programme of IA coverage which is due to commence in the 1st January to 31st March 2018 period.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the IA Progress Report for 2017/18 Quarter 3 and consider the Quarter 4 IA Plan and subject to any further minor amendments, approve it.

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

INFORMATION

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 4 IA Plan.

Audit Committee 13 December 2017
PART I – MEMBERS, PUBLIC & PRESS

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BUSINESS ASSURANCE

Internal Audit Progress Report to Audit Committee: 2017/18 Quarter 3 (including the Quarter 4 Internal Audit Plan)

4th December 2017



Contents

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1. Introduction

1.1 The Role of Internal Audit

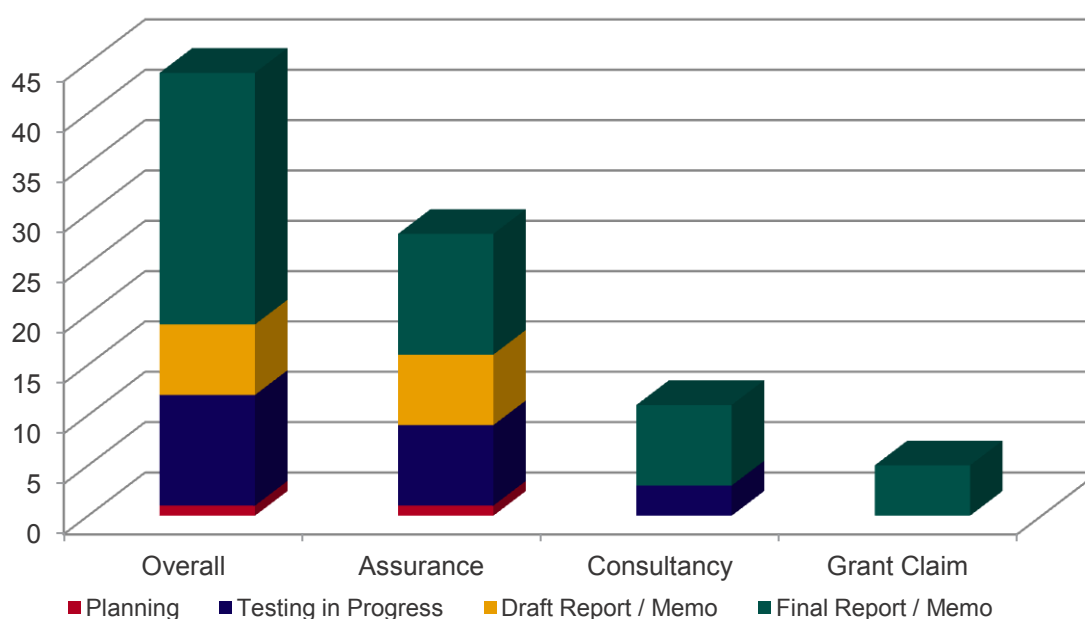
- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Council achieve its corporate objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) 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 19th September to 4th December 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. It also highlights to CMT, the Audit Committee and other IA stakeholders the revisions to the Quarter 3 IA plan since its approval (refer to **Appendix B**).
- 1.2.2 A key feature of the Quarter 3 IA progress report is the inclusion of the 2017/18 Quarter 4 IA plan (refer to **Appendix C**). This has been produced in consultation with senior managers over the last few weeks and sets out the planned programme of IA coverage due to commence in the 1st January to 31st March 2018 period.

2. Executive Summary

- 2.1 Since the last IA Progress Report to CMT and the Audit Committee on 18th September 2017, **7 assurance reviews** have concluded, **3 consultancy reviews** have been finalised and **3 grant claims** have been certified. We are therefore making reasonable progress against the programme of IA work for Quarters 1, 2 and 3 depicted below:

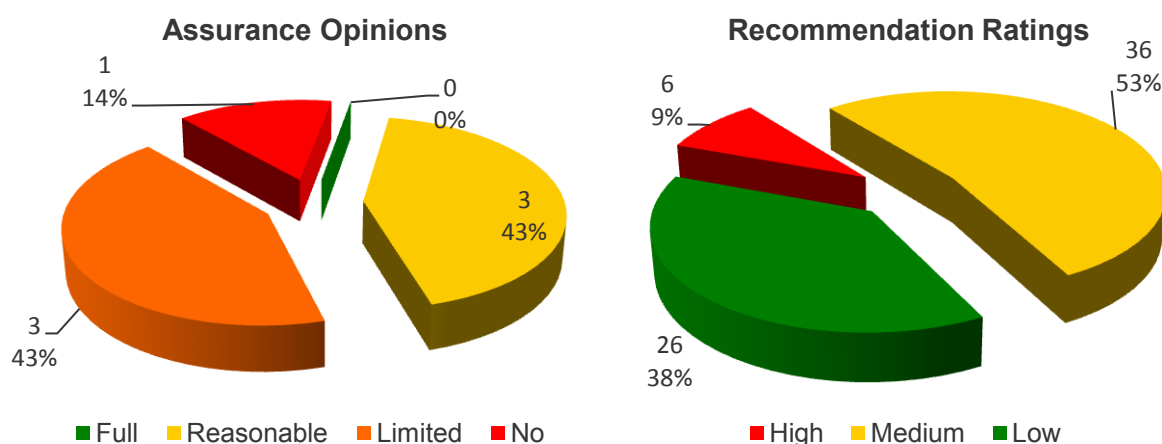


- 2.2 Our work on the 2017/18 Quarter 3 IA plan commenced on 1st October and work is now underway on all Quarter 3 planned work. Whilst the IA team is currently fully resourced, progress has been slower than anticipated and we are behind schedule. This is primarily due to the increase in Trainee Internal Auditors within the team this year which resulted in a decrease in capacity during Q1 and Q2. Nevertheless, we are confident that the enhanced robustness of IA resource in the longer term will enable steady progress against the plan in addition to enhancing future resilience. Available IA resource continues to be predominantly focused on the highest risks the Council is exposed to (refer to [Appendix C](#)).
- 2.3 Key assurance reviews finalised this quarter have included **Children missing from home, placement and education**, and **Extra Care**, both of which obtained a **LIMITED** assurance opinion over the management of the key risks. These results are in line with our expectations and the risk-based approach which we deploy. We are pleased to report that positive action has been proposed by management to address all of the **HIGH** and **MEDIUM** risk recommendations raised within each respective review and these recommendations will be followed-up by us in due course.
- 2.4 Within the quarter we have also undertaken a follow-up review of the recommendations arising from the 2017/18 **NO** assurance review of **Houses in Multiple Occupation (HMO) registration** (including fit and proper person checks). Further, we continue to undertake a variety of IA advisory work which, in addition to grant claims, within the quarter includes valuable pieces of work on **Troubled Families Process Mapping** as well as completing the first **Assurance Map** on one of the Council's Corporate Risks.
- 2.5 There have been no amendments to the 2017/18 Quarter 3 IA operational plan (refer to [Appendix B](#)). Further details of all IA assurance, consultancy, follow-up and grant claim work carried out in this period are summarised at section 3 of this report below.

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

3.1 Assurance Work in Quarter 3

- 3.1.1 During this quarter **7** 2017/18 IA assurance reviews have been completed to final report stage, with a further **7** progressed to draft report stage. At the date of this report, 7 of the 8 remaining reviews (including 1 follow-up) are at varying stages of testing, with the remaining planned reviews at the background and information gathering stage. Key assurance reviews finalised this quarter have included **Children missing from home, placement and education**, and **Extra Care**.
- 3.1.2 All IA assurance reviews carried out in the financial year to date are individually listed at [Appendix A](#), detailing the assurance levels achieved as well as providing an analysis of recommendations made (in accordance with the assurance level definitions and recommendation risk categories outlined at [Appendix E](#)). Assurance opinions provided and the associated IA recommendations raised are further summarised below:



- 3.1.3 The IA assurance review of **Children missing from home, placement and education** raised **10 MEDIUM** and **3 LOW** risk recommendation and gave an overall **LIMITED** assurance opinion. The Council has a detailed Joint Protocol, providing governance, guidance and a multi-agency control framework for practitioners and managers across all services that come across or work with children / young people who go missing from home or care. Nevertheless, our review identified various instances of non-compliance with this Protocol. Upon reporting our initial findings to management, we were advised the Protocol did not reflect current practice.
- 3.1.4 During the initial stages of our testing, we raised concerns regarding the ability of the Single Point of Contact (SPOC) for missing children to undertake this responsibility due to the size of the SPOC role respective to the individual's wider responsibilities and size of the workforce. We are pleased to report that, upon escalating this to the Deputy Director Children's Services, it has been agreed that the SPOC role will be allocated out to subject matter experts, named Champions, for the various CSE risk factors. We believe this will enable a wider spread of knowledge across the directorate/group and reduce the reliance on one individual.
- 3.1.5 We incorporated the review of an external contractor into our testing; reviewing their performance of Return Home Interviews (RHI). The Service Level Agreement (SLA) in place contained only two key performance indicators (KPIs) both of which were found to be underperforming. Furthermore, sample testing established that the content of the RHI forms being received did not meet requirements, failing to add value to the process or help inform prevention strategies. It is our opinion that RHIs is an area that requires process redesign as we were unable to identify whether a child had been offered or received an RHI, whether it was an independent RHI and where (if any), the supporting documentation is held.
- 3.1.6 We believe there are some areas of further improvement within the service, in particular in relation to records management for Children Missing Education (CME). It was established that due to previous limitations in the ICS system a workaround solution, utilising Google Sheets, has been devised as the primary system for the recording of CME data. This solution has resulted in data being transferred manually to ICS, which is being used as a secondary data repository system. It is our opinion the current dual system process is inefficient and our sample testing identified instances where the quality, integrity and retention of data have been compromised.
- 3.1.7 The IA assurance review of **Extra Care** raised **2 HIGH**, **3 MEDIUM** and **4 LOW** risk recommendation and gave an overall **LIMITED** assurance opinion. Our testing identified the absence of clear up-to-date procedural guidance, a key component of the control framework. It is our view that this has significantly impacted the effectiveness of the control environment with inconsistencies in working practices evidenced throughout this review. This issue is further compounded by out of date job descriptions which do not capture the array of tasks/activities required by staff.
- 3.1.8 Regular health and safety checks on lighting, fire equipment and general equipment used by residents, including pull cords, are essential to ensure the ongoing safety of residents and staff members on site. Our audit testing highlighted inconsistencies in the performance and reporting of the aforementioned checks at both Extra Care sites. Further, we were unable to confirm that several tests had been conducted for an extensive period of time potentially placing residents at risk.
- 3.1.9 During this review we noted that there appeared to be no formal oversight of the function following a number of staffing restructures. This has resulted in the absence of regular management information regarding tenancies, status of repairs and the expected health and safety checks. Furthermore, regular meetings do not take place between all of the service areas that contribute to the Extra Care Service. As a result, this increases the likelihood that services work in silos due to limited cross departmental communication and coordination. Positive management action has been proposed to address each of the 2 high and 3 medium risk recommendations identified within this review.

3.2 Consultancy Work in Quarter 3

- 3.2.1 IA continues to undertake a variety of consultancy work across the Council. The consultancy coverage includes IA staff attending working and project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach continues to help increase IA's knowledge of corporate developments that feed into the risk based deployment of IA resource on assurance work.
- 3.2.2 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. 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.
- 3.2.3 Attached at **Appendix A** is a list of consultancy work carried out in Quarter 3 with **3** consultancy reviews completed within the period with a further **3** reviews currently at an advanced stage.
- 3.2.4 The planned IA consultancy review of **CYPS Benchmarking** was concluded within the quarter. In order to undertake the benchmarking against high performing Boroughs, we selected Ofsted reports based on the achievement of "Outstanding" and "Good" within the last year period. Through detailed review and analysis of the reports for Local Authorities we extracted examples of best practice, detailed by Ofsted, providing these for information and management consideration.
- 3.2.5 In addition, as part of this review we benchmarked the Authority's Social Worker remuneration package against live job advertisements, focusing on salary, allowance, training, pension and employee benefits. We concluded that Hillingdon's current package offering is in line with its competitors, offering a variety of incentives and bonuses to social workers. Each LA may have some variation in their package but there does not appear to be a strong, distinguishing factor or a variable which sways decisions.
- 3.2.6 IA was asked to provide consultancy advice on the **Troubled Families Process Mapping** with this review added to the Quarter 2 plan. We are pleased to report that since the DCLG spot check conducted in April 2017, changes have been made to the Troubled Families process to ensure families are correctly identified and attached to the programme.
- 3.2.7 During the process mapping exercise, we identified areas of the control framework that require further strengthening with instances identified where it does not fully align to the Troubled Families Financial Framework Guiding Principles. Further, this is compounded by the lack of guidance documents and historical absence of verification checks prior to attachment.
- 3.2.8 A verification process has recently been implemented, although due to the scale of this resource intensive programme, it is our opinion that additional resource may be required to ensure the eligibility of the families attached to the programme. Further, formal clarification from DCLG on potential data protection concerns may increase the data streams that the Business Performance Team use to identify families that may be eligible for attachment to the programme.
- 3.2.9 Finally, within the quarter we have finalised an **Assurance Map** piloted on one of the Council's corporate risks. This identifies and records the main sources of assurance that inform key stakeholders of the effectiveness of how this risk is managed and the associated controls and processes relied upon. The results from this assurance map have identified the absence of an overall ICT Security Framework. Whilst we noted that a number of cyber security activities are undertaken, they could be further co-ordinated to ensure they align with the corporate risk. We have now passed this tool onto the Council's risk management function and will work with them to utilise the output to help inform the ongoing quarterly IA plan.

3.3 Grant Claim Verification Work in Quarter 3

- 3.3.1 During this quarter IA has also assisted the Council in certifying three grant claims. As detailed at [Appendix A](#), IA continues to carry out verification work on the **Troubled Families Grant** as well as completing verification work regarding the **Disabled Facilities Grant (DFG)** and the **Bus Subsidy Grant** which equate to £3.45m and £21.7k respectively.
- 3.3.2 The **DFG** provides a framework for local authorities to provide mandatory grants for housing adaptations for disabled people to enable them to live independently in their own homes, whether they be privately owned, rented or social housing. Our DFG certification work confirmed compliance, in particular expenditure, against the set grant conditions. As a result of our testing, we are pleased to state that the grant claim to Department for Communities and Local Government (DCLG) was signed off by the HIA and Chief Executive, prior to the 30th September 2017 deadline, with an unqualified opinion.
- 3.3.3 The Local Authority **Bus Subsidy Grant** for 2016/17 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. To the best of our knowledge and belief, and having carried out appropriate investigations and checks, it is our opinion that, in all significant respects, the conditions attached to Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Determination 2016/17 have been complied with.

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

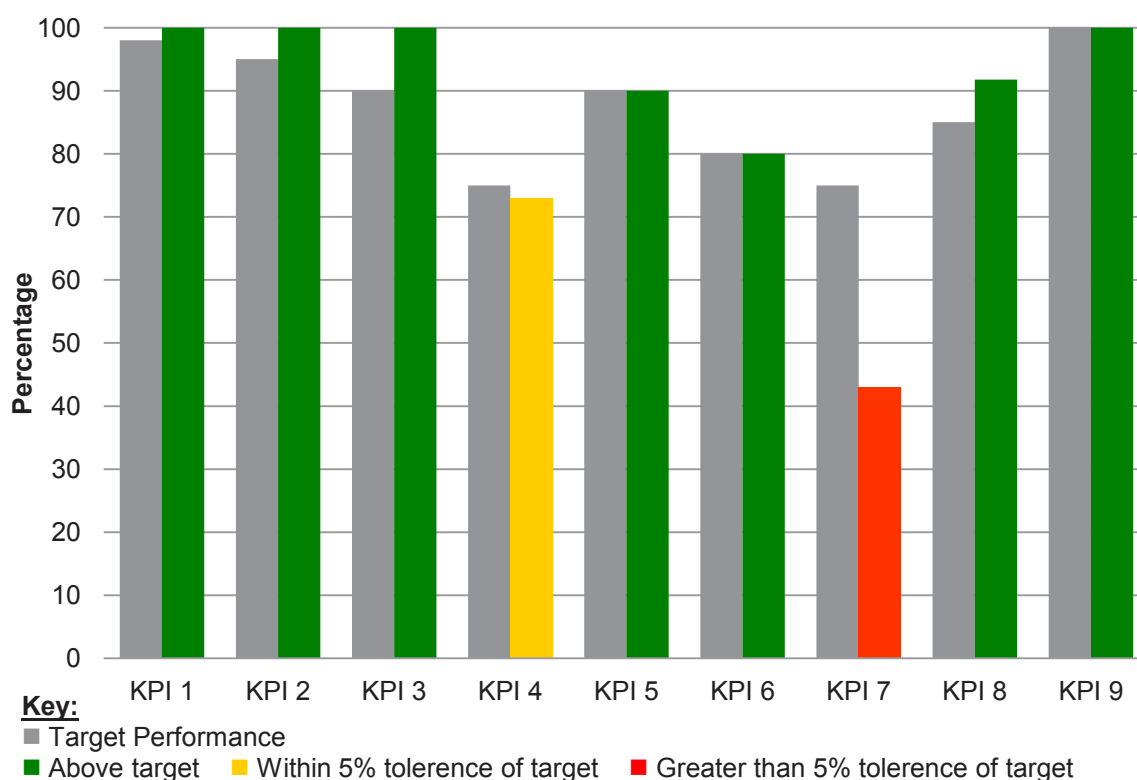
- 3.4.1 IA continues to monitor all **HIGH** and **MEDIUM** risk recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. In addition to this, we have taken a renewed approach to follow-up work within the year, actively following up on prior **LIMITED** or **NO** assurance reports within 6 months to a year after their issue.
- 3.4.2 Within the quarter we have verifying management's assertion that IA recommendations have been implemented, aimed at providing enhanced assurance to CMT and the Audit Committee that these are fully embedded within the control environment to mitigate the risks identified. Due to the large number of recommendations, this project will continue throughout remainder of the year with the aim to provide a detailed snapshot to the CMT and the Audit Committee of progress against implementation of IA recommendations in the annual report. A snapshot of current progress is detailed at [Appendix A](#).
- 3.4.3 Dedicated follow-up work within this quarter has been focused on previous IA reviews achieving a prior **LIMITED** or **NO** assurance opinion. Attached at [Appendix A](#) is a list of follow-up work carried out in Quarter 3, highlighting the **5 follow-up** reviews have been completed within the period.
- 3.4.4 These dedicated follow-up reviews found that **74%** of the **93** recommendations followed-up within the quarter were deemed **Implemented**. Of the remaining recommendations we confirmed that **15%** (14) were **Partly Implemented** and **11%** (10) were deemed **Not Implemented**. In each of the 21 cases deemed partly or not implemented have been reopened on our dedicated follow-up system, TeamCentral, with new implementation dates applied for active monitoring and tracking. These recommendations will then be followed-up in due course as these revised dates fall due.
- 3.4.5 These results include the follow-up of the 2017/18 **NO** assurance review of **HMO registration** where only **2** of the **7 High** and **Medium** risk recommendations raised has been **Partly Implemented**. The remaining **5** recommendations were deemed **Not Implemented**, with significant further action required to ensure the associated risks are managed in line with the Council's risk appetite and the management action proposed. Senior Management is aware, now actively tracking and scrutinising progress in this area.

3.5 Other Internal Audit Work in Quarter 3

- 3.5.1 We continue to undertake a quarterly approach to IA planning to ensure emerging risks and new areas of concern are captured, particularly within the fast changing environment the Council operates in.
- 3.5.2 Over the last month we have undertaken our risk based planning meetings, alongside operational and corporate risk discussions due to the synergies between these two functions. Further to this, we have produced the detailed operational IA plan for Quarter 4 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.
- 3.5.3 Following the resource intensive External Quality Assurance (EQA) review, we have been unable to dedicate the required time to undertake the planned **Quality Assurance and Improvement Programme (QAIP)** work 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. Assurance on compliance can be taken from the independent EQA performed earlier this year and we plan to work in collaboration with the incoming Independent Chairman of the Audit Committee to identify areas of quality assurance required by the Committee. We will revise the IA QAIP accordingly for the 2018/19 financial year.

4. Analysis of Internal Audit Performance in 2017/18 Quarter 3

- 4.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. We believe that these KPIs, detailed at **Appendix D**, are meaningful and provide sufficient challenge to the service. They measure the quality, efficiency and effectiveness of the IA service and thus assist us in providing an added value assurance and consulting service to our range of stakeholders.
- 4.2 Cumulative performance against the nine IA KPIs in the 1st April to 4th December 2017 period is summarised within the bar chart below:



- 4.3 Whilst we have seen a slight improvement on the quarter 2 position KPI 7 continues to be one IA KPI that is not achieved and is reported as **RED** for all three quarters of 2017/18. This is primarily due to 4 of the 7 IA Assurance reports finalised experiencing delays in receipt of management response. Whilst we facilitate this process, **we are heavily reliant on timely management responses** within the set timeframe to achieve this indicator.
- 4.4 The time taken to finalise final reports from draft stage is on average 14 working days and thus within tolerances. However, we continue to provide oversight of compliance against these KPIs to Corporate Directors and are actively looking at our own process to aid the facilitation of management responses. We are currently exceeding several of our KPI targets, including achieving the ambitious KPI 8, 85% Client Satisfaction Rating which we are hopeful will continue throughout the remainder of the year as the volume of CFQ feedback increases.

5. Forward Look

- 5.1 A key member of the IA team (Matteo Biondi) is due to leave the Council later this month, moving to the Foreign and Commonwealth Office. Given the extensive recruitment exercise within late 2016/17 where we successfully appointed 3 Trainee Internal Auditors, we are looking at a number of recruitment options to fill the resulting vacancy in the team. These options provide existing members of the IA team with an opportunity to take on more responsibility in line with the agreed IA Strategy 2015-20. Linked to this, one member of the IA team (Huda Al-sadi) has recently passed her final Certified Internal Auditor (CIA) exam. In the short term we are looking to utilise our external partner, Mazars, to help delivery of the 2017/18 IA plan, mitigating the impact of not recruiting and address the resource shortfall within Quarter 4 of 2017/18.
- 5.2 Closer working arrangements are evolving between Counter Fraud and Internal Audit since responsibility for the service came across to Business Assurance, with clear evidence as to how to two services interrelate to enhance the control environment. Following the recruitment of the new Counter Fraud Manager we expect this to further develop as we move into 2018.
- 5.3 IA would like to take this opportunity to formally thank all staff throughout the Council with whom it had contact during this quarter. There continues to be an increasingly collaborative approach in IA's working relationship with staff and management who generally have responded very positively to IA findings.
- 5.4 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)

4th December 2017

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18**

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

2017/18 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 4 th December 2017	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
17-A1	Houses in Multiple Occupation (HMO) registration, including fit and proper person	Final report issued on 21 st July 2017	No	4	3	3	0	✓
17-A10	Volunteering	Final report issued on 18 th Sept 2017	Limited	0	3	1	0	✓
17-A2	Children missing from home, placement and education	Final report issued on 12 th Oct 2017	Limited	0	10	6	0	✓
17-A5	Extra Care	Final report Issued on 14 th Nov 2017	Limited	2	5	4	0	✓
17-A9	Public Health - Substance Misuse contract, including ARCH Service	Final report issued on 5 th Sept 2017	Reasonable	0	2	4	2	✓
17-A6	Planning applications - Quality Control	Final report issued on 6 th Sept 2017	Reasonable	0	2	2	0	✓
17-A8	Thematic review of assets, stock and cash management within Green Spaces, Sport and Culture	Final report issued on 18 th Sept 2017	Reasonable	0	11	6	1	✓
17-A13	Child Protection Conferences	Draft report issued on 22 nd Nov 2017						
17-A12	IR35	Draft report issued on 4 th Dec 2017						
17-A14	Education for Looked After Children	Draft report issued on 4 th Dec 2017						
17-A3	Facilities Management	Draft report issued on 4 th Dec 2017						
17-A16	CYPS Thematic review - Family Support- Intervention & Prevention	Draft report in progress						
17-A17	Social Media	Draft report in progress						
17-A25	Staff overtime, allowances and expenses, including mileage	Draft report in progress						
17-A26	Trading Standards	Testing in Progress						

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18****2017/18 IA Assurance Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 4 th December 2017	Assurance Level	Risk Rating			CFQ Received?
				H	M	L	NP
17-A23	Dedicated Facilities Grant (DFG)	Testing in Progress					
17-A24	Equalities Act	Testing in Progress					
17-A27	School Placement Planning	Testing in Progress					
17-A28	Corporate Payments	Testing in Progress					
17-A29	Contact Centre	Testing in Progress					
17-A22	Management and Control of Void Dwellings	Planning					
		Total Number of IA Recommendations Raised		6	36	26	3
		Total % of IA Recommendations Raised		9%	53%	38%	-

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2017/18 IA Follow-Up Reviews:

IA Ref.	IA Follow-Up Review Area	Status as at 4 th December 2017	Recommendations		
			Implemented	Partly Implemented	Not Implemented
17-A11	Follow-Up of implemented recommendations	Verification testing in progress	56	4	4
17-A18	Capital Programme	Memo issued 6 th Oct 2017	4	0	0
17-A19	Scheme of Delegations	Memo issued 9 th Nov 2017	0	2	0
17-A32	Housing Repairs	Memo issued 27 th November 2017	7	2	1
17-A30	Houses in Multiple Occupation (HMO) registration, including fit and proper person	Memo issued 4 th December 2017	0	2	5
17-A31	Housing - Planned Maintenance	Memo issued 4 th December 2017	2	4	0
		Total Number	69 (74%)	14 (15%)	10 (11%)
					93

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18****2017/18 IA Consultancy Reviews:**

IA Ref.	IA Review Area	Status as at 4 th December 2017	CFQ Received?
17-C4	Stores - Year End Stock Take	Memo issued on 20 th April 2017	✓
17-C1	Payment Card Industry Data Security Standard (PCIDSS)	Memo issued on 15 th May 2017	✓
17-C6	Green Spaces - Petty Cash Imprest Account (Duke of Edinburgh)	Memo issued on 11 th July 2017	✓
17-C5	Parking Services Administration	Memo issued on 1 st August 2017	✓
17-C2	Data quality for vulnerable service users	Memo issued on 18 th September 2017	✓
17-C7	CYPS Thematic review - Benchmarking	Memo issued on 17 th October 2017	✓
17-C11	Troubled Families Process Mapping	Memo issued on 15 th November 2017	Not yet due
17-C10	Assurance Mapping	Assurance map issued on 4 th December 2017	N/A
17-C8	Thematic Review of Debt Recovery Agents (Bailiffs)	Testing in progress	
17-C12	Service Contracts	Testing in progress	
17-C13	CYPS Thematic review - Ofsted	Testing in progress	

2017/18 IA Grant Claim Verification Reviews:

IA Ref.	IA Review Area	Status as at 4 th December 2017
17-GC1	Troubled Families Grant - Quarters 1 and 2	Certified and memo issued on 3 rd August 2017
17-GC3	Housing Benefits Subsidy Grant	IA testing completed on 18 th August 2017
17-GC2	Disabled Facilities Capital Grant (DFG)	Certified and memo issued on 29 th September 2017
17-GC4	Bus Subsidy Grant	Certified and memo issued on 29 th September 2017
17-GC5	Troubled Families Grant - Quarter 3	Certified and memo issued on 24 th October 2017

APPENDIX B

REVISIONS TO THE 2017/18 INTERNAL AUDIT PLAN ~ QUARTER 3

IA work DEFERRED from the 2017/18 Operational IA Plan for Quarter 3:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
No deferrals from the Quarter 3 IA Plan					

IA work ADDED to the 2017/18 Operational IA Plan for Quarter 3:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
No additions to the Quarter 3 IA Plan					

APPENDIX C**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 4**

IA work scheduled to commence in the 1st January to 31st March 2018 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
17-A33	Corporate Payments	Assurance	MEDIUM	Paul Whaymand Corporate Director of Finance	The systems for ordering, receipt and payment for goods and services may represent some of the most significant systems within an organisation. Regardless of expenditure type there is a need to ensure risks are fully identified, assessed and mitigated by applying robust controls to ensure operations run effectively. Further to IA planning of the Quarter 2 review (17-A28) we have agreed to split this review into two distinct audits, one looking at the Corporate Payments Team. The second review will look at the control mechanisms surrounding wider payments made by the Council.
17-A34	Community Safety including Domestic Abuse	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	This review will aim to provide assurance to management over the current strategic and operational arrangements. This is following restructure of this service which is key to the Council effectively realising ambitions working closely with the Police and other partners to prevent and reduce crime, tackle domestic abuse and work effectively with our community.
17-A35	Leisure Centres	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	The Council is committed to encouraging community development, engagement and social cohesion by extending and improving sporting and leisure opportunities to make LBH a more healthy, active and successful sporting borough. There are 6 leisure centres offering a range of sporting facilities across the borough to keep residents fit. All the leisure centres are managed on behalf of the Council by independent registered charities. These agreements are due to end in 2020 and this IA assurance review will seek to provide assurance over the management of the agreements in addition to enhance and inform the control framework in advance of a significant procurement exercise.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 4**

IA work scheduled to commence in the 1st January to 31st March 2018 period:

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
17-A36	Access to Resources	Assurance	MEDIUM	Paul Whaymand Corporate Director of Finance	This assurance review follows the significant pieces of consultancy work undertaken by IA regarding financial controls over allowances within Children and Young People's undertaken within 2015/16 and 2016/17 financial years. This review will seek to provide assurance over action taken and the control framework put in place following the consultancy reviews.
17-A37	Housing Needs - Allocations and Assessments	Follow-up	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following the 2015/16 IA assurance review in this area which received a LIMITED assurance opinion, this follow-up review, with a refined scope, focuses on the implementation of the 3 HIGH and 7 MEDIUM risk recommendations raised.
17-A38	Anti-Social Behaviour Investigations Team	Follow-up	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following the 2016/17 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 4 MEDIUM risk recommendations raised.
17-A39	Data Quality within Regulatory Services	Follow-up	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following the 2016/17 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 2 HIGH and 5 MEDIUM risk recommendations raised relevant to regulatory services. The IA recommendations raised relating to Trading Standards have been followed-up as part of the Quarter 2 review in this area (17-A26).
17-C13	Asylum	Consultancy	HIGH	Tony Zaman Corporate Director of Social Care	The Asylum Service has the same statutory responsibilities to children who are Accommodated under S.20 of the Children Act or are Care Leavers with the Council having a statutory duty to make provision for any child in their area who is assessed to be a child in need. All Unaccompanied Asylum Seeking Children (UASC) fall into the category of children in need. This review will look at the process flow of information throughout the Council seeking to identify efficiencies throughout the process.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 4****IA work scheduled to commence in the 1st January to 31st March 2018 period:**

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
17-C12	Youth Offending Service	Consultancy	MEDIUM	Tony Zaman Corporate Director of Social Care	The Youth Offending Service (YOS) are part of the Youth Justice System and are a team of workers from education, health, police, probation, social services and youth services and trained volunteers, working together to reduce and prevent offending by young people and help create safer communities. HM Inspectorate of Probation are currently consulting on standards and ratings for inspecting YOS, and this consultancy review will aim to undertake a gap analysis against the new standards with a view to enhancing and aligning the Council's control framework to these standards.
17-C14	Landlord Engagement	Consultancy	MEDIUM	Paul Whaymand Corporate Director of Finance	Amidst the rapidly changing Housing market and the current increase in prices, the Council has an ongoing steady demand for good quality, affordable homes to meet housing needs. The Council therefore seeks to build a reputation as a reliable, dependable and trustworthy partner to develop a direct offer to Landlords. This consultancy review will seek to provide advice and guidance over safeguards and controls to ensure there is appropriate transparency over incentives and the guaranteed rental scheme.
17-C15	Missing Children	Consultancy	MEDIUM	Tony Zaman Corporate Director of Social Care	Further to the 2017/18 IA review of children missing from home, placement and education, we have been asked by Management to assist in the resulting project group/ workshop.
17-C16	Performance Management	Consultancy	MEDIUM	Fran Beasley Chief Executive	The Council is due to implement new Performance Management software within late 2017/18. Internal Audit has been asked to attend the implementation project group to provide guidance on the system and surrounding control environment.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 4**

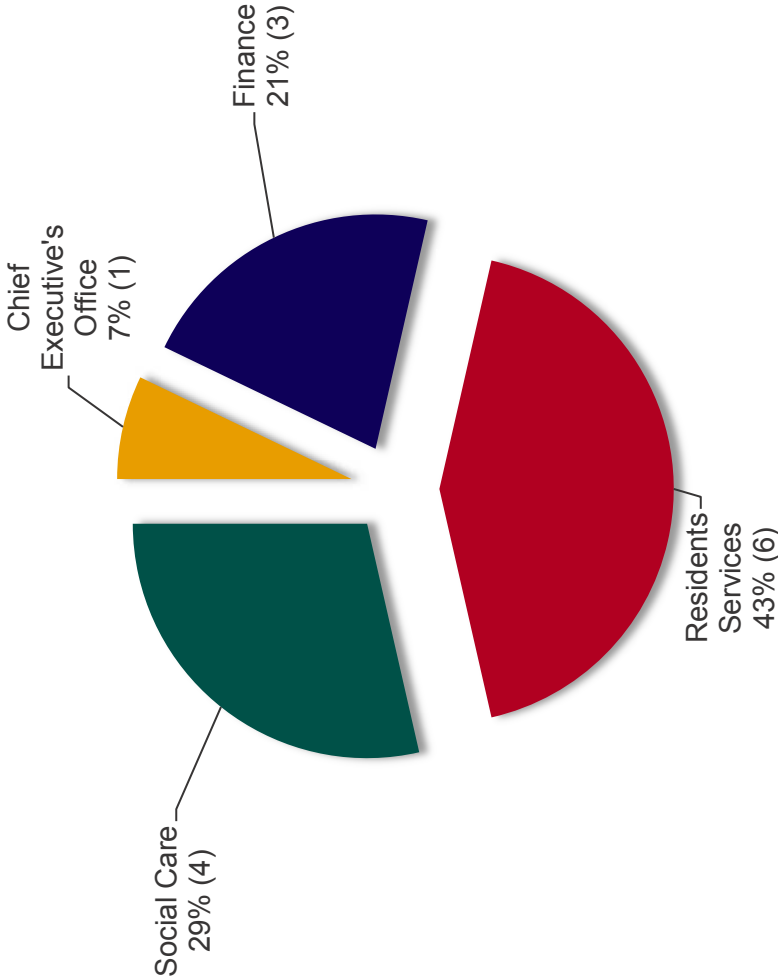
IA work scheduled to commence in the 1st January to 31st March 2018 period:

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
17-GC6	Troubled Families Grant - Quarter 4	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-GC7	Hillingdon Teaching Schools Alliance (HTSA)	Grant Claim	N/A	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Teaching schools, appointed by the National College for Teaching and Leadership (NCTL), to provide high quality training, development and support to new and experienced school staff. They receive an annual grant from NCTL to help fund the cost of this provision. As part of the grant conditions each school receiving funding is required to obtain independent external assurance that this funding has been spent in accordance with the aims and objectives of the grant as indicated in the Grant Funding Agreement. This external assurance grant is not part of core school funding and hence there will be a cost to be met by the school for the external assurance grant claim audit.

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 4 (cont'd)

IA work scheduled to commence in the 1st January to 31st March 2018 period – Analysis by Corporate Director:



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

APPENDIX D**INTERNAL AUDIT KEY PERFORMANCE INDICATORS**





KPI Ref.	Performance Measure	Target Performance	Actual Performance	RAG Status
KPI 1	2017/18 HIGH risk IA recommendations where positive management action is proposed	98%	100%	GREEN
KPI 2	2017/18 MEDIUM risk IA recommendations where positive management action is proposed	95%	100%	GREEN
KPI 3	2017/18 HIGH risk IA recommendations where management action is taken within agreed timescale	90%	100%	GREEN
KPI 4	2017/18 MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	73%	AMBER
KPI 5	Percentage of annual (Q1 to Q4) IA Plan delivered to draft report stage by 31 st March	90%	90%	GREEN
KPI 6	Percentage of annual (Q1 to Q4) IA Plan delivered to final report stage by 31 st March	80%	80%	GREEN
KPI 7	Percentage of draft reports issued as a final report within 15 working days	75%	43%	RED
KPI 8	Client Satisfaction Rating (from CFQs)	85%	92%	GREEN
KPI 9	IA work fully compliant with the UK PSIAS and IIA Code of Ethics	100%	100%	GREEN

APPENDIX E**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 E (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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Agenda Item 7

Business Assurance - Counter Fraud Progress Report for 2017/18 Quarter 3 (including the Quarter 4 Counter Fraud Plan)

Contact Officer: Muir Laurie
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REASON FOR ITEM

The attached report presents the Audit Committee with summary information on all Counter Fraud work covered in relation to 2017/18 Quarter 3 and assurance in this respect. It also provides an opportunity for the Head of Business Assurance to highlight to the Audit Committee any significant Counter Fraud issues that have arisen which they need to be aware of.

Further, the report enables the Audit Committee to hold the Head of Business Assurance to account on delivery of the Quarter 3 Counter Fraud work and facilitates in holding management to account for managing issues identified during the course of the Business Assurance Counter Fraud Team (BACFT) activity.

The attached report also presents the Audit Committee with the Quarter 4 Counter Fraud Plan which has been produced in consultation with Corporate Management Team. The Plan sets out the programme of proactive Counter Fraud coverage which is due to commence in the 1st January to 31st March 2018 period.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the Counter Fraud Progress Report for 2017/18 Quarter 3 and consider the Quarter 4 Counter Fraud Plan and, subject to any further minor amendments, approve it.

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

INFORMATION

The BACFT, formerly known as the Corporate Fraud Investigations Team, supports the Council in meeting its statutory responsibility under section 151 of the Local Government Act 1972 for the prevention and detection of fraud and corruption. The work of the BACFT underpins the Council's commitment to a zero tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.

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 4 Counter Fraud Plan.

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BUSINESS ASSURANCE

Counter Fraud Progress Report to Audit Committee: 2017/18 Quarter 3 (including the Q4 Counter Fraud Plan)

4th December 2017



Contents

The Counter Fraud key contacts in connection with this report are:

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1. Introduction

1.1 The Role of the Business Assurance Counter Fraud Team

- 1.1.1 The Business Assurance Counter Fraud Team (BACFT; formerly known as the Corporate Fraud Investigations Team) supports the Council in meeting its statutory responsibility under section 151 of the Local Government Act 1972 for the prevention and detection of fraud and corruption. The work of the BACFT underpins the Council's commitment to a zero tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.
- 1.1.2 As well as counter fraud activity, the team has historically also conducted a range of other types of investigative work which do not necessarily have a criminal element to them i.e. revenue inspections, disciplinary investigations, etc. There is also a range of preventative work that the team is responsible for carrying out, such as fraud awareness training and ensuring the Council has up-to-date and appropriate investigation policies and procedures.

1.2 The Purpose of the Counter Fraud Progress Report to Audit Committee

- 1.2.1 The Counter Fraud Progress Report provides the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all counter fraud work carried out during the Quarter 3 period (19th September to 4th December 2017). In addition, it provides an opportunity for the Head of Business Assurance (HBA) to highlight any significant issues arising from the counter fraud work in Quarter 3.
- 1.2.2 A key feature of the Quarter 3 Counter Fraud Progress Report is the inclusion of the Quarter 4 Counter Fraud Plan (please refer to **Appendix A**). This has been produced using a risk-based approach to the Council's 'Fraud Universe' which is in the process of being developed. This methodology is in line with CIPFA's counter fraud and corruption strategy for local government '*Fighting Fraud and Corruption Locally*' and will help ensure that in future the BACFT's resources are consistently deployed in an effective manner to help the Council achieve its Counter Fraud Strategy - which is also in the process of being updated.
- 1.2.3 The progress report also highlights to CMT, the Audit Committee and other key stakeholders, the performance of the BACFT in meeting its strategic and operational objectives (as set out in the Counter Fraud Strategy), which provides an opportunity for the HBA to be held to account in this respect.

2. Executive Summary

- 2.1 This is only the second Counter Fraud Progress Report to CMT and Audit Committee since the team was transferred to Business Assurance on 1st August 2017. The recruitment of the new permanent Counter Fraud Manager has now been completed; Zac O'Neil is due to commence with Hillingdon on 11th December. He joins from Wokingham Borough Council and brings a wealth of experience including a track record of successfully managing complex investigations. Zac is an Accredited Counter Fraud Specialist and holds a professional audit qualification, which will help the organisation ensure that in future the Internal Audit and Counter Fraud teams provide a dovetailed approach to their work.
- 2.2 Following the recent office move, a major review of the BACFT structure is now in progress. This is aimed at ensuring that the Council has the right mix of skills and experience to meet the needs of the service moving forward. Running alongside this restructure is the development of the Fraud Universe and the drafting of the Counter Fraud Strategy, as well as updating a number of investigative policies and procedures that underpin the strategy.
- 2.3 During this quarter and significant period of change, reasonable progress has been made by the team. As at 4th December, there are **94** ongoing investigations and **77%** of these (**72**) relate to different aspects of housing fraud.

- 2.4 This includes our preventative (mainly verification) work as well our detection (mainly tenancy) work, where we actively pursue the leads provided by the Intelligence Officers and Visiting Officers/Inspectors within the team, along with our other sources. Two live cases involve the team working collaboratively with external enforcement agencies. The first case is being led by the UK Border Force and relates to a passport obtained by deception, which in turn was fraudulently used to access LBH social housing. The second case we are working with the Metropolitan Police on an investigation regarding suspected money laundering, where they are also claiming housing benefits and council tax reduction.
- 2.5 Nevertheless, the main focus of the BACFT's work remains on housing fraud. Further analysis of the BACFT's work in Quarter 3 is included in section 3 of this report below.

3. Analysis of Counter Fraud Activity in Quarter 3

3.1 Housing Fraud - Work in Quarter 3

- 3.1.1 The main work stream for the BACFT continues to be in relation to the prevention and detection of housing fraud. The Council is exposed to a number of housing fraud risks and deploys significant BACFT resource on the prevention and detection of tenancy fraud in particular. There are different types of tenancy fraud, but some of the most common are:
- *Unlawful subletting* - where a tenant rents out their home without the knowledge or permission of the landlord;
 - *Wrongly claimed succession* - where the resident dies and someone tries to take over or succeed the tenancy when they are not entitled to;
 - *Unlawful non-occupation* - where a person fails to occupy a property as their main and principal home, including abandonment;
 - *Key selling* - where a resident is paid to pass on their keys in return for a one-off payment;
 - *Unlawful assignment* - where a resident stops using their tenancy as their main or principal home, allowing another person to live there without permission from the Council; and
 - *Obtaining housing by deception* - where a person gets a home by giving false information on their housing application.
- 3.1.2 People who are in genuine need of social housing and on the Council's waiting list will have to wait even longer if Council homes are occupied by people who have no right to live there. As a result the Council takes tenancy fraud extremely seriously and will take robust action to regain possession of properties and recover any unlawful profits made by residents wherever we find evidence of tenancy fraud. Our right to do this has been enforced by the Government in 'The Prevention of Social Housing Fraud Act 2013'.
- 3.1.3 Per **Table 1** below, in the 2017/18 year to date, the BACFT has successfully recovered **28** Council properties, has **1** case being actively pursued for prosecution and has a further **58** suspected tenancy fraud investigations ongoing.

Table 1 ~ Housing Tenancy Fraud Cases

Housing Tenancy Fraud Cases	2017/18 (to date)*		2016/17	
	Cases	£k/value**	Cases	£k/value
Total number of recovered properties	28	£504k	64	£1,152k
Total number of ongoing cases	59	£1,062k	-	£0k

* = as at 4th December 2017

** = In 2014, the Audit Commission reported the national average temporary accommodation costs to Local Authorities for one family as **£18k per property**.

- 3.1.4 A general target for the team of recovering **52** properties per year has historically been set by the previous Manager. However, the HBA is now in the process of reviewing this target alongside other performance measures for the BACFT as a part of a wider review of how and where counter fraud resources are deployed. As per **Table 1** on the previous page, 64 properties were recovered in 2016/17 and the team is on track to achieve at least a similar number in 2017/18, which for both years significantly exceeds the target historically set.
- 3.1.5 As part of the restructure the HBA is looking at how CFT resources are being deployed to ensure that moving forward the team has sufficient resource and the right skills mix to address all key fraud risks. In particular, moving forward there will be a greater focus on **social care loss prevention work**, as well as continuing to maintain a robust approach to the housing fraud risks which the council is exposed to.
- 3.1.6 As part of the BACFT's **fraud prevention coverage** they proactively carry out verification work on existing Council tenancies and the housing waiting list. Using information gathered by the Intelligence Officers and Visiting Officers/Inspectors, the BACFT carry out verification checks which often includes visits to the properties. The team also work with other social landlords and statutory agencies to detect fraud where information sharing protocols are in place, to make sure the right people are living in Council properties.
- 3.1.7 Per **Table 2** below, in the 2017/18 year to date, the BACFT has successfully identified **728** housing tenancy cases that should be rejected for various reasons. In addition there is **1** case being actively pursued for prosecution and a further **4** investigations ongoing.

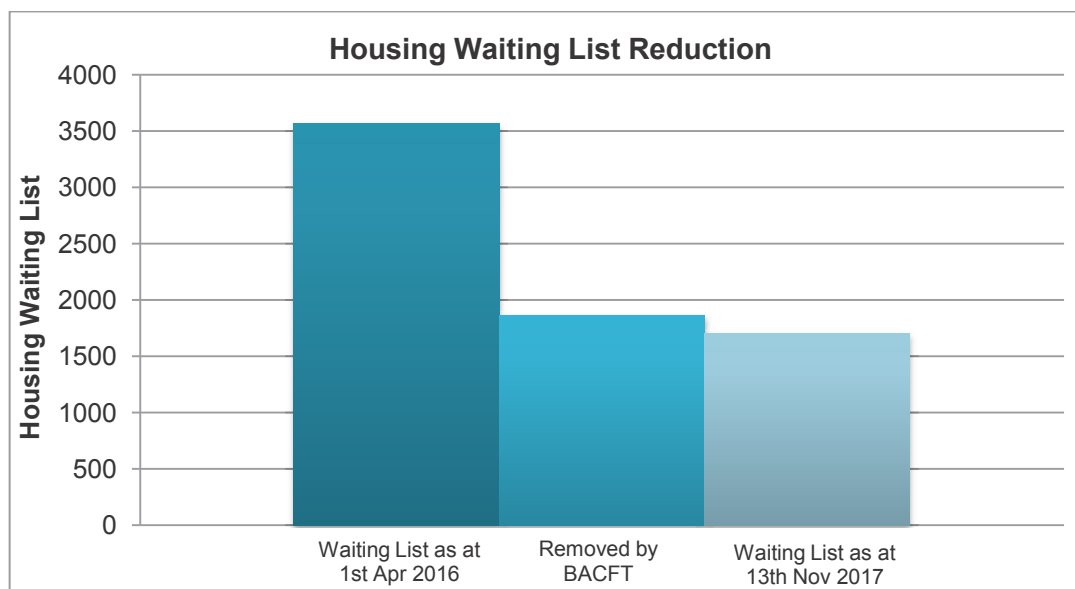
Table 2 ~ Housing Tenancy Verification Cases

Housing Tenancy Verification Cases	2017/18 (to date)*	2016/17
Total number of cases reviewed	1,687	2,127
Total number verified as accurate	959	1,184
Total number rejected	728	943
% identified by BACFT for rejection	43%	44%

* = as at 4th December 2017

- 3.1.8 Of the **728** that have been rejected, **41** have had their applications completely closed down. This was as a result of a variety of reasons i.e. they do not have 10 years residency, they have no immigration status, they own a property elsewhere, or they have over £30k in savings or assets. Without the BACFT enhanced verification checks these applications could have been successfully housed.

- 3.1.9 **Bar Chart 1 ~ Housing Waiting List April 2016 to December 2017**



- 3.1.10 As at 1st April 2016, the Council's Housing Waiting List was **3,567 cases**. As at 4th December 2017 the waiting list has been reduced to **1,702**. The BACFT has been involved in the data verification checks for every single case that has been removed from the waiting list over this period. Per **Bar Chart 1** at para 3.1.9, the net reduction in the Housing Waiting List over the last 18 months as a result of the BACFT's verification work is **1,865 cases** and this does not take account of the cases added to the waiting list during that period. There have been a total of **617** new cases that have been added to the Housing Register just since 1st April 2017.
- 3.1.11 Due to the preventative nature of this work, it is difficult to attach a monetary value to the reduction in the Council's waiting list. Nevertheless, we know that in 2014 the Audit Commission reported that the national average temporary accommodation costs to local authorities for one family as **£18k** per property.
- 3.1.12 As mentioned earlier in the report, obtaining housing by deception i.e. where a person gets a home by giving false information on their housing application, prevents people who are in genuine need from obtaining social housing. Unfortunately, due to two members of staff on maternity leave as well as an above average level of staff sickness in the team this quarter, there has been a lack of available resource for this work stream in recent weeks. The HBA expects this situation to improve in quarter 4.

3.2 National Fraud Initiative - Work in Quarter 3

- 3.2.1 The National Fraud Initiative (NFI) is a data matching exercise co-ordinated by the Cabinet Office (CO) which is carried out every 2 years. It matches electronic data within and between 1,300 organisations, including councils, the police, hospitals and almost 100 private companies. This helps to identify potentially fraudulent claims and errors. In November 2016 the CO reported that the NFI had helped identify almost £198m in fraud and errors in England.
- 3.2.2 There is now a greater emphasis on data matching in the public sector as a means of preventing and detecting fraud. In addition to the National Fraud Hub, the London Counter Fraud Hub (LCFH) is a relatively new initiative that brings together London Boroughs with counter fraud specialists and the latest technologies, to help local authorities tackle fraud and corruption. At the centre of the LCFH is an analytics solution that helps prevent, detect and recover losses from fraud. Moving forward the HBA will be placing greater emphasis on the BACFT's use of data analytics to help prevent and detect fraud against the Council.
- 3.2.3 The next NFI exercise is due in 2018/19, although the BACFT are still continuing to work through the data matches identified in the 2016/17 exercise and the Housing pilot matches. Moving forward the Council's Revenues & Benefits team will be reviewing single person discount data matches and these will only be referred to the CFT where fraud is suspected.

3.3 Blue Badge Fraud - Work in Quarter 3

- 3.3.1 Blue Badge permits provide parking concessions for people with severe mobility problems. The National Fraud Authority continues to highlight this area as a significant fraud risk, with an estimated average of 20% of blue badges reported to being misused in some way. Although the direct monetary value of Blue Badge Fraud is relatively low, the reputational risk in relation to this area is significant for the Council. As a result, Blue Badge Fraud continues to feature in the BACFT's work plan.
- 3.3.2 Following the success of the last Blue Badge operation carried out during Quarter 1 in conjunction with the Police, a proactive enforcement operation was carried out in Quarter 2, primarily focussed on Uxbridge Town Centre and the car park at Hillingdon Leisure Centre. Once again, a positive outcome was achieved for residents; **3** blue badges were seized, **2** Parking Charge Notices were issued and a further **3** cases were referred for criminal investigation. Two of these cases are currently authorised for prosecution and in the other case the investigation is ongoing.

3.3.3 A further **2** cases have commenced investigation this quarter following referrals. These ongoing results reflect positively on how the Council tackles Blue Badge Fraud and provides reassurance to residents that fraud in this area will not be tolerated by this Council. A further proactive operation in this area is scheduled later this month.

3.4 Other Counter Fraud Work in Quarter 3

3.4.1 As already mentioned, the CFT is going through a period of significant change. The CFT service improvement plan has continued to be updated this quarter and is being progressed. The Council ultimately wants to have an IA service and CFT that are fully integrated and risk-based, whilst remembering they are two distinct functions. In order to achieve this there will inevitably be a short term period of transition where CFT loss prevention work outcomes are not as good as the HBA or the Council would hope.

3.4.2 In addition, the BACFT has historically undertaken an unusually wide range of work streams that are not always counter fraud focussed, including Council Tax and Business Rate Inspections. Following the introduction of the BACFT risk based approach, several lower risk work streams have been reduced, or in some cases have ceased to be undertaken by the BACFT i.e. single person discount data matches are now dealt with by the Council's Revenues & Benefits team. This strategic change in emphasis will help ensure that in future the Council's exposure to its key fraud risks is being appropriately considered by the BACFT.

4. Analysis of the Counter Fraud Team Performance in Quarter 3

4.1 There are currently no formal KPI targets in place for the BACFT as a service or as individuals and as a result at this stage the HBA is unable to clearly demonstrate in this report how well the team has been performing. In addition, the operational strategic objectives of the service are in the process of being updated as part of the review of the Counter Fraud Strategy.

4.2 Nevertheless, what can be seen by the results achieved this quarter and in the 2017/18 year to date that as a service the BACFT has continued to be successful in achieving positive outcomes by preventing and detecting fraud against Hillingdon taxpayers. These successes include as at 4th December 2017:

- **5** blue badges seized;
- **2** temporary accommodation properties returned;
- **3** bed & breakfast accommodation properties returned;
- **28** council properties recovered;
- **5** housing applications rejected;
- **5** right to buy applications denied;
- **18** unaccompanied asylum seekers reassessed/cancelled;

4.3 Results achieved in Quarters 1 & 2 also included:

- **223** single person discounts cancelled;
- **1,755** business rate property inspections completed; and
- **535** council tax property inspections completed, including **2** council tax exemptions cancelled.

4.4 The HBA has begun work on developing a meaningful set of Key Performance Indicators (KPIs) for the BACFT. These will include individual targets and team targets and will be primarily focussed on ensuring the BACFT is achieving the CF Strategy key objectives and everyone in the team is operating efficiently. These KPIs will be in place by 1st April 2018 at the latest.

5. Forward Look

- 5.1 Looking ahead to Quarter 4 and in advance of 2018/19, there are a number of key priorities for the BACFT that naturally the recently appointed Counter Fraud Manager is keen to contribute to. These include:
- Complete the **staff restructure** including any required recruitment to ensure that the team has the right mix of skills, qualifications and experience to meet the needs of the Council moving forward;
 - Complete the update of the Council's **Counter Fraud Strategy** (previously known as the Anti-Fraud & Anti-Corruption Strategy);
 - Complete the update of all Council's **Counter Fraud related policies**;
 - Embed the new **Counter Fraud processes and methodology** currently being implemented within the team, including the risk-based approach to all referrals; and
 - Complete the **Fraud Universe** in advance of compiling the risk-based Annual Counter Fraud Work Plan for 2018/19;
- 5.2 In addition, discussions are at an advanced stage with the Home Office regarding having an **Immigration Enforcement Officer** on site at the Civic Centre full-time. Early pilots of this initiative have demonstrated that having immediate access to Home Office data facilitates prompt and accurate decisions which significantly reduce fraud and error in relation to housing and social care expenditure. In addition, having an Immigration Enforcement Officer presence within the reception area has proven at other authorities to act as a strong deterrent for those wishing to make fraudulent housing and/or social care claims against local authorities.
- 5.3 The BACFT would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the Council during Quarter 3. There are no other counter fraud matters that the HBA needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie FCCA, CMIIA
Head of Business Assurance

4th December 2017

APPENDIX A**COUNTER FRAUD WORK PLAN - 2017/18 QUARTER 4**

Set out below is the **DRAFT** Counter Fraud Plan for all BACFT work commencing in Quarter 4. This will form the basis of the BACFT proactive activity in the period 1st January to 31st March 2018.

Fraud Risk - Planned Work	Rationale	Risk Assessment
Tenancy Fraud - The BACFT will continue to review all tenancies to detect any illegal sub-letting of Council Houses.	Our data matching and other intelligence gathering work continues to highlight a significant number of suspicious cases. Positive outcomes for the Council continue to be achieved in this area.	HIGH
Unaccompanied Asylum Seekers (UAS) - The BACFT will continue to review UAS cases to ensure all welfare benefits entitlements are fully being realised.	In 2016/17 we identified 64 cases for investigation saving the Council £192k. 18 cases have been identified so far this year saving the Council a further £55k.	HIGH
Housing Right to Buy (RtB) - The BACFT will continue to target suspicious RtB claims.	In 2016/17 the BACFT verified 92 Right to Buy applications, of which 7 were cancelled. The total amount of discount saved for 2016/17 was £710k. Positive outcomes for the Council continue to be achieved in this area.	HIGH
Blue Badges - The BACFT will review a sample of current blue badges to confirm their legitimacy.	Potential loss of legitimate car parking income due to fraudulent use of Blue Badges. Also provides visible assurance to residents that LBH operates a zero tolerance approach to fraud.	MEDIUM
UK Right to Work - The BACFT will conduct verification checks to ensure that any LBH employees in care homes have the right to work in the UK.	Our intelligence gathering indicates there is a risk that LBH may be employing some care workers who are without proper eligibility /right to work in the UK.	MEDIUM
Prevention - The BACFT will carry out proactive prevention work focused upon improving the Council's preventative processes in order to increase the Council's resilience to fraud.	Staff are often the first line of defence in preventing fraud. The Financial Regulations within the Council's Constitution places the responsibility for fraud prevention on all employees. Staff awareness of their responsibilities in relation to preventing and reporting fraud needs to be strengthened.	MEDIUM
Housing Register Waiting List - The BACFT will continue to review all those on the Housing Register to ensure they genuinely entitled.	To identify those who are not entitled to Social Housing through the cross checking of Council records and our other intelligence. Very positive outcomes achieved for the Council historically, although results are significantly reducing as awareness increases.	MEDIUM

APPENDIX A (cont'd)**COUNTER FRAUD WORK PLAN - 2017/18 QUARTER 4 (cont'd)**

Fraud Risk - Planned Work	Rationale	Risk Assessment
Housing Applications, Assignments & Successions - The BACFT will review these cases to prevent false claims for housing from people who are misrepresenting themselves as homeless. This involves verifying the circumstances of people on the housing waiting list prior to their imminent offer of permanent accommodation.	In 2016/17 there were 16 bed and breakfast accommodations recovered which were unoccupied by clients who claimed to have been homeless. The average duration of a bed & breakfast placement is 23 weeks at an average nightly charge of £46. Therefore for the 16 cancellations achieved by the BACFT in 2016/17, approximately £118k was saved. Our intelligence gathering tells us this continues to be a significant risk in this borough.	MEDIUM
National Fraud Initiative (NFI) - Delivery of the Cabinet Office's NFI.	This is a statutory requirement and has resulted in a number of positive outcomes for the Council in the past.	MEDIUM

N.B. As per para. 5.1, the BACFT is in the process of performing an extensive analysis of fraud risks. This is based on discussions with senior managers and a review of the relevant fraud literature including an analytical review of the areas where fraud has been experienced by local authorities over the last 3 years. The Fraud Universe, once complete, will fully inform future Counter Fraud Planning.

Audit Committee Forward Programme 2017/18 and 2018/19

Contact Officer: Anisha Teji
Telephone: 01895 277655

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
31 October 2017	Leader's Office
13 December 2017	CR4
11 April 2018	CR5
26 July 2018 (provisional)	tbc
23 October 2018 (provisional)	tbc
23 January 2019 (provisional)	tbc

AUDIT COMMITTEE

Forward Programme 2017/18 and 2018/19

Meeting Date	Item	Lead Officer
11 April 2018	*Private meeting with External Audit (Ernst & Young) to take place before the meeting	
	EY 2017/18 Annual Audit Plan; 2017/18 Pension Fund Audit plan	Corporate Director of Finance / Ernst & Young
	EY - Annual Grant Audit Letter	Corporate Director of Finance /Ernst & Young
	Head of Business Assurance	Internal Audit Charter 2017/18
	Annual Governance Statement 2017/18 – Interim Report	Head of Business Assurance
	Balances and Reserves Statement	Corporate Director of Finance
	Internal Audit Progress Report Quarter 4 2017/18 & Quarter 1 2018/19 Operational Internal Audit Plan	Head of Business Assurance
	Draft Internal Audit Plan 2018/19	Head of Business Assurance
	Counter Fraud Progress Report Quarter 4 2017/18	Head of Business Assurance
	Risk Management Report & Q3 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Terms of Reference	Democratic Services / Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
26 July 2018	*Private meeting with Head of Business Assurance to take place before the meeting	
	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	Ernst & Young
	Annual Review of the Effectiveness of Internal Audit 2018/19	Head of Business Assurance
	Annual Review of the Effectiveness of the Audit Committee 2017/18	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
	Counter Fraud Progress Report 2018/19 Quarter 1	Head of Business Assurance
	Risk Management Report & Q4 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services

PART I – MEMBERS, PUBLIC AND PRESS

Audit Committee –13 December 2017

Meeting Date	Item	Lead Officer
23 October 2018	*Private meeting with the Corporate Director of Finance to take place before the meeting	
	Internal Audit Progress Report 2018/19 Quarter 2 & Operational Internal Audit Plan Quarter 3	Head of Business Assurance
	Counter Fraud Progress Report 2018/19 Quarter 2	Head of Business Assurance
	Risk Management Report & Q1 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services

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