



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 11 APRIL 2018

**Time:** 5.00 PM

**Venue:** COMMITTEE ROOM 5 -  
CIVIC CENTRE, HIGH  
STREET, UXBRIDGE

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

**Published:** Tuesday 3 April 2018

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This Agenda is available online at:  
<https://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=256&MId=3165&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](http://www.hillingdon.gov.uk)

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# Terms of Reference

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

## Introduction

The Audit Committee's role will be to:

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

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

## Internal Audit

1. Review and 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 13 December 2017 1 - 4
- 5** EY 2017/18 Annual Audit Plan & 2017/18 Pension Fund Audit Plan 5 - 72
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- 7** Balances and Reserves Statement 2018/19 85 - 92
- 8** Annual Report of the Audit Committee 2017/18 93 - 102
- 9** Annual Governance Statement 2017/18 - Interim Report **Oral Update**
- 10** Business Assurance - Internal Audit Progress Report for 2017/18 Quarter 4 (including the 2018/19 Quarter 1 IA Plan) 103 - 128
- 11** Business Assurance - Draft Annual Internal Audit Plan 2018/19 129 - 146
- 12** Business Assurance – Updated Internal Audit Charter 147 - 164
- 13** Business Assurance - Counter Fraud Progress Report for 2017/18 Quarter 4 165 - 174
- 14** Audit Committee Forward Programme 2017/18 175 - 178

**PART II**

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| <b>15</b> | Business Assurance - Draft Counter Fraud Strategic Plan 2018/19    | 179 - 192 |
| <b>16</b> | Business Assurance - Corporate Risk Register for Quarter 3 2017/18 | 193 - 220 |

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## Minutes



### AUDIT COMMITTEE

13 December 2017

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

|     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     | <p><b>Committee Members Present:</b><br/>John Chesshire (Independent Chairman)<br/>Councillors George Cooper, Tony Eginton and Susan O'Brien</p> <p><b>LBH Officers Present:</b><br/>Sarah Hydrie (Business Assurance Manager), Sian Kunert (Chief Accountant), Muir Laurie (Head of Business Assurance), Paul Whaymand (Corporate Director of Finance), Martyn White (Senior Internal Audit &amp; Counter Fraud Manager), Zac O'Neil (Counter Fraud Manager) and Anisha Teji (Democratic Services Officer)</p> <p><b>Others Present:</b><br/>Maria Grindley (External Audit - Ernst &amp; Young)</p> <p>Prior to the meeting, the Committee held a private meeting with Muir Laurie, the Head of Business Assurance.</p> |
| 31. | <p><b>APOLOGIES FOR ABSENCE</b> (<i>Agenda Item 1</i>)</p> <p>Apologies received from Cllr Scott Seaman - Digby.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 32. | <p><b>DECLARATIONS OF INTEREST</b> (<i>Agenda Item 2</i>)</p> <p>There were no declarations of interest.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 33. | <p><b>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</b> (<i>Agenda Item 3</i>)</p> <p>It was agreed that all the items on the Agenda be considered in public with the exception of Agenda Item 9 - Business Assurance - Corporate Risk Register for Quarter 2 2017/18.</p>                                                                                                                                                                                                                                                                                                                                                         |
| 34. | <p><b>MINUTES OF THE MEETING HELD ON 31 OCTOBER 2017</b> (<i>Agenda Item 4</i>)</p> <p>The minutes from 31 October 2017 were agreed as an accurate record.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 35. | <p><b>EXTERNAL ANNUAL AUDIT LETTER</b> (<i>Agenda Item 5</i>)</p> <p>The Committee was provided with the Ernst Young (EY), the External Auditor, Annual Audit Letter and a cover report.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

The cover report summarised the key areas of EY's audit work, their findings and the focus of their work going forward. The focus of work going forward included; The Council's Financial Statements; Value for Money conclusion; Whole of Government Accounts and Grants Certification.

The Annual Audit Letter detailed the expected conclusions from EY's audit work undertaken for the year ended 31 March 2017. The Committee was informed that quantifications could not be provided at this time in relation to pension disclosure, but work was ongoing to resolve any issues. The Committee was informed that updates would be provided at future meetings.

The Committee commented that the report was clear and there was a good result.

**RESOLVED -**

**That the Audit Committee noted the External Audit Annual Audit Letter.**

36. **BUSINESS ASSURANCE - INTERNAL AUDIT PROGRESS REPORT FOR 2017/18 QUARTER 3 (INCLUDING THE QUARTER 4 IA PLAN) *(Agenda Item 6)***

The Senior Internal Audit & Counter Fraud Manager presented the report which provided summary information on all Internal Audit Work covered in relation to 2017/18 Quarter 3, together with assurance levels in this respect. The Committee was also asked to consider and approve the Quarter 4 Internal Audit Plan.

The progress report summarised information on IA assurance, consultant and grant claim verification work covered during the period between 19 September 2017 to 4 December 2017. The Committee was informed that since the last progress report reported to Audit Committee on 18 September 2017 there had been seven assurance reviews concluded, three consultancy reviews finalised and three grant claims certified. There was therefore reasonable progress being made against the programme of IA work for Quarters 1, 2 and 3. The Committee was also informed that IA continued to monitor all high and medium risk recommendations raised, through to the point where the recommendation had either been implemented or a satisfactory alternative risk response had been proposed by management.

Following Member questions, officers confirmed that two of the four high risk recommendations had been partly implemented risk in relation to HMO registration. The remaining five recommendations, two of which were high risk, had not yet been implemented yet but appropriate action was being undertaken and it was noted that there had been positive senior management input to address the risks identified. Officers confirmed that they were satisfied that management were taking action to resolve the issues raised in the Internal Audit report.

The Committee thanked officers for the clear report.

**RESOLVED –**

- 1. That the Internal Audit progress report for 2017/18 Quarter 3 be noted and approval be given to the Quarter 4 Internal Audit Plan for 2017/18.**
- 2. That the Committee noted that the coverage, performance and results of Business Assurance Internal Audit activity within this quarter.**

|     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 37. | <p><b>BUSINESS ASSURANCE - COUNTER FRAUD PROGRESS REPORT FOR 2017/18 QUARTER 3 (INCLUDING THE QUARTER 4 COUNTER FRAUD PLAN)</b> (<i>Agenda Item 7</i>)</p> <p>The Committee was provided with a report which gave details on the work being undertaken by the Business Assurance Counter Fraud Team (BACFT; formerly known as the Corporate Fraud Investigations Team).</p> <p>The Committee was informed that there had been successful recruitment of the new Counter Fraud Manager. There was a major review of the BACFT structure underway and there would be a period of significant change with an aim to move towards a more risk based approach to preventing and detecting fraud. It was accepted that more work needed to be undertaken in relation to social care and preventative work, as well as continuing with the key focus on housing fraud.</p> <p>Officers confirmed that performance of the service had dipped this quarter but this was expected during a period of significant transformation. The Committee was informed that the proposed restructure would improve the efficiency of the service once embedded and creates three hubs; namely intelligence, verification and investigations. There will be a greater focus on intelligence gathering and verification work moving forward with less qualified investigator resource. This is in line with the Council's Counter Fraud Strategy focussed on loss prevention.</p> <p>In response to Member questions, officers confirmed that they were confident about back filling posts and there was an intention to recruit people with a wide range of skills across the team, including trainees and apprentices. Officers also confirmed that although Business Assurance is one service area, and there is clear synergy between Internal Audit and Counter Fraud, both teams will be lead by two different service managers to ensure the lines do not become blurred between what is an audit and what is an investigation.</p> <p>IA was recognised as a valued added service and there were many requests from management for auditors to review services across the Council. By contrast, the role of Counter Fraud is to help the Council meet its statutory responsibility for the prevention and detection of fraud and corruption.</p> <p><b>RESOLVED -</b></p> <ol style="list-style-type: none"> <li><b>1. That the Counter Fraud Progress Report for 2017/18 Quarter 3 be noted and approval be given to the Quarter 4 Counter Fraud Plan.</b></li> <li><b>2. That the Committee noted that the coverage, performance and results of BACFT activity within this quarter.</b></li> </ol> |
| 38. | <p><b>AUDIT COMMITTEE FORWARD PROGRAMME</b> (<i>Agenda Item 8</i>)</p> <p>The Audit Committee Forward Programme was noted.</p> <p>Democratic Services were asked to look into changing the meeting date proposed on 23 January 2019 to allow sufficient time for reports to be prepared.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

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|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 39. | <p><b>BUSINESS ASSURANCE - CORPORATE RISK REGISTER FOR QUARTER 2 2017/18</b> (<i>Agenda Item 9</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 the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p> <p>The report presented to Members the Corporate Risk Register for Quarter 2 (July to September 2017). The report provided evidence about how identified corporate risks were being managed and the actions which were being taken to mitigate against those risks.</p> <p><b>RESOLVED –</b></p> <ol style="list-style-type: none"> <li><b>1. That the Committee reviewed the Corporate Risk Register for Quarter 2 (July to September 2017), as part of the Committee's role to independently assure the risk management arrangements in the Council.</b></li> <li><b>2. That in future officers provide the Committee with a one page summary of each Group Risk Register as part of the quarterly Risk Management report.</b></li> </ol> |
|     | <p>The meeting, which commenced at 5.00 pm, closed at 5.41 pm.</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.

## EY 2017/18 ANNUAL AUDIT PLAN & 2017/18 PENSION FUND AUDIT PLAN

**Contact Officer:** Sian Kunert  
**Telephone:** 01895 556578

### SUMMARY

The attached documents set out the initial plans for the 2017/18 audit by the Councils external auditors EY. The format of the plans follows that prescribed by the Audit Commission for external audit work. The plans sets out the approach to the audit of the Council's Accounts and the pension Fund Accounts and a broad timetable which should enable the whole process to be completed by the end of July. Whilst the Pension Fund forms part of the Councils published Financial Statement of Accounts, a separate plan is prepared for that audit.

### RECOMMENDATION

**That the Audit Committee notes the report.**

### COMMENT ON THE CONTENT OF THE AUDIT PLAN

**Materiality:** The expected level of materiality, calculated on the basis of 2% of gross expenditure is £14.36m. EY plan to report on all uncorrected audit misstatements greater than £0.72m.

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

- Risk or fraud in revenue and/or expenditure recognition
- Risk of management override

Other areas of audit focus not classified as significant risk, but are still material when considering risks of misstatement include:

- Valuation of Land and Buildings
- Pension Liability Valuation

In addition the auditors' have a statutory duty to provide a value for money conclusion by considering whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in the use of its resources.

For 2018/19, in accordance with the Housing Benefit Assurance Process, the Council is responsible for appointing its own reporting auditor to undertake certification of the Housing Benefit Subsidy Claim. This will be done along with the Teachers Pension

Contributions and Capital Receipts Pooling certification process as part of a single tender exercise.

## **FEES**

The proposed fees for the 2016/17 audit for the main accounts are £157,268 (Final fee for 2016/17 - £158,712)

## **COMMENT ON THE CONTENT OF THE PENSION FUND AUDIT PLAN**

**Materiality:** Materiality for 2017/18 has been increased by 1% and is now calculated on the basis of 2% of the net assets of the fund, which is estimated as £19.1m. Based on this amount, EY would expect to report on all unadjusted misstatements greater than £0.957m.

**Key Financial Statement Risks:** The plan highlights the key financial statement, these being the main areas on which specific audit work will focus. For 2017/18 only one significant risk has been identified as follows:

- Risk of management override

Other areas of audit focus not classified as significant risk, but are still material when considering risks of misstatement include:

- Valuation of complex Investments
- Investment Manager Transition
- Earlier Deadline for Production of Financial Statements

## **FEES**

The proposed fee for the 2017/18 audit is £21,000 (Final fee for 2016/17 £23,212).

## **TIMETABLE**

The timetable for both audits is earlier than prior years due to regulatory changes, with the deadline for draft accounts being 31 May 18 and the audit opinion due by 31 July 2018.

## **LEGAL IMPLICATIONS**

There are no legal implications arising from this report.



London Borough of  
Hillingdon  
Audit planning report  
Year ended 31 March 2018

23<sup>rd</sup> March 2018



23<sup>rd</sup> March 2018

Audit Committee  
London Borough of Hillingdon  
Uxbridge  
UB8 1UW

Dear Audit Committee Members

#### Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 11 April 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley  
Associate Partner  
For and on behalf of Ernst & Young LLP

# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from via the PSAA website ([www.PSAA.co.uk](http://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 February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of London Borough of Hillingdon in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of London Borough of Hillingdon those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of London Borough of Hillingdon for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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# Overview of our 2017/18 audit strategy



## Overview of our 2017/18 audit strategy

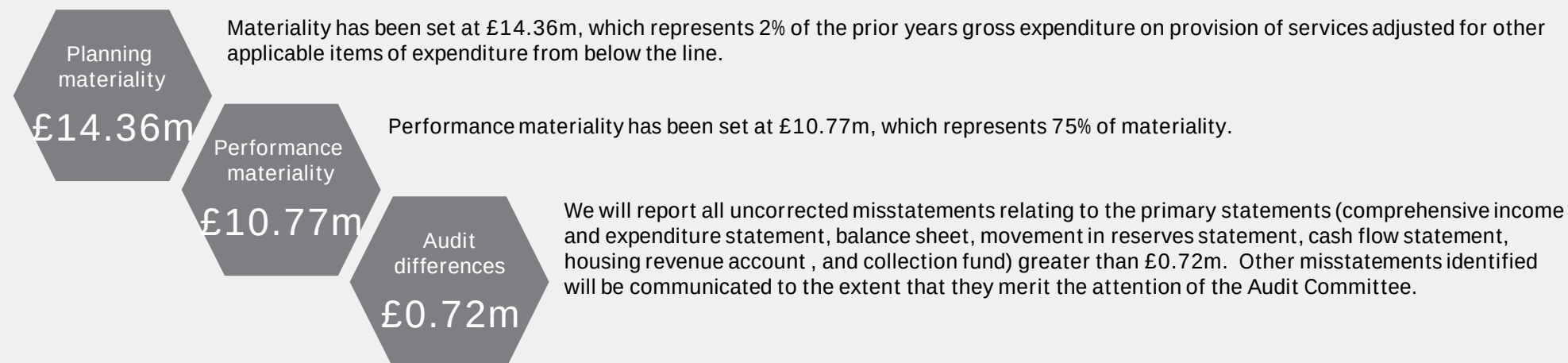
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

| Risk / area of focus                                 | Risk identified                  | Change from PY             | Details                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------------------------------------|----------------------------------|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk of fraud in revenue and expenditure recognition | Fraud risk/<br>Significant risk  | No change in risk or focus | Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. |
| Misstatements due to fraud or error                  | Fraud risk /<br>Significant risk | No change in risk or focus | As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.                                                                                |

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### Materiality



# Overview of our 2017/18 audit strategy

## Audit scope

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

- § Our audit opinion on whether the financial statements of London Borough of Hillingdon give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- § Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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



## 02

## Audit risks



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition\*

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

### What will we do?

We intend on addressing the risk through our range of substantive procedures. We will;

- Assess topside adjustments/journal entries for evidence of management bias and evaluate the business rationale behind these postings;
- Review and assess accounting estimates for evidence of management bias;
- Review and test cut off at the period end;
- Test the existence and valuation of debtors and accrued income;
- Develop a testing strategy to test material revenue and expenditure streams with a particular focus on those judgemental areas which could be more open to interpretation or manipulation for e.g. judgemental accruals
- We will test PPE with a specific focus on incorrect capitalisation of revenue expenditure

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

The Council has historically performed well in relation to their outturn position for the year. As the Council is more focussed on its financial position over the medium term. We will focus on capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme. We have also considered the completeness of liabilities for any management bias.

These areas have also been considered as being linked to the risk of fraud in management override of controls (see below).

## Our response to significant risks (continued)

Misstatements due to fraud or error\*

Management Override\*

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

We have assessed journal amendments, accounting estimates, adjustments between accounting basis and funding basis under regulations, Manual Debtors, Manual Creditors and unusual transactions as the areas most open to manipulation.

Linking to our risk of fraud in revenue and expenditure recognition above we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme. We have also considered the completeness of liabilities for any management bias.

### What will we do?

We will:

- Identify fraud risks during the planning stages;
- Inquire of management about risks of fraud and the controls put in place to address those risks;
- Understand the oversight given by those charged with governance of management's processes over fraud;
- Consider the effectiveness of management's controls designed to address the risk of fraud;
- Determine an appropriate strategy to address those identified risks of fraud; and
- Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in management override could affect the income and expenditure accounts as well as the balance sheet.

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### What is the risk/area of focus?

### What will we do?

#### Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

#### We will:

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuers;
- Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements,

#### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Surrey County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £521 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### We will:

- Liaise with the EY Team as auditors of Hillingdon Pension Fund, to obtain assurances over the information supplied to the actuary in relation to London Borough of Hillingdon;
- Assess the work of the Pension Fund actuaries (Hymans and Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.



03

## Value for Money Risks





# Value for Money

## Background

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.

For 2017/18 this is based on the overall evaluation criterion:

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

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

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

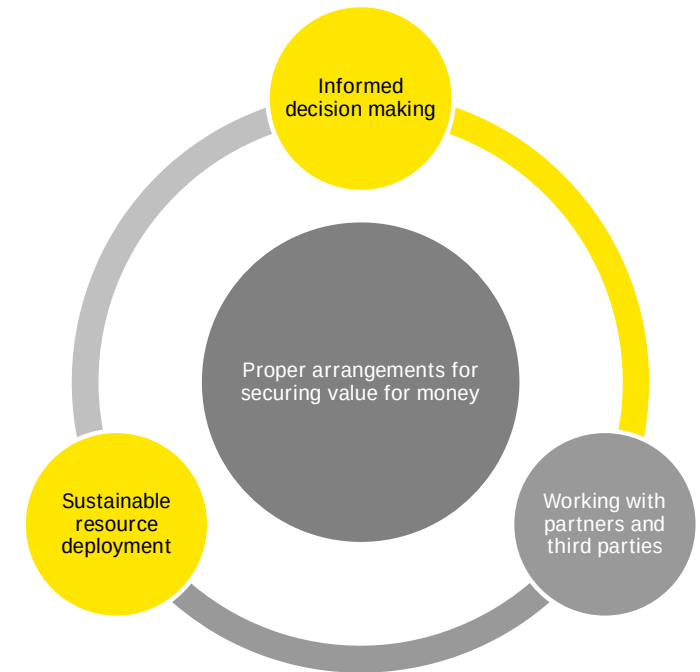
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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

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

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

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has not resulted in the identification of any significant risks.





04

## Audit materiality

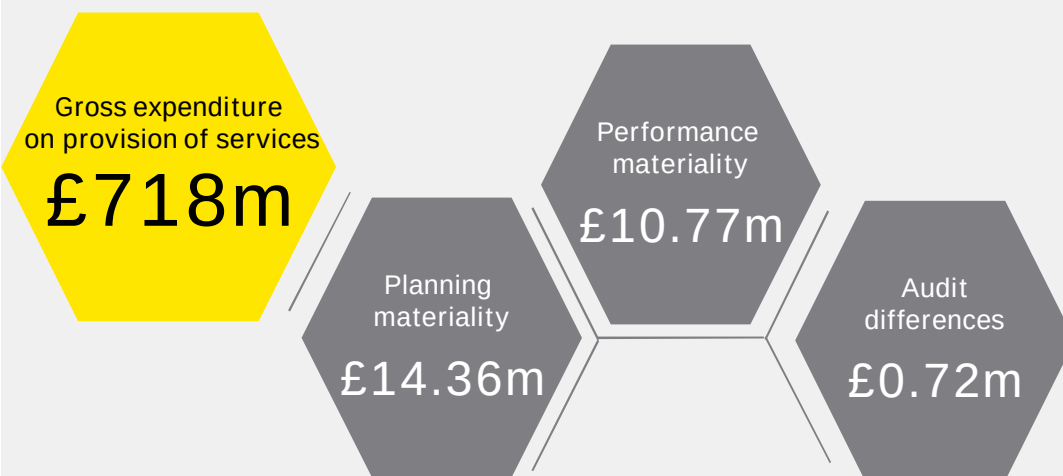


## Materiality

### Materiality

For planning purposes, materiality for 2017/18 has been set at £14.36m. This represents 2% of the Council's prior year gross expenditure on provision of services adjusted for any applicable items of expenditure from below the line. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.

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We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £10.77m which represents 75% of planning materiality. We base this % on our risk assessment and the anticipated extent of errors arising from the audit.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account, and collection fund that have an effect on income or that relate to other comprehensive income.

**Other uncorrected misstatements**, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

**Specific materiality** – We may set a materiality lower than that specified for specific accounts for e.g. remuneration disclosures, related party transactions, and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. If this is the case we will confirm this in our Audit Results Report.



# 05

## Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

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

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

#### 2. Arrangements for securing economy, efficiency and effectiveness (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.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

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

## Our Audit Process and Strategy (continued)

### Earlier deadline for production of the financial statements

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 accounts by 31 July 2018.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Council now has less time to prepare the financial statements and supporting working papers.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to all audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere. Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Council we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Put in place a portal to streamline communication and sharing of audit evidence.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.



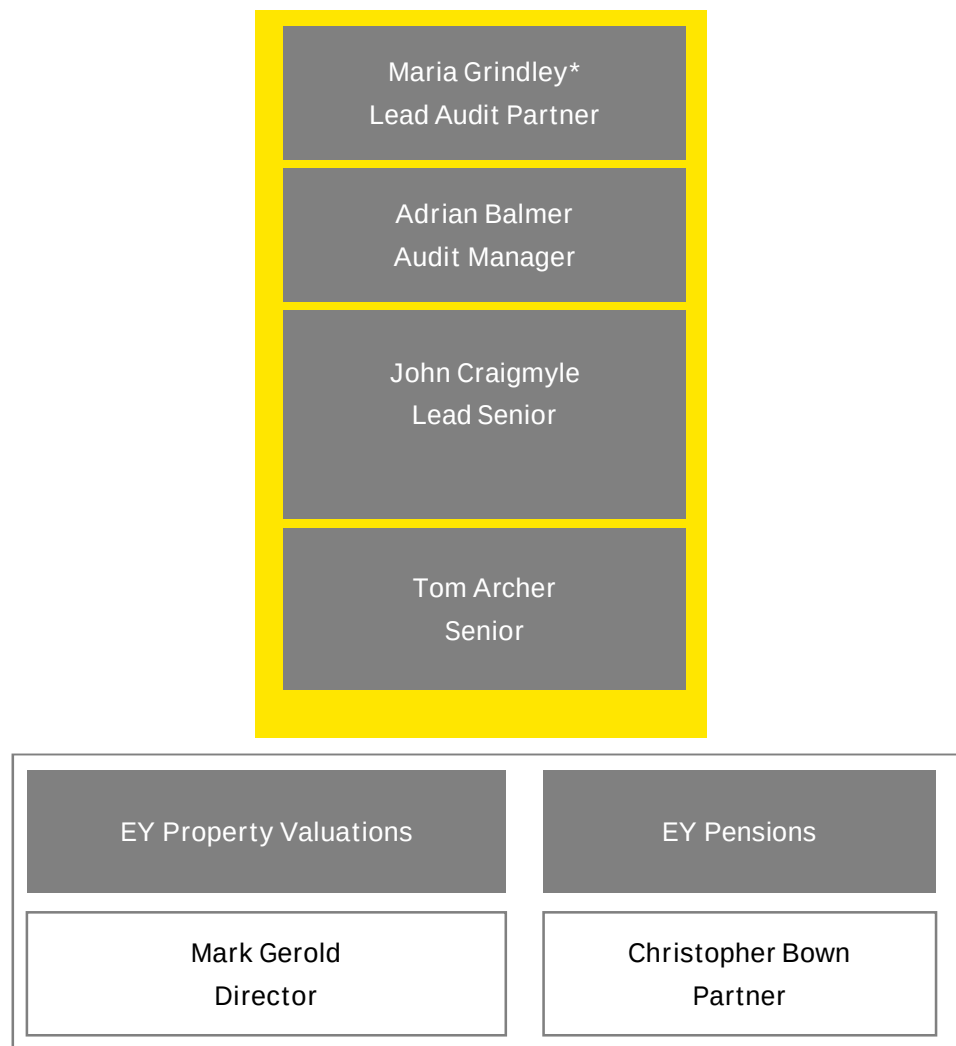
06

## Audit team



## Audit team

### Audit team structure:



\* Key Audit Partner

## Use of specialists

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

| Area                            | Specialists                                                                                                                                                                                                                               |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation of Land and Buildings | EY Property Valuations Team; Wilkes Head and Eve; & Jones Lang LaSalle<br>We will also consider any valuation aspects that require EY valuation specialists to review any material specialist assets and the underlying assumptions used. |
| Pensions disclosure             | EY Pensions; Hymans Robertson & Barnett Waddingham                                                                                                                                                                                        |

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

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

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



07

## Audit timeline





## Audit timeline

# Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

| Audit phase                                                        | Timetable | Audit committee timetable | Deliverables                                                                              |
|--------------------------------------------------------------------|-----------|---------------------------|-------------------------------------------------------------------------------------------|
| Planning:<br>Risk assessment and setting of scopes.                | October   |                           |                                                                                           |
|                                                                    | November  |                           |                                                                                           |
| Walkthrough of key systems and processes                           | December  | Audit Committee           |                                                                                           |
|                                                                    | January   |                           |                                                                                           |
| Testing of routine processes and controls<br>Interim audit testing | February  |                           |                                                                                           |
|                                                                    | March     |                           |                                                                                           |
| Year end audit<br>Quality Report/Account testing                   | April     | Audit Committee           | Audit Planning Report<br>Interim audit update                                             |
| Year end audit<br>Audit Completion procedures                      | May       |                           |                                                                                           |
|                                                                    | June      |                           |                                                                                           |
|                                                                    | July      | Audit Committee           | Audit Results Report<br>Audit opinions and completion certificates<br>Annual Audit Letter |



08

# Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

| Planning stage                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Final stage                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <div data-bbox="67 726 100 853" data-label="Page-Header">Page 31</div> <ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]</li> </ul> | <ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul> |

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

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

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

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

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

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 25%. No additional safeguards are required.

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

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

### Self review threats

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

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

### Management threats

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

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

## Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.  
There are no other threats at the date of this report.

## Other communications

### EY Transparency Report 2017

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167>



# 09

## Appendices



## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

|                                                                                                               | Planned fee<br>2017/18 | Scale fee<br>2017/18 | Final Fee<br>2016/17 |
|---------------------------------------------------------------------------------------------------------------|------------------------|----------------------|----------------------|
|                                                                                                               | £                      | £                    | £                    |
| Total Fee – Code work                                                                                         | 157,268                | 157,268              | 157,268              |
| Correspondence Fee                                                                                            | 0                      | 0                    | 1,444                |
| <b>Total audit</b>                                                                                            | <b>157,268</b>         | <b>157,268</b>       | <b>158,712</b>       |
| Other non-audit services not covered above (Housing Benefits, Teachers Pensions and Housing Capital Receipts) | 24,445                 | 24,445               | 44,725*              |
| <b>Total other non-audit services</b>                                                                         | <b>24,445</b>          | <b>24,445</b>        | <b>44,725</b>        |
| <b>Total fees</b>                                                                                             | <b>181,713</b>         | <b>181,713</b>       | <b>203,437</b>       |

*All fees exclude VAT*

\* The 2016/17 non-audit services fee includes £16,000 in respect of Teacher's Pension certification and Housing Capital Receipts certification work. These are separate engagements and we will provide an update on fees if we are engaged to undertake these in 2017/18

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

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

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

## Regulatory update

In previous reports to the Audit Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

| Earlier deadline for production and audit of the financial statements from 2017/18 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Proposed effective date                                                            | Effective for annual periods beginning on or after 1 April 2017.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Details                                                                            | 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Impact on London Borough of Hillingdon                                             | <p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We held a faster close workshop for clients on in November 2017 to facilitate early discussion and sharing of ideas and good practice.</p> <p>We are now working with the Council on ideas coming from the workshop, for example:</p> <ul style="list-style-type: none"> <li>• Streamlining the Statement of Accounts removing all non-material disclosure notes;</li> <li>• Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations;</li> <li>• Providing training to departmental finance staff regarding the requirements and implications of earlier closedown;</li> <li>• Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure;</li> <li>• Establishing and agreeing working materiality amounts with the auditors.</li> </ul> |

## Appendix C

# Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

## Our Reporting to you

| Required communications             |  What is reported?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |  When and where                                   |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| Terms of engagement                 | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities                | Reminder of our responsibilities as set out in the engagement letter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach         | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.<br>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team                                                                                                                                                                                  | Audit planning report to be presented to the April 2018 Audit Committee                                                              |
| Significant findings from the audit | <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul> | Audit results report to be presented at the July 2018 Audit Committee                                                                |

## Required communications with the Audit Committee (continued)

|                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |  Our Reporting to you |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Required communications |  What is reported?                                                                                                                                                                                                                                                                                                                                                                                   |  When and where       |
| Going concern           | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul> | Audit results report to be presented at the July 2018 Audit Committee                                    |
| Misstatements           | <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>                                                         | Audit results report to be presented at the July 2018 Audit Committee                                    |
| Fraud                   | <ul style="list-style-type: none"> <li>• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>                                                                                                         | Audit results report to be presented at the July 2018 Audit Committee                                    |
| Related parties         | <ul style="list-style-type: none"> <li>• Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>              | Audit results report to be presented at the July 2018 Audit Committee                                    |

## Required communications with the Audit Committee (continued)

| Our Reporting to you                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                  |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Required communications               | What is reported?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | When and where                                                                                                                                                   |
| Independence                          | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> | <p>Audit Planning Report to be presented at the April 2018 Audit Committee; and</p> <p>Audit Results Report to be presented at the July 2018 Audit Committee</p> |
| External confirmations                | <ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                   | <p>Audit results report to be presented at the July 2018 Audit Committee</p>                                                                                     |
| Consideration of laws and regulations | <ul style="list-style-type: none"> <li>• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>• Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>                                                                                                                                  | <p>Audit results report to be presented at the July 2018 Audit Committee</p>                                                                                     |
| Internal controls                     | <ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <p>Annual Audit letter; and</p> <p>Audit results report to be presented at the July 2018 Audit Committee</p>                                                     |

## Appendix C

# Required communications with the Audit Committee (continued)

|                                            |                                                                                                                                                                                                                 | Our Reporting to you                                                                                                                                  |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| Required communications                    | What is reported?                                                                                                                                                                                               | When and where                                                                                                                                        |
| Representations                            | Written representations we are requesting from management and/or those charged with governance                                                                                                                  | Audit results report to be presented at the July 2018 Audit Committee                                                                                 |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise                                                                                        | Audit results report to be presented at the July 2018 Audit Committee                                                                                 |
| Auditors report                            | <ul style="list-style-type: none"> <li>Key audit matters that we will include in our auditor's report</li> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul> | Audit results report to be presented at the July 2018 Audit Committee                                                                                 |
| Fee Reporting                              | <ul style="list-style-type: none"> <li>Breakdown of fee information when the audit plan is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>   | Audit planning report to be presented at the April 2018 Audit Committee; and<br>Audit results report to be presented at the July 2018 Audit Committee |
| Certification work                         | Summary of certification work undertaken                                                                                                                                                                        | Certification report to be presented at the December 2018 Audit Committee                                                                             |

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.



## Appendix D

# Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

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

# Hillingdon Pension Fund Audit planning report

Year ended 31 March 2018

23rd March 2018



London Borough of Hillingdon  
Hillingdon Civic Centre  
225-226 High St,  
Uxbridge UB8 1UW

23rd March 2018

Dear Audit Committee Members

#### Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor of the Hillingdon Pension Fund. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving an effective audit for the Pension Fund, and outlines our planned audit strategy in response to them.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 11 April 2018 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley  
Associate Partner  
For and on behalf of Ernst & Young LLP

# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://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 February 2017)" issued by the PSAA sets out additional requirements with which auditors must comply, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Hillingdon Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we can state to the Audit Committee, and management of Hillingdon Pension Fund, those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hillingdon Pension Fund for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.



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01

# Overview of our 2017/18 audit strategy



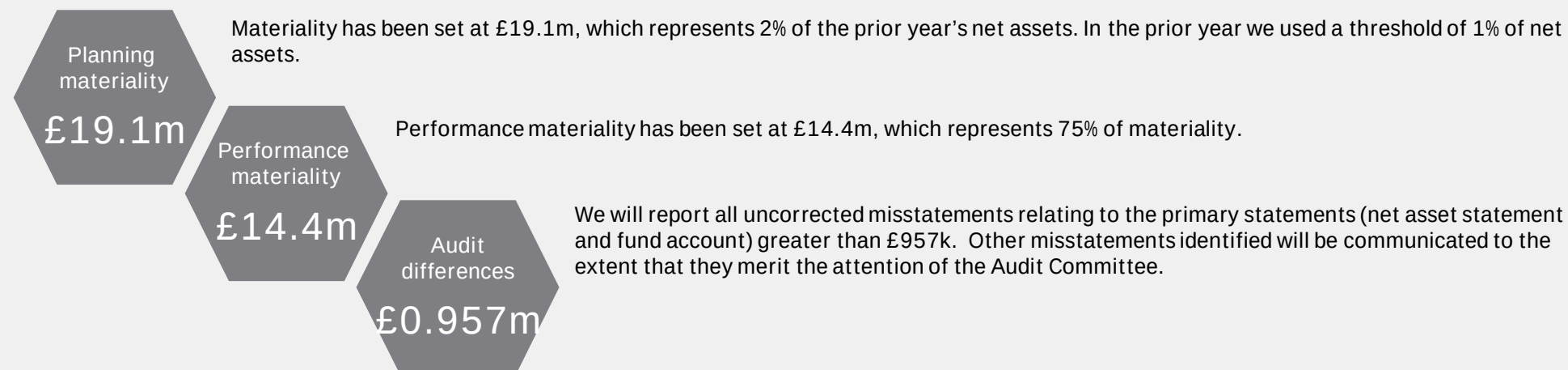
## Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

| Risk / area of focus                       | Risk identified | Change from PY             | Details                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------|-----------------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Management override                        | Fraud risk      | No change in risk or focus | As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.                                                             |
| Risk of Incorrect Valuation of investments | Other risk      | Change in risk or focus    | Based on initial planning work on the Pension Fund and discussions with management we note that the Pension Fund holds a significant balance of investments in alternative investments, including Private Equity funds.<br><br>By their very nature these investments are more difficult to value and their valuation includes an element of judgement. |
| Investment Manager Transition              | Other risk      | No change in risk or focus | We understand the significant changes to Investment Managers are from Newton to the London Collective Investment Vehicle and Epoch Investments.                                                                                                                                                                                                         |

### Materiality



# Overview of our 2017/18 audit strategy

## Audit scope

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

- § Our audit opinion on whether the financial statements of Hillingdon Pension Fund give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended.

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

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

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

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

In addition to the above we also perform procedures on behalf of the auditors of admitted bodies in relation to the IAS 19 reports. Our work specifically focuses on gaining assurance that the data submitted to the actuary agrees to the Pension Fund's systems.

This tried and tested approach – we have been performing these procedures since 2015 – minimises disruption to the Pension Fund as only one set of auditors will perform procedures on the data.

## Audit team changes

There are two key changes to the team.



Associate Partner

Maria joined EY in October 2012, she has been an external auditor for over 25 years, specialising in the statutory audit of government and public sector and not for profit bodies in the UK - primarily local councils, NHS bodies and higher education clients in England.

Maria is replacing Tim Sadler as the Audit Engagement Partner for Hillingdon Pension Fund.



Senior

John joined EY in September 2014 a graduate on EY's graduate scheme. Over the 3 year training period he has specialised in the statutory audit of local public services bodies in the UK - primarily local councils and NHS bodies in England.

John is replacing Sabine Kucher as the Senior for Hillingdon Pension Fund.



## 02

## Audit risks



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

### Management override\*

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

#### What will we do?

We will:

- Identify fraud risks during the planning stages;
- Enquire of management about risks of fraud and the controls put in place to address those risks;
- Understand the oversight given by those charged with governance of management's processes over fraud;
- Test journal postings at year-end to ensure there are no unexpected or unusual postings;
- Undertake a review of the reconciliations to the fund manager and custodian reports and investigate any reconciling differences;
- Re-perform the detailed investment note using the reports we have acquired directly from the custodian or fund managers;
- Check the reconciliation of the holdings included in the Net Assets Statement back to the source reports;
- Review accounting estimates for evidence of management bias;
- For quoted investment income we will agree the reconciliation between fund managers and custodians back to source reports

We will utilise our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries for evidence of management bias and evaluate for business rationale.

#### Financial statement impact

We have assessed that the risk of management override is most likely to affect investment income and assets in the year, specifically through journal postings.

Total net assets of the Fund available at 31 March 2017: £0.955 billion



## Audit risks

### Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the risk/area of focus?

##### Valuation of Complex Investments (Unquoted Investments)

The Fund's investments include unquoted pooled investment vehicles such as private equity, and property investments.

Judgements are taken by the Investment Managers to value those investments whose prices are not publically available.

The material nature of Investments means that any error in judgement could result in a material valuation error.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

The proportion of the fund comprising of these investment types in 2016/17 is at circa 12%, and as these investments are more complex to value, we have identified the Fund's investments in private equity and pooled property investments as higher risk, as even a small movement in these assumptions could have an impact on the financial statements.

#### What will we do?

In order to address this risk we will carry out a range of procedures including:

- Assessing the competence of management experts;
- Reviewing the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;
- Where available, reviewing the latest audited accounts for the relevant fund managers and ensuring there are no matters arising that highlight weaknesses in the funds valuation; and
- Performing analytical procedures and checking the valuation output for reasonableness against our own expectations.



## Audit risks

### Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the risk/area of focus?

##### Investment Manager Transition

We understand the significant changes to investment managers are:

- Transfer of the Newton Investment Manger Portfolio into the London Collective investment Vehicle to be managed by Epoch Investments

With any significant investment changes there is an audit risk that transactions may be omitted from the financial statements or not be reported fairly

#### What will we do?

As part of our audit work we will:

- Review the audit trail of these movements and proceeds and verify significant transactions to external audit evidence;
- Obtain adequate assurance to support that the changes have been accounted for and disclosed as expected;
- Obtain and review the Investment Manager contracts to understand the nature of the new investments, and any relevant audit risks;
- Obtain sufficient evidence to support the investment valuation. The evidence required will depend on the complexity of the valuation techniques applied by the Investment Manager and may include obtaining independent audited financial statements



# Audit risks

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

| What is the risk/area of focus?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | What will we do?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Earlier deadline for production of the financial statements</p> <p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial 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 accounts by 31 July.</p> <p>These changes provide risks for both the preparers and the auditors of the financial statements.</p> <p>The Pension Fund now has less time to prepare the financial statements and supporting working papers. Risks to the Council include completing the IAS 19 assurance work we perform for auditors of admitted bodies.</p> <p>As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.</p> <p>To mitigate this risk we will require:</p> <ul style="list-style-type: none"> <li>• good quality draft financial statements and supporting working papers by the agreed deadline;</li> <li>• appropriate Council staff to be available throughout the agreed audit period; and</li> <li>• complete and prompt responses to audit questions.</li> </ul> <p>If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.</p> <p>Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• Work with the Pension Fund to engage early to facilitate early substantive testing where appropriate.</li> <li>• Provide an early review on the Pension Fund's streamlining of the Statement of Accounts where non-material disclosure notes are removed.</li> <li>• Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.</li> <li>• Work with the Pension Fund to implement EY Client Portal, this will:             <ul style="list-style-type: none"> <li>• Streamline our audit requests through a reduction of emails and improved means of communication;</li> <li>• Provide on-demand visibility into the status of audit requests and the overall audit status;</li> <li>• Reduce risk of duplicate requests; and</li> <li>• Provide better security of sensitive data.</li> </ul> </li> <li>• Agree the team and timing of each element of our work with you.</li> <li>• Agree the supporting working papers that we require to complete our audit.</li> </ul> |



03

## Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2017/18 has been set at £19.1m. This represents 2% of the Pension Fund's prior year net assets. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.

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We request that the Audit Committee confirm their understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £14.4m which represents 75% of planning materiality.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and net asset statement.

Other uncorrected misstatements, such as reclassifications and misstatements in the disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.



# 04

## Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

We will meet regularly with the Head of Business Assurance and Counter-Fraud, and review internal audit plans and the results of the team's work. We will reflect any findings in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



# 05 Audit timeline





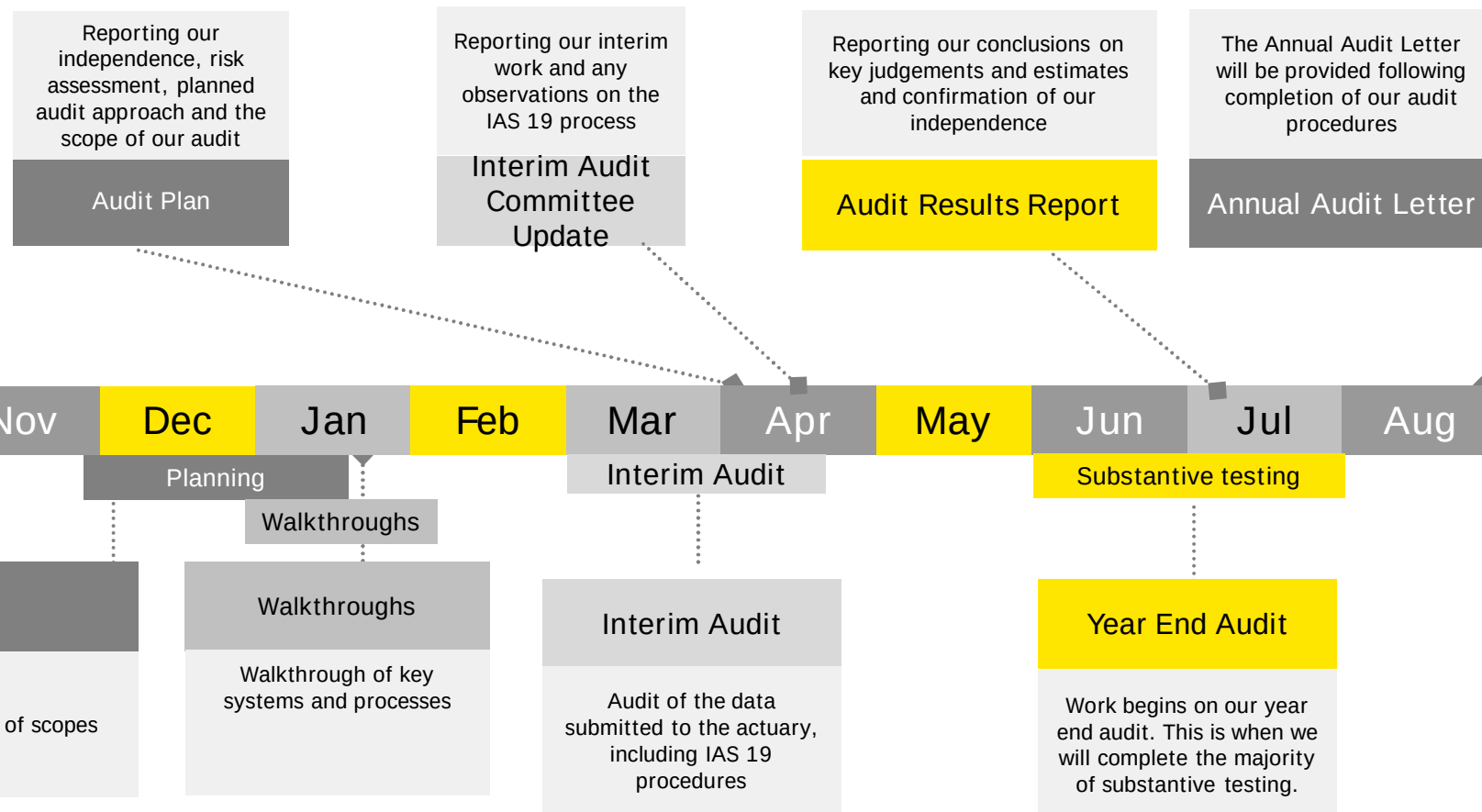
## Audit timeline

# Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit and Pensions Committees and we will discuss them with the Audit and Pensions Committee Chairs as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





06

# Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

| Planning stage                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Final stage                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▶ Any principal threats to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul> | <ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and your audit team, we must provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to consider relationships with the Council, its directors and senior management, its affiliates, and its connected parties and any threats to integrity or objectivity, including those that could compromise independence. We are also required to disclose any safeguards that we have, and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged for them;</li> <li>▶ Written confirmation that all team members are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul> |

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

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

We ensure that the total amount of fees that EY and our network firms have charged for the provision of services during the reporting period are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

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

### Self-interest threats

A self-interest threat arises when EY has financial or other interests in the Pension Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, no non-audit services have been undertaken. No additional safeguards are required.

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

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

### Self-review threats

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

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

## Relationships, services and related threats and safeguards

### EY Transparency Report 2017

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

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167>

### Other threats

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

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

## Other communications

### Management threats

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

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



# 07

## Appendices



## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

|                       | Planned fee<br>2017/18 | Scale fee<br>2017/18 | Final Fee<br>2016/17 |
|-----------------------|------------------------|----------------------|----------------------|
|                       | £                      | £                    | £                    |
| Total Fee – Code work | 21,000                 | 21,000               | 21,000               |
| Additional Fee*       |                        |                      | 2,212                |
| Total fees            | 21,000                 | 21,000               | 23,212               |

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.

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

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

*All fees exclude VAT*

*\*The additional fee in 2016/17 was in respect of work completed on Significant Risks*

## Appendix B

# Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

|                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Our Reporting to you                                                                                                                 |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| Required communications             | What is reported?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | When and where                                                                                                                       |
| Terms of engagement                 | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.                                                                                                                                                                                                                                                                                                                                                                                                                                                | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities                | Reminder of our responsibilities as set out in the engagement letter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach         | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.<br>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team                                                                                                                                                    | Audit planning report to be presented at the April 2018 Audit Committee.                                                             |
| Significant findings from the audit | <ul style="list-style-type: none"> <li>Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>Any significant difficulties encountered during the audit</li> <li>Any significant matters arising from the audit which were discussed with management</li> <li>Written representations we have requested</li> <li>Expected modifications to the audit report</li> <li>Any other matters significant to the oversight of the financial reporting process</li> </ul> | Audit results report to be presented at the July 2018 Audit Committee.                                                               |

## Appendix B

# Required communications with the Audit Committee (continued)

|                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |  Our Reporting to you |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Required communications |  What is reported?                                                                                                                                                                                                                                                                                                                                                                                   |  When and where       |
| Going concern           | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul> | Audit results report to be presented at the July 2018 Audit Committee and the Pensions Committee.        |
| Misstatements           | <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>                                                         | Audit results report to be presented at the July 2018 Audit Committee and Pensions Committee.            |
| Fraud                   | <ul style="list-style-type: none"> <li>• Asking the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund</li> <li>• Any fraud identified or information obtained that indicates a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>                                                                                                                                   | Audit results report to be presented at the July 2018 Audit Committee and Pensions Committee.            |
| Related parties         | <ul style="list-style-type: none"> <li>• Significant matters arising during the audit in connection with the Fund's related parties including, when applicable:</li> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> </ul>                                                                                                   | Audit results report to be presented at the July 2018 Audit Committee and Pensions Committee.            |

## Required communications with the Audit Committee (continued)

|                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  Our Reporting to you                                                                                                        |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Required communications                    |  What is reported?                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |  When and where                                                                                                              |
| Independence                               | <p>Communication of all significant facts and matters that bear on the objectivity and independence of EY and all audit team members</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>Any principal threats</li> <li>Safeguards adopted and their effectiveness</li> <li>An overall assessment of threats and safeguards</li> <li>Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> | <p>Audit planning report to be presented at the April 2018 Audit Committee; and</p> <p>Audit results report to be presented at the July 2018 Audit Committee and Pensions Committee</p>                         |
| External confirmations                     | <ul style="list-style-type: none"> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                   | <p>Audit results report to be presented at the July 2018 Audit Committee and Pensions Committee.</p>                                                                                                            |
| Consideration of laws and regulations      | <ul style="list-style-type: none"> <li>Audit findings regarding non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>Asking the Audit Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that they may know about</li> </ul>                                                                                                                                                     | <p>Audit results report to be presented at the July 2018 Audit Committee and Pensions Committee.</p>                                                                                                            |
| Internal controls                          | <ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Annual audit letter; &amp; audit results report to be</p>                                                                                                                                                    |
| Representations                            | <p>Written representations from management and/or those charged with governance</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <p>Audit results report to be presented at the July 2018 Audit Committee and Pensions Committee.</p>                                                                                                            |
| Material inconsistencies and misstatements | <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <p>Audit results report to be presented at the July 2018 Audit Committee and Pensions Committee.</p>                                                                                                            |
| Auditors report                            | <ul style="list-style-type: none"> <li>Key audit matters which we will include in our auditor's report</li> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>                                                                                                                                                                                                                                                                                                                                                                 | <p>Audit results report to be presented at the July 2018 Audit Committee and Pensions Committee.</p>                                                                                                            |
| Fee Reporting                              | <ul style="list-style-type: none"> <li>Breakdown of fee information when the audit plan is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>                                                                                                                                                                                                                                                                                                                                                                    | <p>Audit planning report to be presented at the April 2018 Audit Committee and Pensions Committee; and</p> <p>Audit results report to be presented at the July 2018 Audit Committee and Pensions Committee.</p> |

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.



## Appendix C

# Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

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

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## **EY - ANNUAL GRANT AUDIT LETTER**

**Contact Officer:** Sian Kunert  
**Telephone:** 01895 566578

### **SUMMARY**

This report provides a summary of the key findings on the grant work undertaken by EY for the year ended 31 March 2017.

### **RECOMMENDATION**

**That the Audit Committee notes the report.**

### **INFORMATION**

The attached report addressed to the Audit Committee on Grant Certifications has been completed by the Council's external auditors EY to communicate the key issues arising from their 2016/17 grant certification work.

EY were responsible for certifying the Housing Benefit Subsidy claim under the contract with the Public Sector Audit Appointments (PSAA). From this work, as a result of a number of errors being revealed both in under and over payment of benefits identified during the audit of the Housing Benefit Subsidy claim, a qualification letter was issued. Given the nature of benefits processing and the high volume of transactions there will always be a certain element of error - the total value of the return is over £148m. However, the benefits subsidy system is such that all errors no matter how small result in qualification.

In addition, EY were responsible for certifying two returns relating to the Teachers Pension Contributions and Pooling of Capital receipts, outside of the PSAA certification regime. These returns were certified without qualification.

The total fees charged for grant certification work for 2016/17 was £44,725 (2015/16 £36,945)

### **LEGAL IMPLICATIONS**

There are no legal implications arising from this report.

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# Certification of claims and returns annual report 2016-17

London Borough of Hillingdon Council

February 2018

Ernst & Young LLP



Building a better  
working world

The Members of the Audit Committee  
London Borough of Hillingdon Council  
Civic Offices  
High Street  
Uxbridge  
UB8 1UW

26 February 2018  
Ref: HBEN01/16-17

Direct line: + 44 7769 932 604  
Email: [MGrindley@uk.ey.com](mailto:MGrindley@uk.ey.com)

Dear Members

## **Certification of claims and returns annual report 2016-17 London Borough of Hillingdon Council**

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on London Borough of Hillingdon Council's 2016-17 claims and returns.

### **Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

In addition to this, we also acted as reporting accountants in relation to 2 returns outside the PSAA's regime. We note our work and conclusions on these 2 returns in section 2.

### **Summary**

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £148,023,462. We met the submission deadline. We issued a qualification letter and details of the qualification matters are included in section 1. In line with previous years the errors were mainly in respect of the calculation of earnings.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

We welcome the opportunity to discuss the contents of this report with you at the 11<sup>th</sup> April 2018 Audit Committee.

Yours faithfully

**Maria Grindley**  
Associate Partner  
Ernst & Young LLP  
Enc

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2. Other assurance work .....3

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4. Looking forward.....5

## 1. Housing benefits subsidy claim

| Scope of work                              | Results      |
|--------------------------------------------|--------------|
| Value of claim presented for certification | £148,023,462 |
| Amended/Not amended                        | Not amended  |
| Qualification letter                       | Yes          |
| Fee – 2016-17                              | £28,725      |
| Fee – 2015-16                              | £24,445      |

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. We found errors and carried out extended testing in several areas.

Extended and other testing identified errors. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

### Cell 11 – Non-HRA:

Testing of the initial sample identified:

- 1 case which failed due to the incorrect assessment of earned income. This resulted in an overpayment. In line with the protocol extended 40+ testing was completed on an extended sample of 40 Non-HRA cases with earned income.
- 2 cases which failed due to the incorrect classification. This error type had no impact on subsidy and in line with guidance did not require any extended 40+ testing.

### ***Incorrect assessment of Earned Income***

As a result of errors on earned income which had been identified in the previous year and in line with the protocol extended 40+ testing was completed on an extended sub-population of 40 Non-HRA cases with earned income. This identified the following:

- 2 cases where the authority had overpaid benefit as a result of incorrect calculation of weekly earnings;
- 2 cases where the authority had underpaid benefits as a result of incorrect calculation of weekly earnings.

This resulted in an extrapolated error of £2,351. We have reported these observations to the DWP in a qualification letter.

#### **Cell 55 – HRA:**

Testing of the initial sample identified:

- 1 case which failed due to an issue identified with Pensions Credit Savings Credit (PCSC). Further investigation of this error identified that the error arose from a bug within the system which was subsequently fixed by the software provider. There were a total of 62 cases impacted as a result of this issue with all cases impacted being amended as part of the 17/18 subsidy claim.

#### ***Incorrect assessment of Earned Income***

Due to errors from the prior year on earned income, the LA went straight to 40+ on an extended sub-population of HRA earned income cases. Testing of an additional sample of 40 cases identified the following:

- 5 cases failed, 2 of which were where the Authority had overpaid benefit as a result of incorrect calculation of weekly earnings.

This resulted in an extrapolated error of £41. We have reported these observations to the DWP in a qualification letter.

#### **Cell 94 – Rent Allowances:**

Testing of the initial sample identified:

- 4 cases failed due to incorrect calculation of earned income. None of the errors identified resulted in an overpayment.
- 1 case failed due to incorrect categorisation of joint tenancy status. This resulted in an overpayment.

#### ***Incorrect assessment of Earned Income***

Due to errors from the prior year on earned income, the LA went straight to 40+ on an extended sub-population of Rent Allowance earned income cases. Testing of an additional sample of 40 cases identified the following:

- 7 cases failed of which 2 were where the Authority had overpaid benefits as a result of incorrect calculation of weekly earnings.

This resulted in an extrapolated error of £6,040. We have reported these observations to the DWP in a qualification letter.

#### ***Incorrect assessment of Joint Tenancy***

- No further errors were identified as a result of our extended testing.

The error identified from the combined population of the initial sample and extended sample resulted in an extrapolated error of £21,373. We have reported these observations to the DWP in a qualification letter.

## 2. Other assurance work

During 2016-17 we also acted as reporting accountants in relation to the following schemes:

- ▶ Teachers pensions
- ▶ Housing pooling return

This work has been undertaken outside the PSAA regime. The fees for this are included in the figures in Section 3. They are referred to here to ensure Members have a full understanding of the various returns on which we provide some form of assurance.

We did not identify any significant issues from this work that need to be brought to the attention of Members. Both of these claims were certified without any amendments.

### 3. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)). The scale fees relevant below are only in respect of the housing benefits subsidy claim. The other claims and returns noted below are outside of the PSAA arrangement and so these fees were agreed separately with key officers and separate engagement letters signed.

| Claim or return                | 2016-17         | 2016-17             | 2015-16         |
|--------------------------------|-----------------|---------------------|-----------------|
|                                | Actual fee<br>£ | Indicative fee<br>£ | Actual fee<br>£ |
| Housing benefits subsidy claim | £28,725         | £28,725             | £24,445         |
| Teacher's Pension              | £10,000         | £10,000             | £8,000          |
| Housing Capital Receipts       | £6,000          | £6,000              | £4,500          |

## 4. Looking forward

### 2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 is £24,445. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:

<https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

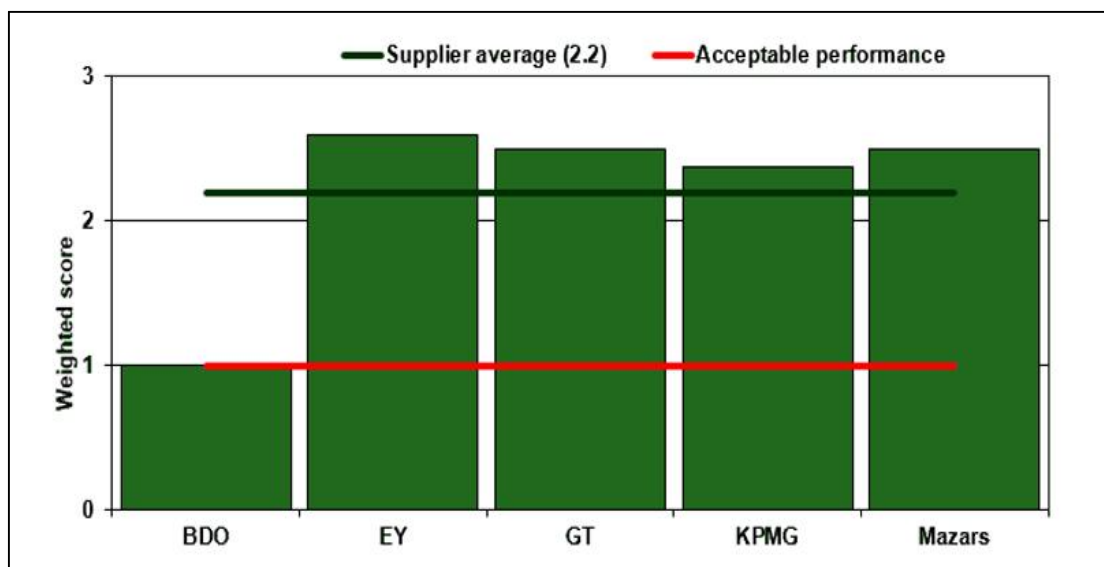
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Corporate Director of Finance before seeking any such variation.

### 2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we were also appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

**EY** | Assurance | Tax | Transactions | Advisory

## Ernst & Young LLP

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## **BALANCES AND RESERVES STATEMENT 2018/19**

**Contact Officer:** Paul Whaymand

**Telephone:** 01895 566071

### **SUMMARY**

The budget reported to Cabinet and Council in February 2018 contained an extract from the Balances and Reserves Statement 2018/19 which summarised the recommended range for unallocated balances. The attached Balances and Reserves Statement provides further detail on the Council's approach to the management and measurement of these, outlining technical accounting guidance used and analysis of specific risks that lead to a determination of a prudent reserves and balances range.

### **RECOMMENDATION**

**That the contents of the report are noted.**

### **REASONS FOR OFFICER RECOMMENDATIONS**

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

### **INFORMATION**

- 1 The Corporate Director of Finance, as the Council's Section 151 officer has a legal duty to comment on the robustness of budget estimates for the forthcoming year including the adequacy of the Council's reserves as part of the statutory annual budget setting process. This duty stems from the financial governance framework established under the Local Government Act 2003.
- 2 For Hillingdon, this duty is exercised through an extract of the Budget Report to Cabinet and Council in February of each year. This statement expresses a prudent level of unallocated General Fund balances that the Council should hold as a range based on assessment of the key strategic, operational and financial risks faced by the Council.
- 3 The recommended range for unallocated balances has been maintained at £15m to £32m for 2018/19, with sums above this level providing a mechanism to support the Council's budget planning by smoothing the impact of funding reductions over the medium term.
- 4 The attached Balances and Reserves Statement contains an underlying assessment against CIPFA criteria considering both internal and external financial risks to determine an identifiable recommended range for unallocated balances contained within the Budget Report.

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## **LEGAL IMPLICATIONS**

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

## **BACKGROUND PAPERS**

The Council's Budget: Medium Term Financial Forecast 2018/19 - 2022/23 - report to Cabinet and Council February 2018

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

# **STATEMENT ON 2018/19 ANNUAL REVIEW OF RESERVES**

## **SUMMARY**

The Council's Corporate Director of Finance has a duty under the Local Government Act 2003 to comment on the robustness of the Council's budget for the coming year. This comment is also required to consider the adequacy of the Council's reserves and balances. The Corporate Director of Finance has recommended that based on the 2018/19 budget an appropriate level of unallocated balances for the authority is in the range from £15m to £32m. As the level of unallocated balances is expected to exceed this range, these additional resources will be available to support the Council's budgets and smooth the impact of funding reductions over the medium term.

## **1. BACKGROUND**

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

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- 1.5 Each category of earmarked reserve is subject to its own review of adequacy and each of these is detailed within the Statement of Accounts.

## **2. ADEQUATE LEVEL OF UNALLOCATED GENERAL FUND RESERVES**

- 2.1 To determine the recommended level of reserves the Council continues to reassess the risks it currently faces. Criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 99 (July 2014) have been followed for this purpose, alongside more recently identified financial risks arising in the medium term as a result of specific government proposals and transfer of new responsibilities to the Council. Details of these are shown in Appendix 1 and include:
- The robustness of the financial planning process (including treatment of inflation and interest rates, estimates of locally raised income and timing of capital receipts);
  - How the Council manages demand led service pressures;
  - The treatment of planned savings / productivity gains and implementation of the Council's BID programme;
  - The financial risks inherent in any major capital project, outsourcing arrangements or significant new funding changes;
  - The strength of the financial monitoring and reporting processes;
  - Cash flow management and the need for short term borrowing;
  - The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions;
  - The general financial climate to which the Council is subject and its previous record in budget and financial management.
- 2.2 Most of the Council's balances are held to deal with the common risks outlined above that most local authorities need to manage on an ongoing basis, however there are a number of key issues for Hillingdon that drive the need to hold additional balances.
- 2.3 Hillingdon has seen substantial and sustained population growth, evidenced by the latest population estimates, which is set to continue into a period of further central government funding cuts over the medium term. Continuing pressures arising from demographic growth will see increased demand for key services, including Adult Social Care, Looked After Children, Homelessness and Waste Collection and Disposal. Secondly, a number of issues arise from the presence of Heathrow Airport within the borough. In particular this is the driver of the Council's exceptional asylum caseload, which has a fragile, unpredictable and inadequate funding stream attached to the support for asylum seekers.
- 2.4 In addition to these local issues, the 2012 Local Government Finance Act resulted in a significant transfer of risks from Central Government in relation to both the partial localisation of Business Rates Income and introduction of a local Council Tax Reduction (CTR) Scheme. During 2018/19 the Council will be participating in a London-wide Business Rates Retention Pilot Pool, which will see a greater proportion of income retained locally, however as this scheme is backed by a 'no detriment' guarantee from the Government no additional risk is being transferred at this stage.

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- 2.5 The array of risk factors that determine the need to hold balances and reserves have been reviewed since last year's budget setting process and the level of cover against each risk criteria refreshed, although the assessed range for cover has been maintained at £15m to £32m. The upper end of this range represents the highest level of unallocated balances that the Council could reasonably justify holding over the longer term. Appendix 1 provides a breakdown this assessed range into its constituent elements.
- 2.6 As at December 2017 (Month 9 Budget Monitoring) General Balances were projected to total £39m at 31 March 2018, with the 2018/19 budget assuming £1m of this sum is released in the new financial year to support investment in Council services and leaving £38m unallocated General Balances at 31 March 2019.
- 2.7 As balances are above the £32m upper level, the Corporate Director of Finance has recommended the use the excess balances in the Council's broader financial planning. These excess balances will be required to support the Council's medium term planning by smoothing the impact of substantial funding government funding cuts over the period to 2022/23.
- 2.8 The General Fund revenue budget proposals for 2018/19 also included a contingency of £9m which is identified against specific in year risks that are funded within the budget. Many of these risks, although not precisely quantifiable, have a high degree of certainty that they will be called upon in the year.

### 3. EARMARKED RESERVES

- 3.1 The Council has ring fenced earmarked reserves with balances as at 31 March 2017 Which are set out in the table below:

| <b>Reserves</b>                                          | <b>Balance as at<br/>31 March 2017<br/>£000's</b> |
|----------------------------------------------------------|---------------------------------------------------|
| <b>General Fund Reserves</b>                             |                                                   |
| Earmarked Reserves                                       |                                                   |
| - Grants Unapplied                                       | 3,791                                             |
| - Member Initiatives                                     | 13,226                                            |
| - Other Reserves                                         | 8,814                                             |
| - Public Health Reserve                                  | 2,705                                             |
| - Parking Revenue Account / New Roads & Street Works Act | 1,469                                             |
| - PFI                                                    | 512                                               |
| <b>General Fund Earmarked Reserves</b>                   | <b>30,517</b>                                     |

- 3.2 Movement in and out of earmarked reserves is generally determined at outturn, with the latest budget monitoring position assuming that the balance of uncommitted earmarked reserves will reduce as a result of contributions towards the financing of transformation expenditure, planned releases of unapplied grant monies alongside other applications.

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#### **4. UNFUNDED RESERVES**

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

#### **Risk Management**

- 5.1 The Code of Audit Practice makes it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks need to be assessed in the context of the Council's overall approach to risk management.
- 5.2 The process by which the contingency budget is constructed links directly into the Council's risk management process. Significant risks are identified and recorded in risk registers which are regularly reviewed and updated as part of the risk management process. The process provides for review by senior officers, Group Directors, Cabinet Members and the Audit Committee addressing both executive functions and governance requirements. This process is integral to ensuring the effectiveness of the budget strategy. The key financial risks identified in the corporate risk register are reflected either directly in the budget strategy or are covered by the retained level of unallocated balances and reserves.

## Assessment of General Fund Reserves Requirement

## Appendix 1

| Assessment of General Fund Reserves Requirement                                             | Minimum Level 2018/19 (£ million) | Maximum Level 2018/19 (£ million) | Minimum Level 2017/18 (£ million) | Maximum Level 2017/18 (£ million) | Principal Reasons for Requirement                                                                                         |
|---------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| The general financial climate to which the Council is subject                               | 1.5                               | 4.5                               | 1.5                               | 4.5                               | Sustained reductions funding forecast over the medium-term with the austerity agenda set to continue over this parliament |
| The overall financial standing of the authority                                             | 1.0                               | 2.0                               | 1.0                               | 2.0                               | To manage adverse movement in the Council's financial standing                                                            |
| Estimates of level of locally raised income                                                 | 2.0                               | 3.0                               | 2.0                               | 3.0                               | Locally raised income accounts for approximately 80% of corporate funding                                                 |
| The treatment of planned efficiency savings / productivity gains                            | 1.0<br>(-1.0m)                    | 4.0<br>(-1.0m)                    | 2.0                               | 5.0                               | To manage risk around slippage of the Council's major savings programme, in response to funding reductions                |
| The treatment of inflation and interest rates                                               | 2.0<br>(+1.0m)                    | 2.5<br>(+1.0m)                    | 1.0                               | 1.5                               | Assumptions have been refreshed to reflect latest intelligence, and further provision included within this analysis       |
| The financial risk inherent in major contract arrangements                                  | 1.5                               | 4.5<br>(+1.0m)                    | 1.5                               | 3.5                               | To manage any impact of services arising from supplier risk, particularly in respect of Social Care provision             |
| The treatment of demand led pressures                                                       | 2.0                               | 4.0                               | 2.0                               | 4.0                               | Increased demand for services from an aging and increasing population                                                     |
| The financial risks inherent in any major capital developments                              | 1.0                               | 2.5<br>(-1.0m)                    | 1.0                               | 3.5                               | Inherent risks due to significant level of investment required for school places                                          |
| Estimates of the level and timing of capital receipts                                       | 1.0                               | 2.0                               | 1.0                               | 2.0                               | Slippage on asset disposal programme could lead to increased borrowing                                                    |
| The availability of reserves and other funds to deal with major contingencies and pressures | 2.0                               | 3.0                               | 2.0                               | 3.0                               | Cover for unforeseen events over and above £500k budgeted provision for General Contingency                               |
| <b>Unallocated GF Reserves</b>                                                              | <b>15.0</b>                       | <b>32.0</b>                       | <b>15.0</b>                       | <b>32.0</b>                       |                                                                                                                           |

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## **ANNUAL REPORT OF THE AUDIT COMMITTEE 2017/18**

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

### **REASON FOR ITEM**

In line with good governance it is essential that the Audit Committee not only meets and considers the reports and information within its remit, but also ensures that the wider Council is aware of the breadth and extent of the work it does on its behalf. This report contains the information that is proposed to be presented to Council, so that it can be assured that the Audit Committee is acting appropriately on its behalf.

### **RECOMMENDATIONS**

**That the Audit Committee is asked to:**

- **Note the report and information provided; and**
- **Suggest any amendments that should be made, where necessary, before the report is presented to Council.**

### **INFORMATION**

This report summarises, for the Council, the work of the Audit Committee during 2017/18 and how it has undertaken its responsibilities for reviewing the key areas within its remit. Specifically these include:

- Internal Control;
- Risk Management;
- Corporate Governance;
- Internal Audit;
- External Audit;
- Counter Fraud; and
- Financial reporting process of the Statement of Accounts.

Accordingly, in compliance with the Accounts and Audit (Amended) (England) Regulations 2015, the Audit Committee has reviewed the effectiveness of the systems of internal control by receiving regular reports from these areas above that contribute to the control framework.

This report provides an opportunity for Council Members to review the work of the Audit Committee and comment on its contribution and performance.

### **LEGAL IMPLICATIONS**

There are no legal implications arising directly from this report.

### **BACKGROUND PAPERS**

The Terms of Reference for the Audit Committee.

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# Annual Report of the Audit Committee 2017/18

21<sup>st</sup> March 2018

## Report Distribution:

| <u>Meeting</u>  | <u>Date</u>                 |
|-----------------|-----------------------------|
| Audit Committee | 11 <sup>th</sup> April 2018 |
| Council         | 5 <sup>th</sup> July 2018   |



## 1. Introduction

- 1.1 In line with best practice guidance, the Audit Committee is required to submit an annual report to Council, outlining the Audit Committee's activities over the previous year. This report summarises, for the Council, the work of the Audit Committee during 2017/18 and how it has undertaken its responsibilities for reviewing the key areas within its remit. Specifically these include:
- Internal Control;
  - Risk Management;
  - Corporate Governance;
  - Internal Audit;
  - External Audit;
  - Counter Fraud; and
  - Financial reporting process of the Statement of Accounts.
- 1.2 Accordingly, in compliance with the Accounts and Audit (Amended) (England) Regulations 2015, the Audit Committee has reviewed the effectiveness of the systems of internal control by receiving regular reports from these areas above that contribute to the control framework.
- 1.3 This report provides an opportunity for Council Members to review the work of the Audit Committee and comment on its contribution and performance.

## 2. Key Activities of the Audit Committee

- 2.1 The Terms of Reference of the Committee are attached at **Appendix A**. These were amended at the Council meeting held on 11 May 2017, following an Internal Audit review of the Effectiveness of the Audit Committee. The updated Terms of Reference provides clarity and clearly outlines the different roles and responsibilities that surround the Council's wide ranging audit and governance activities, namely: strategy and policy (Leader/Cabinet Members), operational/service delivery (officers) and review and monitoring (Audit Committee).
- 2.2 During the 2017/18 year (1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018) the membership of the Audit Committee comprised as follows:
- Mr. John Chesshire - Independent Chairman - Appointed 2<sup>nd</sup> November 2017;
  - Mr. Rajiv Vyas - Independent Chairman - Appointed on 6<sup>th</sup> November 2014 and left the Council on 11<sup>th</sup> May 2017;
  - Cllr Scott Seaman-Digby - Vice Chairman - Appointed 12<sup>th</sup> May 2016;
  - Cllr George Cooper - reappointed 5<sup>th</sup> June 2014;
  - Cllr Tony Eginton - Appointed 5<sup>th</sup> June 2014; and
  - Cllr Susan O'Brien - Appointed 5<sup>th</sup> June 2014.
- The current Independent Chairman has approximately 20 years experience in the public and private sector working in the internal audit, risk management, business improvement and governance fields.
- 2.3 The role delegated by the Council to the Audit Committee is to provide independent assurance over the governance, risk management and the system of internal control in operation at the Council. The Audit Committee has fulfilled this role by undertaking the following key activities:

**a) Oversight of Internal Audit**

- The Audit Committee oversaw the activity of the Council's Internal Audit service to assist it in its role of monitoring the internal control, risk management and governance arrangements of the Council's operations. During the year, the Audit Committee has reviewed the 2016/17 Internal Audit Annual Report, received quarterly Internal Audit progress reports, scrutinised Internal Audit performance and approved the 2017/18 Internal Audit Plan.
- In addition, the Audit Committee received a report following the External Quality Assurance assessment of the Internal Audit Service, required by the Public Sector Internal Audit Standards (PSIAS) to be completed every five years. This report highlighted that Hillingdon's Internal Audit service was just one of a few across London to be provided with an independent opinion that the service **'fully conforms'** with the PSIAS.
- The Internal Audit Charter was last updated in December 2016. A slightly updated Charter is scheduled to be presented to the Audit Committee at its planned meeting on 11<sup>th</sup> April 2018.
- The Committee also reviewed the key findings from Internal Audit reviews and sought explanations from the Head of Internal Audit about the recommendations emanating from 'limited' or 'no' assurance audits. It monitored the number of outstanding recommendations and was pleased to note a substantial reduction in the number of high risk outstanding recommendations this year.
- The Committee played an important role in raising the profile of Internal Audit by supporting it in its role of assisting management in the Council. During the year it encouraged the continued development of the Internal Audit service.
- Internal Audit has now embedded a more collaborative approach in working with management to help achieve positive outcomes for the Council. The Audit Committee was informed of the increased amount of consultancy work carried out by Internal Audit during 2017/18.
- In keeping with good governance arrangements, Members of the Audit Committee have had a private meeting with the Head of Internal Audit this year.
- The Audit Committee is satisfied that Internal Audit is effective and adds value to the Council.

**b) Oversight of External Audit**

- The Audit Committee reviews the activity of the Council's External Auditors (Ernst & Young) to assist it in its role of monitoring the internal control, risk management and governance arrangements of the Council's operations. The Committee has received and considered the external audit plan, received progress updates and reviewed external audit performance.
- An unqualified audit opinion was provided by the external auditors on the Council's 2016/17 financial statements.
- In keeping with good governance arrangements, Members of the Audit Committee have had a private meeting with External Audit this year.

**c) Prevention and Detection of Fraud and Corruption**

- The Council operates a zero tolerance policy towards fraud and corruption. Responsibilities for the Council's anti-fraud and anti-corruption arrangements were transferred to the Business Assurance Counter Fraud Team (BACFT) on 1<sup>st</sup> August 2017. The BACFT carries out a range of criminal and non-criminal types of investigations, although predominantly its focus during 2017/18 has been on tenancy fraud.

- The National Fraud Initiative (NFI), detecting potential fraud by matching electronic data sets within and between public and private sector bodies is co-ordinated by the BACFT. Relevant service areas across the Council review the initial data matches and then refer them to the BACFT for investigation (where appropriate to do so).
- The Audit Committee has received consolidated quarterly progress reports from the Business Assurance Counter Fraud Team. The team has responsibility for the oversight of the effectiveness of the Council's policies and procedures to prevent and detect fraud and corruption and it was noted by the Committee that these are in the process of being updated by the team.
- A move to a risk based approach to counter fraud activities is in the process of being embedded across the team. Intelligence Officers within the team analyse and risk assess any referrals and pass them to the verification and investigation officers in the team then for further work (where appropriate to do so).
- The Audit Committee is generally satisfied with the effectiveness of the Council's counter fraud arrangements during 2017/18 and is looking forward to seeing an increased risk based approach taken during 2018/19.

#### **d) Risk Management**

- The Audit Committee received the annual risk management report in September 2017 as part of the Committee's role to independently assure the Council's corporate risk management arrangements.
- In addition, the Committee agreed the Council's Risk Management Policy and Guidance in November 2017. The Committee has monitored and reviewed the Council's risk management arrangements during the year through a quarterly risk management report, including the updated Corporate Risk Register. It sought assurances that action was being taken on risk related issues.
- The Audit Committee is satisfied that these arrangements enable it to provide sufficient challenge to officers around the identification and management of the key risks to the Council.

#### **e) Approval of Financial Accounts**

- In September 2017 the Audit Committee approved the Council's annual statement of accounts for 2016/17. This included considering whether appropriate accounting policies have been followed and whether there are concerns arising from the external audit of the financial statements that need to be brought to the attention of the Council. The Audit Committee scrutinised the accounts in some detail and challenged the officers where appropriate. As part of this process the Committee considered the External Auditor's Annual Report to those charged with governance on issues arising from the external audit of the accounts. An unqualified opinion was provided by Ernst & Young in September 2017.

#### **f) Corporate Governance**

- The Audit Committee successfully oversaw the production of the Council's Annual Governance Statement (AGS) for 2016/17 and approved it as part of the Statement of Accounts in September 2017. The Committee is currently in the process of providing oversight in relation to the production of the AGS for 2017/18.

### **3. Improvements in the Audit Committee's Effectiveness**

- 3.1 In line with best practice, an independent review of the Committee's effectiveness has been conducted by Internal Audit. This review provided **REASONABLE** assurance that the Committee is operating effectively. The final report was issued on 18<sup>th</sup> November 2016 and was presented to the Audit Committee at its meeting on 15<sup>th</sup> December 2016.

- 3.2 Further to the final report, Democratic Services, in liaison with the Audit Committee, is in the process of developing a skills matrix and training and development plan for all Audit Committee members. These initiatives will help enable the Audit Committee to perform its duties even more effectively moving forward.
- 3.3 Following amendments to the Audit Committee's Terms of Reference, concern was expressed at the deletion of the power the Audit Committee had to require senior managers of Council services to attend meetings. The External Auditors have noted that it is unusual for the Audit Committee of a local authority not to have this power. As a consequence the Terms of Reference do not comply fully with best practice, potentially affecting the effectiveness of the Audit Committee. However, during the 2017/18 year there have been no occasions where the Audit Committee believes this lack of this power has hindered its effectiveness in any way.

#### 4. Conclusion

- 4.1 The Audit Committee considers that it has continued to make a significant contribution to ensuring that the key elements of the governance framework are given proper consideration and are appropriately challenged. It will continue to develop this role and contribute to strengthen internal control, risk management and governance throughout the authority.
- 4.2 I would like to thank all Members and officers who have been involved in the work of the Audit Committee throughout the past year.

**Mr. John Chesshire**

Independent Chairman of the Audit Committee  
London Borough of Hillingdon

21<sup>st</sup> March 2018

## **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.

## **APPENDIX A (cont'd)**

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.

### **Article I. 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.

### **Article II. 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.

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## **Business Assurance - Internal Audit Progress Report for 2017/18 Quarter 4 (including the 2018/19 Quarter 1 IA Plan)**

**Contact Officer:** Muir Laurie

**Telephone:** 01895 556132

### **REASON FOR ITEM**

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in relation to 2017/18 Quarter 4 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 4 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 2018/19 Quarter 1 IA Plan which has been produced in consultation with senior managers. This sets out the programme of IA coverage due to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2018 period.

### **RECOMMENDATIONS**

**That the Audit Committee notes the IA Progress Report for 2017/18 Quarter 4 and consider the 2018/19 Quarter 1 IA Plan.**

**That the Audit Committee ensures 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 1<sup>st</sup> April 2013, promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

### **LEGAL IMPLICATIONS**

There are no legal implications arising directly from this report.

### **BACKGROUND PAPERS**

The Business Assurance service holds various background research documents in relation to the Quarter 1 IA Plan.

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# BUSINESS ASSURANCE

## **Internal Audit Progress Report to Audit Committee: 2017/18 Quarter 4 (including the Quarter 1 Internal Audit Plan)**

**29<sup>th</sup> March 2018**



# Contents

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

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|                                                                                              |           |
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## 1. Introduction

### 1.1 The Role of Internal Audit

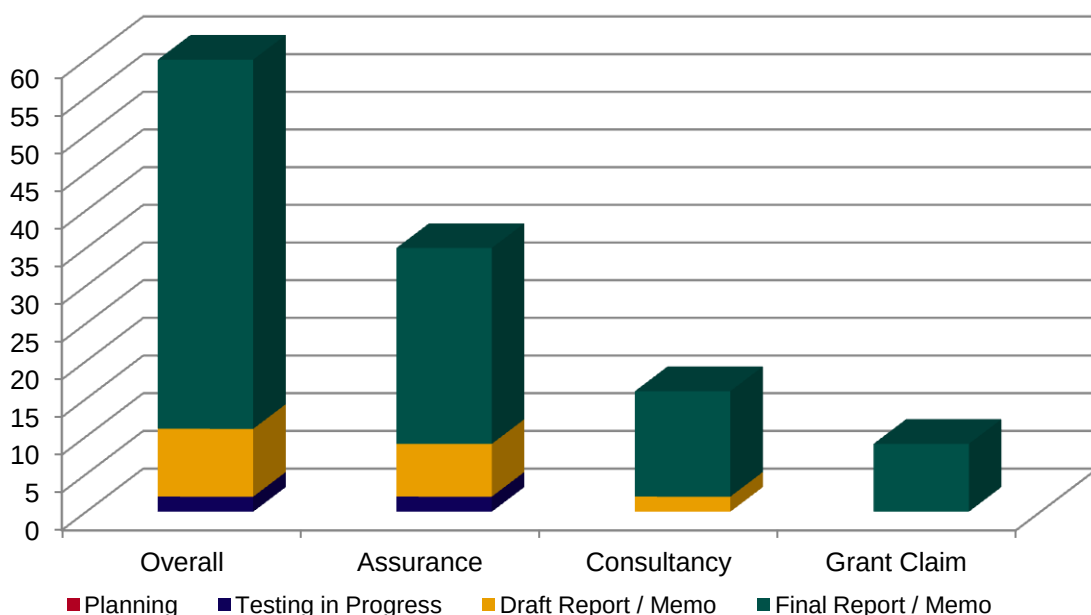
- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Council achieve its corporate objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) 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 4<sup>th</sup> December 2017 to 29<sup>th</sup> March 2018. 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 4 IA plan since its approval (refer to **Appendix B**).
- 1.2.2 A key feature of the Quarter 4 IA progress report is the inclusion of the 2018/19 Quarter 1 IA plan (refer to **Appendix C**). This has been produced in consultation with senior managers over the last few weeks and sets out the planned programme of IA coverage due to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2018 period.

## 2. Executive Summary

- 2.1 Since the last IA Progress Report to CMT and the Audit Committee dated 4<sup>th</sup> December 2017, **13 assurance reviews** (including 4 follow-up) have concluded, **6 consultancy reviews** have been finalised and **4 grant claims** have been certified. We are therefore nearing completion of the programme of IA work for 2017/18, depicted below:

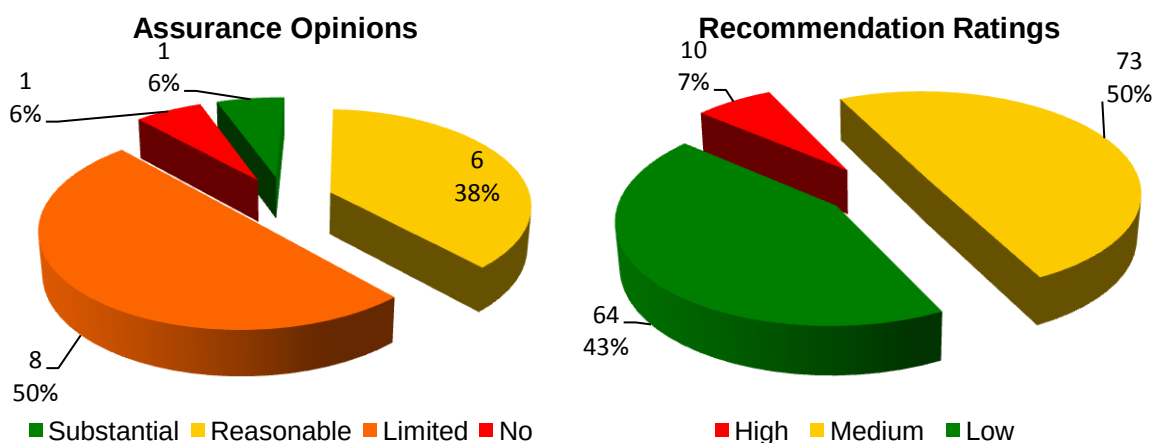


- 2.2 Our work on the 2017/18 Quarter 4 IA plan commenced on 2<sup>nd</sup> January 2018 and work is now underway on all Quarter 4 planned work (refer to **Appendix A**). Positive progress has been made this quarter, with an additional **7 assurance reviews having progressed to draft report stage**. This is a commendable achievement given that the service have been operating under significantly reduced capacity during the quarter following two members of IA staff leaving Hillingdon in December 2017 and February 2018 respectively.
- 2.3 Nevertheless, we are confident that a recruitment exercise due to commence shortly will allow the IA service to enhance the robustness of IA resources, enabling the service to be better placed to help the council deliver the significant changes and improvements required over the coming period. Available IA resource continues to be predominantly focused on the highest risks the Council is exposed to (refer to **Appendix C**).
- 2.4 Key assurance reviews finalised this quarter have included **Disabled Facilities Grant, Trading Standards, Child Protection Conferences**, and **Facilities Management** each obtaining 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.
- 2.5 Within the quarter we have also undertaken significant follow-up work, with individual reviews of prior audits obtaining a **LIMITED** or **NO** assurance opinion. 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 Ofsted, Missing Children Service Contracts, and Asylum. We also continue to **'Assurance Map'** the Council's Corporate Risks.
- 2.6 There have been six amendments to the Quarter 4 IA operational plan with **three deferrals** and **four additional requests** for work (refer to **Appendix B**). Further details of all IA 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 4

#### 3.1 Assurance Work in Quarter 4

- 3.1.1 During this quarter, **13** 2017/18 IA assurance reviews (including 4 follow-up reviews) have been completed to final report stage, with a further **7** progressing to draft report stage. At the date of this report, only 2 reviews are at the testing stage.
- 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 **Disabled Facilities Grant (DFG)** raised **3 HIGH**, **4 MEDIUM** and **3 LOW** risk recommendations and gave an overall **LIMITED** assurance opinion. This review follows a period of significant restructure and service redesign to improve the overall adaptations programme. It is our opinion that significant work is still required to embed robust control activities throughout the DFG process to ensure an appropriate, effective, efficient and fit for purpose control environment.
- 3.1.4 The DFG process encompasses a number of internal and external parties to ensure its effective working. A key stakeholder to this process is the Occupational Therapy (OT) Team who assess the total extent of needs before considering eligibility for care and support however, due to the nature of how 'Protocol' is configured, reporting of outstanding OT DFG visits is not currently available, reducing the level of management oversight.
- 3.1.5 The Council utilise an external contractor to build the DFG adaptations to specification and design. A fit for purpose contract agreement was found to be in place, including appropriate contractual clauses detailed regarding performance reporting, monitoring, performance redress, in addition to meeting frequency and governance. However, we were unable to evidence that these controls were embedded and operating as intended. Further, our sample testing of ten ongoing and complete DFG applications noted some significant gaps in supporting documentation throughout the process.
- 3.1.6 The IA assurance review of **Trading Standards** raised **3 HIGH**, **4 MEDIUM** and **3 LOW** risk recommendations and gave an overall **LIMITED** assurance opinion. Referrals are risk assessed using a standard matrix, referred to a tasking group when a score of 6 or more is provided. Our sample testing identified that the rationale for each referral risk score is not detailed, whilst it was identified that only those referrals scoring six and above are recorded. This approach limits the ability for Trading Standards to utilise historic complaints scoring below this threshold as part of the assessment and trend analysis.
- 3.1.7 Reports into most complained about traders can be run from Citizens Advice and Civica to aid management in prioritising resources accordingly. Such reporting is currently not done and at present would be limited by the non recording of complaints below the threshold score. However, our analysis of the Civica data for our sample of 30 referrals identified 13 instances where more than one referral had been received against the same trader. In one case, 12 complaints for underage alcohol sales at a particular premise had been received with limited action evidenced as taken by Trading Standards.
- 3.1.8 Further, procedure documents were found to be inconsistent or absent, impacting the consistency, effectiveness and application of the control environment. This issue is further compounded by the absence of a quality assurance process. Finally, we were unable to identify the frequency and level of proactive Trading Standards work undertaken.
- 3.1.9 Other **LIMITED** assurance reviews finalised this quarter included **Child Protection Conferences, Facilities Management** and the CYPS Thematic review of **Key Working Service, Family Support** with these individually listed at **Appendix A**.
- 3.1.10 The reviews of **Education for Children Looked After, IR35**, and **Contact Centre** were each provided a **REASONABLE** assurance opinion whilst we are pleased to report that the IA review of School Placement Planning (SPP) was provided a **SUBSTANTIAL** assurance opinion. This was primarily due to the robust control environment, complemented by comprehensive and regular management information being communicated at all levels.

## 3.2 Consultancy Work in Quarter 4

- 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 4 with **6** consultancy reviews completed within the period with a further **2** reviews currently at an advanced stage.
- 3.2.4 The planned IA thematic consultancy review of **Debt Recovery Agents (Bailiffs)** was concluded within the quarter. We noted that Service Level Agreements (SLA), detailing the commitment between the enforcement agent and council, were in place for two of the five service areas that utilises debt collection agencies however, these did not reflect changes in legislation or the Taking Control of Goods National Standards which came into effect in April 2014. Performance monitoring was evidenced however, quarterly performance meetings were only held with 2 of the 5 debt recovery agents. An inconsistent approach to payment reconciliation was noted across each service area and consideration should be taken to adopt the mechanisms utilised by Council Tax and Non Domestic Rate Arrears.
- 3.2.5 IA completed the **CYPS thematic** consultancy review through undertaking a Mock peer review in preparation for the LGA peer review and in advance of any future Ofsted inspection. A number of key themes, strengths and weaknesses were identified and relayed to Senior Management. We believe that each of these weaknesses are known to senior management and reflected in the LGA peer review self assessment, with remedial action already in progress.
- 3.2.6 The planned IA thematic consultancy review of **Missing Children** was concluded within the quarter. We are pleased to report that management has invested considerable effort, time and resources to designing a new Protocol which, in our opinion, accurately depicts the roles, responsibilities and key processes for when a child/ young person goes missing from home or placement. We supported management during this process, conducting two reviews of the draft protocol, mapping the document against the control gaps and risks previously identified; raising comments for consideration prior to management presenting to the Local Safeguarding Children Board (LSCB) for approval.
- 3.2.7 The consultancy review of **Landlord Engagement Team** was also concluded within the period. The consultancy reviews of **Asylum** and **Service Contracts** are at draft memo stage. Each of these three consultancy reviews engaged IA at a time of significant change and, where appropriate, suggested improvements raised will be followed up with a dedicated assurance review to ensure action has been taken to mitigate risk exposure.

### 3.3 Grant Claim Verification Work in Quarter 4

- 3.3.1 During this quarter IA has also assisted the Council in certifying four grant claims. As detailed at **Appendix A**, IA continues to carry out verification work on the **Troubled Families Grant**. In addition, IA undertook the **Certification of Collaborative Fund Expenditure** (provided by the National College for Teaching and Leadership - NCTL) for St Mary's Catholic Primary School for the 2016-17 financial year.
- 3.3.2 The NCTL certification was provided to enable compliance with the Department for Education's (DfE) terms and conditions of the Grant Funding Agreement (GFA) and the Grant Offer Letter requirements. The objective of this type of limited assurance engagement is to perform such procedures as to obtain sufficient appropriate evidence to obtain a meaningful level of assurance over the Annual Grant Return. We are pleased to report that we provided limited assurance that the expenditure, for grants issued for the period ending 31<sup>st</sup> March 2017 was paid, was applied for the purposes intended by the DfE and the financial transactions conform to the GFA and list of objectives specified.

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

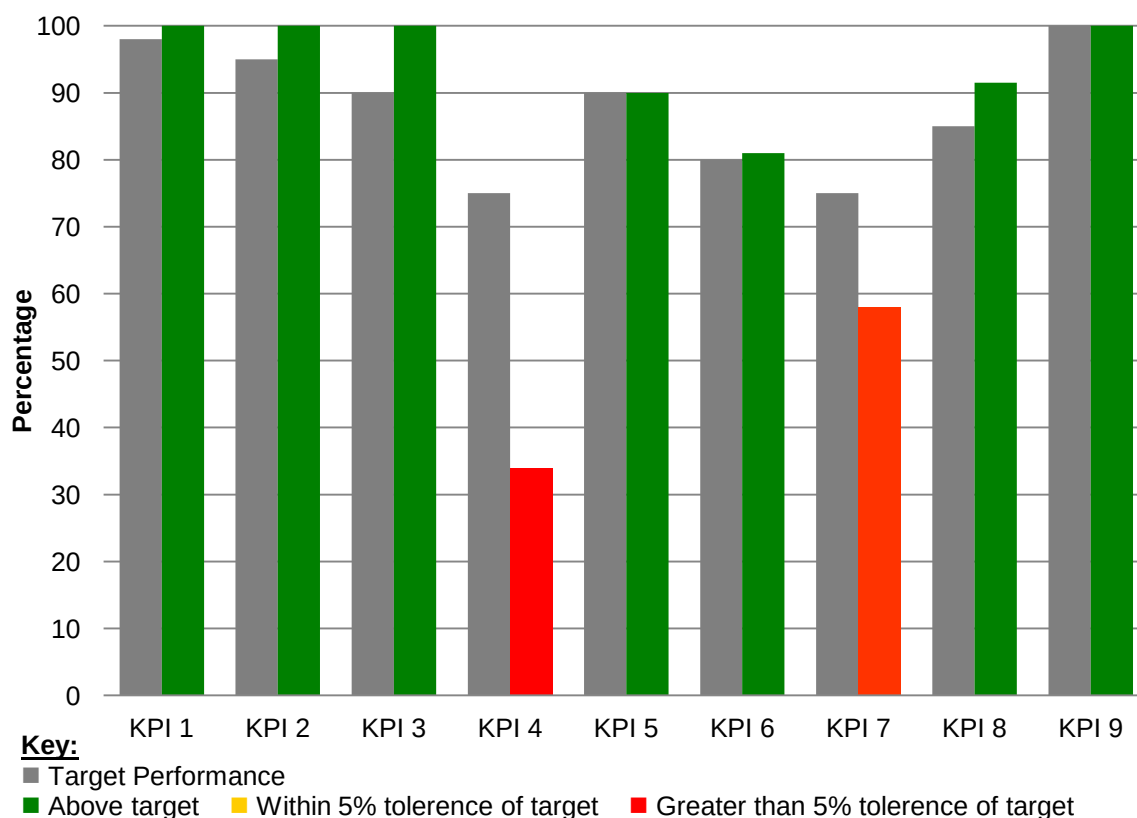
- 3.4.1 IA continues to monitor all **HIGH** and **MEDIUM** risk recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. In addition to this, we have taken a renewed approach to follow-up 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 summary snapshot of 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 4, highlighting the **4 follow-up** reviews have been completed within the period.
- 3.4.4 These dedicated follow-up reviews found that **31%** (9) of the **29** recommendations followed-up within the quarter were deemed **Implemented**. Of the remaining recommendations we confirmed that **55%** (16) were **Partly Implemented** and **14%** (4) were deemed **Not Implemented**. Each of the 20 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.

### 3.5 Other Internal Audit Work in Quarter 4

- 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 1 of 2018/19 (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 The quarterly planning cycle has been informed by the '**Assurance Mapping**' exercise performed by the Principal Business Assurance Officer, following successful pilot on one of the Council's corporate risks. This process 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.
- 3.5.4 Following the resource intensive External Quality Assurance (EQA) review and focus on delivery of the 2017/18 IA plan with reduced resources, we have been unable to dedicate much time to progress the planned **Quality Assurance and Improvement Programme (QAIP)** work this quarter.
- 3.5.5 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 help identify areas of quality assurance required by the Committee. We will revise the IA QAIP accordingly for 2018/19.

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

- 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 1<sup>st</sup> April to 29<sup>th</sup> March 2018 period is summarised within the bar chart below:



- 4.3 Whilst performance of KPI 3 relating to the timely implementation of **HIGH** risk IA recommendations remains strong, we have seen a significant decline in performance of KPI 4, 2017/18 **MEDIUM** risk IA recommendations where management action is taken within agreed timescale. This is despite automated emails from TeamCentral to the action owner four, two and one week prior to the implementation date. Nevertheless, it should be noted that 94% of 2017/18 **MEDIUM** risk IA recommendations due have been implemented. Potentially the removal of the monthly Group (Directorate) recommendation listings, due to IA resource limitations, could have contributed towards this performance decline. Consequently, we will seek to reinstate this process during 2018/19.
- 4.4 We have seen a further improvement on KPI 7, with a 15% increase from the Quarter 3 position of 43%. We are **heavily reliant on timely management responses** within the set timeframe to achieve this indicator. However, we believe the improvement in this area has been as a result of IA initiatives to further facilitate the process to obtain management responses in a timelier manner. Further, the time taken to finalise final reports from draft stage is on average 17 working days and thus just outside of tolerances.
- 4.5 We are currently exceeding several of our KPI targets, including achieving the ambitious KPI 8, 85% Client Satisfaction Rating, positively reflecting upon the work of the team, and we are hopeful will continue into the 2018/19 year.

## 5. Forward Look

- 5.1 There have been a number of staffing changes in the IA team during this quarter including the departure of our Principal Internal Auditor who left to join the Foreign and Commonwealth Office as a senior member of their IA team. This, along with two other recent departures, has provided the Head of IA with an opportune time to reflect on the structure and skills mix across the IA team. A key member of the IA team who is one exam away from qualifying as a Certified Internal Auditor has, as a result of her continued excellent performance at work, been promoted into the vacant Principal Internal Auditor post. This is in line with the IA strategy of 'growing our own', providing other members of the IA team with an opportunity to take on more responsibility, facilitating their ongoing professional and personal development. A recruitment exercise is due to commence shortly and in the interim we will be looking to utilise our external partner, Mazars, to help delivery of the 2018/19 IA plan.
- 5.2 Closer working arrangements are evolving between Counter Fraud and IA since responsibility for the service came across to Business Assurance, with clear evidence as to how the two services can successfully interrelate to enhance the Council's control environment. Following the recruitment of the new Counter Fraud Manager in December 2017, work is well under way to ensure a dovetailed approach between IA's coverage and Counter Fraud work.
- 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 a 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)**

29<sup>th</sup> March 2018

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

|                              |                                            |                                 |                     |
|------------------------------|--------------------------------------------|---------------------------------|---------------------|
| <b>IA</b> = Internal Audit   | <b>H</b> = High Risk                       | <b>M</b> = Medium Risk          | <b>L</b> = Low Risk |
| <b>NP</b> = Notable Practice | <b>CFQ</b> = Client Feedback Questionnaire | <b>ToR</b> = Terms of Reference |                     |

**2017/18 IA Assurance Reviews:**

| IA Ref. | IA Review Area                                                                              | Status as at 29 <sup>th</sup> March 2018         | 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 <sup>st</sup> Jul 2017 | No              | 4           | 3  | 3 | 0  | ✓             |
| 17-A10  | Volunteering                                                                                | Final report issued on 18 <sup>th</sup> Sep 2017 | Limited         | 0           | 3  | 1 | 0  | ✓             |
| 17-A2   | Children missing from home, placement and education                                         | Final report issued on 12 <sup>th</sup> Oct 2017 | Limited         | 0           | 10 | 6 | 0  | ✓             |
| 17-A5   | Extra Care                                                                                  | Final report Issued on 14 <sup>th</sup> Nov 2017 | Limited         | 2           | 5  | 4 | 0  | ✓             |
| 17-A13  | Child Protection Conferences                                                                | Final report issued on 3 <sup>rd</sup> Jan 2018  | Limited         | 0           | 8  | 7 | 0  | ✓             |
| 17-A3   | Facilities Management                                                                       | Final report issued on 6 <sup>th</sup> Feb 2018  | Limited         | 0           | 3  | 3 | 0  | ✓             |
| 17-A26  | Trading Standards                                                                           | Final report issued on 19 <sup>th</sup> Feb 2018 | Limited         | 3           | 4  | 3 | 0  | ✓             |
| 17-A16  | CYPS Thematic review - Key Working Service, Family Support                                  | Final report issued on 27 <sup>th</sup> Feb 2018 | Limited         | 0           | 6  | 6 | 0  | ✓             |
| 17-A23  | Disabled Facilities Grant (DFG)                                                             | Final report issued on 23 <sup>rd</sup> Mar 2018 | Limited         | 1           | 6  | 7 | 0  | ✓             |
| 17-A9   | Public Health - Substance Misuse contract, including ARCH Service                           | Final report issued on 5 <sup>th</sup> Sep 2017  | Reasonable      | 0           | 2  | 4 | 2  | ✓             |
| 17-A6   | Planning applications - Quality Control                                                     | Final report issued on 6 <sup>th</sup> Sep 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 <sup>th</sup> Sep 2017 | Reasonable      | 0           | 11 | 6 | 1  | ✓             |
| 17-A14  | Education for Children Looked After                                                         | Final report issued on 12 <sup>th</sup> Dec 2017 | Reasonable      | 0           | 3  | 3 | 1  | ✓             |
| 17-A12  | IR35                                                                                        | Final report issued on 8 <sup>th</sup> Mar 2018  | Reasonable      | 0           | 4  | 0 | 0  | Not yet due   |
| 17-A29  | Contact Centre                                                                              | Final report issued on 21 <sup>st</sup> Mar 2018 | Reasonable      | 0           | 3  | 5 | 0  | Not yet due   |

**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 29 <sup>th</sup> March 2018         | Assurance Level | Risk Rating |     |     |    | CFQ Received? |
|-------------------------------------------|------------------------------------------------------------|--------------------------------------------------|-----------------|-------------|-----|-----|----|---------------|
|                                           |                                                            |                                                  |                 | H           | M   | L   | NP |               |
| 17-A27                                    | School Placement Planning                                  | Final report issued on 20 <sup>th</sup> Feb 2018 | Substantial     | 0           | 0   | 4   | 1  | ✓             |
| 17-A24                                    | Equality Act                                               | Draft report issued on 12 <sup>th</sup> Mar 2018 |                 |             |     |     |    |               |
| 17-A40                                    | Food and Safety Regulation                                 | Draft report issued on 26 <sup>th</sup> Mar 2018 |                 |             |     |     |    |               |
| 17-A22                                    | Management and Control of Void Dwellings                   | Draft report issued on 27 <sup>th</sup> Mar 2018 |                 |             |     |     |    |               |
| 17-A17                                    | Social Media                                               | Draft report issued on 27 <sup>th</sup> Mar 2018 |                 |             |     |     |    |               |
| 17-A35                                    | Leisure Centres                                            | Draft report issued on 29 <sup>th</sup> Mar 2018 |                 |             |     |     |    |               |
| 17-A25                                    | Staff overtime, allowances and expenses, including mileage | Draft report in progress                         |                 |             |     |     |    |               |
| 17-A34                                    | Community Safety including Domestic Abuse                  | Draft report in progress                         |                 |             |     |     |    |               |
| 17-A28                                    | Corporate Payments                                         | Testing in progress                              |                 |             |     |     |    |               |
| 17-A36                                    | Access to Resources                                        | Testing in progress                              |                 |             |     |     |    |               |
| 17-A33                                    | Corporate Payments                                         | Deferred - See Appendix B                        |                 |             |     |     |    |               |
| Total Number of IA Recommendations Raised |                                                            |                                                  |                 | 10          | 73  | 64  | 5  |               |
| Total % of IA Recommendations Raised      |                                                            |                                                  |                 | 7%          | 50% | 43% | -  |               |

**2017/18 IA Follow-Up Reviews:**

| IA Ref. | IA Follow-Up Review Area                 | Status as at 29 <sup>th</sup> March 2018 | Recommendations |                    |                 |       |
|---------|------------------------------------------|------------------------------------------|-----------------|--------------------|-----------------|-------|
|         |                                          |                                          | Implemented     | Partly Implemented | Not Implemented | Total |
| 17-A11  | Follow-Up of implemented recommendations | Verification testing concluded           | 73              | 5                  | 5               | 83    |
| 17-A18  | Capital Programme                        | Memo issued 6 <sup>th</sup> Oct 2017     | 4               | 0                  | 0               | 4     |
| 17-A19  | Scheme of Delegations                    | Memo issued 9 <sup>th</sup> Nov 2017     | 0               | 2                  | 0               | 2     |

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

| IA Ref.             | IA Follow-Up Review Area                                                          | Status as at 29 <sup>th</sup> March 2018 | Recommendations     |                     |                     |            |
|---------------------|-----------------------------------------------------------------------------------|------------------------------------------|---------------------|---------------------|---------------------|------------|
|                     |                                                                                   |                                          | Implemented         | Partly Implemented  | Not Implemented     | Total      |
| 17-A32              | Housing Repairs                                                                   | Memo issued 27 <sup>th</sup> Nov 2017    | 7                   | 2                   | 1                   | 10         |
| 17-A30              | Houses in Multiple Occupation (HMO) registration, including fit and proper person | Memo issued 4 <sup>th</sup> Dec 2017     | 0                   | 2                   | 5                   | 7          |
| 17-A31              | Housing - Planned Maintenance                                                     | Memo issued 4 <sup>th</sup> Dec 2017     | 2                   | 4                   | 0                   | 6          |
| 17-A39              | Data Quality within Regulatory Services                                           | Memo issued 22 <sup>nd</sup> Mar 2018    | 1                   | 4                   | 2                   | 7          |
| 17-A38              | Anti-Social Behaviour Investigations Team                                         | Memo issued 21 <sup>st</sup> Mar 2018    | 0                   | 3                   | 2                   | 5          |
| 17-A37              | Housing Needs - Allocations and Assessments                                       | Memo issued 22 <sup>nd</sup> Mar 2018    | 7                   | 3                   | 0                   | 10         |
| 17-A41              | Houses in Multiple Occupation (HMO) registration, including fit and proper person | Memo issued 29 <sup>th</sup> Mar 2018    | 1                   | 6                   | 0                   | 7          |
| <b>Total Number</b> |                                                                                   |                                          | <b>95<br/>(67%)</b> | <b>31<br/>(22%)</b> | <b>15<br/>(11%)</b> | <b>141</b> |

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**2017/18 IA Consultancy Reviews:**

| IA Ref. | IA Review Area                                                | Status as at 29 <sup>th</sup> March 2018               | CFQ Received? |
|---------|---------------------------------------------------------------|--------------------------------------------------------|---------------|
| 17-C4   | Stores - Year End Stock Take                                  | Memo issued on 20 <sup>th</sup> Apr 2017               | ✓             |
| 17-C1   | Payment Card Industry Data Security Standard (PCIDSS)         | Memo issued on 15 <sup>th</sup> May 2017               | ✓             |
| 17-C6   | Green Spaces - Petty Cash Imprest Account (Duke of Edinburgh) | Memo issued on 11 <sup>th</sup> Jul 2017               | ✓             |
| 17-C5   | Parking Services Administration                               | Memo issued on 1 <sup>st</sup> Aug 2017                | ✓             |
| 17-C2   | Data quality for vulnerable service users                     | Memo issued on 18 <sup>th</sup> Sep 2017               | ✓             |
| 17-C7   | CYPS Thematic review - Benchmarking                           | Memo issued on 17 <sup>th</sup> Oct 2017               | ✓             |
| 17-C11  | Troubled Families Process Mapping                             | Memo issued on 15 <sup>th</sup> Nov 2017               | ✓             |
| 17-C10  | Assurance Mapping                                             | Assurance map pilot issued on 4 <sup>th</sup> Dec 2017 | N/A           |

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

| IA Ref. | IA Review Area                                     | Status as at 29 <sup>th</sup> March 2018  | CFQ Received? |
|---------|----------------------------------------------------|-------------------------------------------|---------------|
| 17-C8   | Thematic Review of Debt Recovery Agents (Bailiffs) | Memo issued on 22 <sup>nd</sup> Dec 2018  | ✓             |
| 17-C13  | CYPS Thematic review - Ofsted                      | Memo issued on 22 <sup>nd</sup> Jan 2018  | ✓             |
| 17-C15  | Missing Children                                   | Memo issued on 28 <sup>th</sup> Feb 2018  | ✓             |
| 17-C19  | Mayors Charity Accounts 2017/18                    | Memo issued on 28 <sup>th</sup> Feb 2018  | N/A           |
| 17-C18  | Landlord Engagement                                | Memo issued on 27 <sup>th</sup> Mar 2018  | Not yet due   |
| 17-C20  | Stores Stock Check                                 | Memo issued on 29 <sup>th</sup> Mar 2018  | Not yet due   |
| 17-C12  | Service Contracts                                  | Memo in progress                          | -             |
| 17-C17  | Asylum                                             | Memo in progress                          | -             |
| 17-C14  | Youth Offending Service                            | Deferred - See <a href="#">Appendix B</a> | -             |
| 17-C16  | Performance Management                             | Deferred - See <a href="#">Appendix B</a> | -             |

**2017/18 IA Grant Claim Verification Reviews:**

| IA Ref. | IA Review Area                               | Status as at 29 <sup>th</sup> March 2018               |
|---------|----------------------------------------------|--------------------------------------------------------|
| 17-GC1  | Troubled Families Grant - Quarters 1 and 2   | Certified and memo issued on 3 <sup>rd</sup> Aug 2017  |
| 17-GC3  | Housing Benefits Subsidy Grant               | IA testing completed on 18 <sup>th</sup> Aug 2017      |
| 17-GC2  | Disabled Facilities Capital Grant (DFG)      | Certified and memo issued on 29 <sup>th</sup> Sep 2017 |
| 17-GC4  | Bus Subsidy Grant                            | Certified and memo issued on 29 <sup>th</sup> Sep 2017 |
| 17-GC5  | Troubled Families Grant - Quarter 3          | Certified and memo issued on 24 <sup>th</sup> Oct 2017 |
| 17-GC6  | Troubled Families Grant - Quarter 4 (Part 1) | Certified and memo issued on 23 <sup>rd</sup> Jan 2018 |
|         | Troubled Families Grant - Quarter 4 (Part 2) | Certified and memo issued on 26 <sup>th</sup> Feb 2018 |
|         | Troubled Families Grant - Quarter 4 (Part 3) | Certified and memo issued on 21 <sup>st</sup> Mar 2018 |
| 17-GC7  | Hillingdon Teaching Schools Alliance (HTSA)  | Certified and memo issued on 24 <sup>th</sup> Jan 2018 |

**APPENDIX B****REVISIONS TO THE 2017/18 INTERNAL AUDIT PLAN ~ QUARTER 4****IA work DEFERRED from the 2017/18 Operational IA Plan for Quarter 4:**

| IA Ref. | Planned IA Review Area        | Review Type | IA Risk Rating | Review Sponsor                                         | Scope / Rationale                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------|-------------------------------|-------------|----------------|--------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 17-A33  | Corporate Payments            | Assurance   | MEDIUM         | <b>Paul Whaymand</b><br>Corporate Director of Finance  | Due to resource constraints within the period, it was decided that it would be prudent to defer this review to the Quarter 1 of 2018/19 as detailed within Appendix C, below.                                                                                                                                                                                                                                                                       |
| 17-C14  | Youth Offending Service (YOS) | Consultancy | MEDIUM         | <b>Tony Zaman</b><br>Corporate Director of Social Care | It was established that the new framework out for consultation by the HM Inspectorate of Probation on standards and ratings for inspecting YOS won't be rolled out until the summer of 2018. Therefore, as work is still being undertaken to finalise the standards, the planned gap analysis against the new standards with a view to enhancing and aligning the Council's control framework to these standards, would not add value at this time. |
| 17-C16  | Performance Management        | Consultancy | MEDIUM         | <b>Fran Beasley</b><br>Chief Executive                 | Further to delays in the new Performance Management software project mobilisation, this consultancy review where Internal Audit would form part of the implementation project group on an advisory capacity, providing guidance on the system and control environment has been delayed by approximately 6 months.                                                                                                                                   |

**IA work ADDED to the 2017/18 Operational IA Plan for Quarter 4:**

| IA Ref. | Planned IA Review Area     | Review Type | IA Risk Rating | Review Sponsor                                                                             | Scope / Rationale                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------|----------------------------|-------------|----------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 17-A40  | Food and Safety Regulation | Assurance   | MEDIUM         | <b>Jean Palmer</b><br>Deputy Chief Executive &<br>Corporate Director of Residents Services | A Business Improvement Development (BID) review of the Imported Food Office at the airport was conducted in the 2016/17 Financial Year raising a number of recommendations in relation to processes, pricing and efficiencies. Following management reorganisation, IA was requested by management to review progress against the BID recommendations and whether efficiencies have been realised without any detriment to the robustness of the control environment. |

**APPENDIX B (cont'd)****REVISIONS TO THE 2017/18 INTERNAL AUDIT PLAN ~ QUARTER 4****IA work ADDED to the 2017/18 Operational IA Plan for Quarter 4 (Cont'd):**

| IA Ref. | Planned IA Review Area                                                            | Review Type | IA Risk Rating | Review Sponsor                                                                          | Scope / Rationale                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------|-----------------------------------------------------------------------------------|-------------|----------------|-----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 17-A41  | Houses in Multiple Occupation (HMO) registration, including fit and proper person | Follow-Up   | <b>HIGH</b>    | <b>Jean Palmer</b><br>Deputy Chief Executive & Corporate Director of Residents Services | Following the Quarter 3 IA follow-up review which showed limited progress on the implementation of the 4 <b>HIGH</b> and 3 <b>MEDIUM</b> risk recommendations raised within the prior <b>NO</b> assurance review in this area, a subsequent follow-up review was requested by Senior Management and the Audit Committee to provide assurance that risk exposure has been appropriately mitigated.                         |
| 17-C19  | Mayors Charity Accounts 2016/17                                                   | Consultancy | <b>LOW</b>     | <b>Paul Whaymand</b><br>Corporate Director of Finance                                   | The Mayor's Charity has been registered as a charitable trust in November 2015 and therefore is required to comply and operate within Charity Commission guidelines. The Council is currently preparing the accounts for the Mayor's Charity and IA has been asked to assist as part of this process. These accounts do not form part of the Council's finances so there would be no conflict in undertaking this review. |
| 17-C20  | Store Stock Check 2017/18                                                         | Consultancy | <b>LOW</b>     | <b>Jean Palmer</b><br>Deputy Chief Executive & Corporate Director of Residents Services | IA was requested to provide independent oversight and verification of the 2017/18 year end stock check performed on 29 <sup>th</sup> March 2018 at Harlington Road Depot (HRD).                                                                                                                                                                                                                                           |

**APPENDIX C****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 1****IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2018 period:**

| IA Ref.           | Planned Audit Area       | Audit Type | Risk Assessment | Review Sponsor                                                                                | Rationale                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------|--------------------------|------------|-----------------|-----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 18-A1             | Cyber Security           | Assurance  | HIGH            | <b>Jean Palmer</b><br>Deputy Chief Executive &<br>Corporate Director of<br>Residents Services | Cyber security can be defined as the defence of any physical or information asset, which could be compromised using information technology. The increasing reliance on internet based activities makes organisations more vulnerable to 'cyber attacks'.<br><br>This IA review follows on from the assurance mapping exercise undertaken in 2017/18, providing independent assurance over the adequacy and effectiveness of the system of control to safeguard intellectual assets and data. |
| 18-A2             | Declaration of Interests | Assurance  | HIGH            | <b>Fran Beasley</b><br>Chief Executive                                                        | The Council is committed to the application of the Nolan principles in everything that they do. The honesty principle states that "Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest".<br><br>This IA review will seek to provide assurance over the adequacy and application of the control and governance framework in place.            |
| 18-A3<br>(17-A33) | Corporate Payments       | Assurance  | MEDIUM          | <b>Paul Whaymand</b><br>Corporate Director of<br>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. This review will focus on the control mechanisms surrounding wider payments made by the Council.                                                               |
| 18-A4             | Symology Data Quality    | Assurance  | MEDIUM          | <b>Jean Palmer</b><br>Deputy Chief Executive &<br>Corporate Director of<br>Residents Services | All functions from cyclic inspections and routine maintenance works through to condition projection and strategic pavement management are encompassed within the fully integrated Insight for Highways system. This system is only used for Highways at present with plans to roll the system out across the whole service. This provides an opportunity to assure system utilisation and data quality.                                                                                      |

**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 1****IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2018 period:**

| IA Ref. | Planned Audit Area              | Audit Type | IA Risk Assessment | Review Sponsor                                                                                | Rationale                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------|---------------------------------|------------|--------------------|-----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 18-A5   | Complaints                      | Assurance  | MEDIUM             | <b>Jean Palmer</b><br>Deputy Chief Executive &<br>Corporate Director of<br>Residents Services | The Council is committed to putting people at the centre of everything we do and aims to provide the best possible service to residents. This assurance review week to confirm compliance with the Council's Complaints Policy, verifying that enquiries are carried out fairly, and complaints dealt with quickly and effectively while maintaining confidentiality. Further, we will seek to confirm the level and reporting of management information to ensure trends are analysed, monitored and escalated where appropriate to enhance the services provided to residents.                         |
| 18-A6   | Positive Behaviour Support Team | Assurance  | MEDIUM             | <b>Tony Zaman</b><br>Corporate Director of<br>Social Care                                     | The Positive Behaviour Support (PBS) Team are critical in the identification, formulation and delivery of intensive behavioural support services for some of the borough's most vulnerable residents. The development and delivery of person-centred strategies in Education, Health and Social Care minimise challenging behaviour whilst enhancing the quality of life of residents who have challenging needs. This IA review will provide assurance over service delivery, including compliance with the National Institute of Clinical Excellence (NICE) guidance and the PBS Competence Framework. |
| 18-A7   | CYPS - Quality Assurance        | Assurance  | MEDIUM             | <b>Tony Zaman</b><br>Corporate Director of<br>Social Care                                     | This review will seek to provide assurance over the methodology, application and impact of the quality assurance initiative put in place by the Deputy Director of Children's Services. This includes review of the reporting activity, identifying areas of non compliance, the positively changing behaviours aspects and the ways of working.                                                                                                                                                                                                                                                         |
| 18-A8   | Early Years Centres             | Assurance  | MEDIUM             | <b>Paul Whaymand</b><br>Corporate Director of<br>Finance                                      | The Council's Early Years Centres provide day care, education and family support to children aged six months to five years and their families. This IA review will focus providing assurance over the financial management and administration of the Centres.                                                                                                                                                                                                                                                                                                                                            |

**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 1****IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2018 period:**

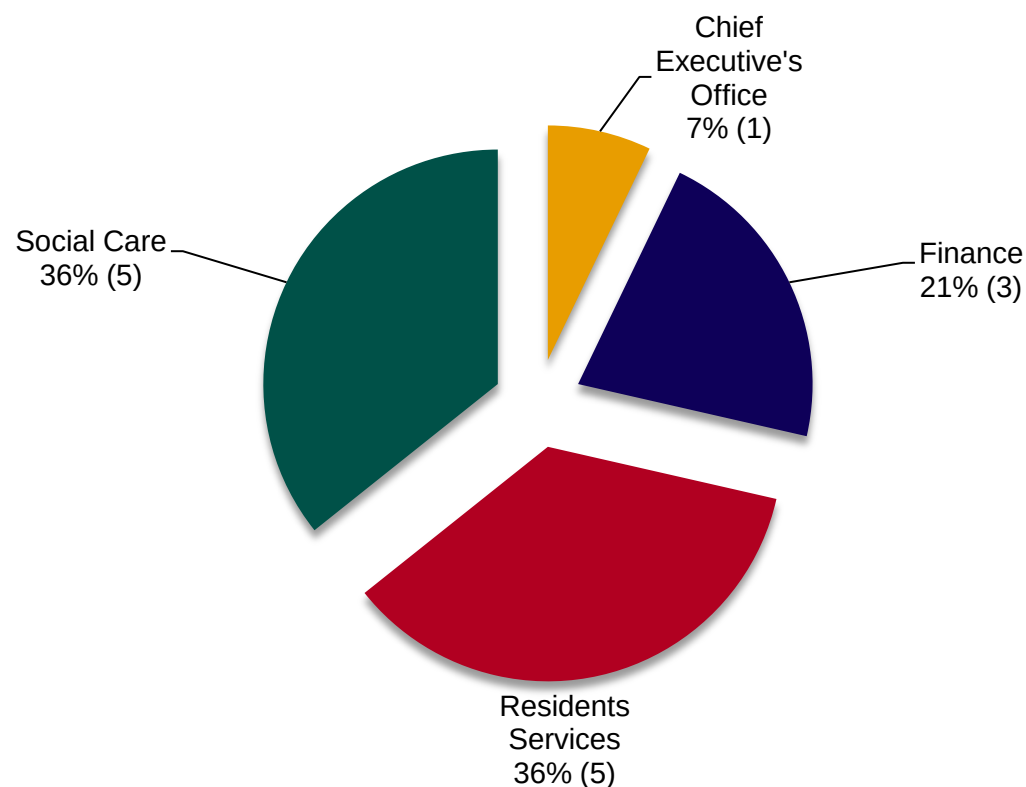
| IA Ref. | Planned Audit Area               | Audit Type            | IA Risk Assessment | Review Sponsor                                                                          | Rationale                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------|----------------------------------|-----------------------|--------------------|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 18-A9   | Physical Access Controls         | Assurance (Follow-up) | <b>HIGH</b>        | <b>Jean Palmer</b><br>Deputy Chief Executive & Corporate Director of Residents Services | The 2016/17 IA assurance review in this area received a <b>NO</b> assurance opinion and this dedicated follow-up review, with a refined scope, solely focuses on the implementation of the 3 <b>HIGH</b> and 5 <b>MEDIUM</b> risk recommendations raised within the final report issued on 7 <sup>th</sup> November 2016.                                                                                                                                                                                                                                                                                                                                            |
| 18-A10  | Extra Care                       | Assurance (Follow-up) | <b>MEDIUM</b>      | <b>Tony Zaman</b><br>Corporate Director of Social Care                                  | Following the 2017/18 IA assurance review in this area which received a <b>LIMITED</b> assurance opinion, this dedicated follow-up review, with a refined scope, solely focuses on the implementation of the 2 <b>HIGH</b> and 5 <b>MEDIUM</b> risk recommendations raised within the final report issued on 14 <sup>th</sup> November 2017.                                                                                                                                                                                                                                                                                                                         |
| 18-C1   | Introduction of Universal Credit | Consultancy           | <b>HIGH</b>        | <b>Jean Palmer</b><br>Deputy Chief Executive & Corporate Director of Residents Services | In May 2016, the full universal credit service for all claimant types began to rollout nationally (beyond London) and in July 2016 it was announced that this rollout will complete by September 2018, with all remaining existing benefit claimants moved to the full universal credit service in 2019. Review of the risks relating to the set up, administration and management of the different welfare reforms and the impact upon the Council including resources required as universal credit is phased in. Indirect impacts, when coupled with recessionary impacts, can be wide ranging and in some cases significant including homelessness and education. |
| 18-C2   | Client Financial Affairs (CFA)   | Consultancy           | <b>MEDIUM</b>      | <b>Paul Whaymand</b><br>Corporate Director of Finance                                   | The CFA team's remit spans the following 3 main areas of work; Appointeeships, Deputyships, and Public Health Funerals. Following a Business Improvement Development (BID) review of the CFA function, IA has been requested to work with management regarding the future robustness of the control environment, exploring integrated ways of working, minimising risk exposure.                                                                                                                                                                                                                                                                                     |

**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 1****IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 2018 period:**

| IA Ref. | Planned Audit Area                  | Audit Type  | IA Risk Assessment | Review Sponsor                                         | Rationale                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------|-------------------------------------|-------------|--------------------|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 18-C3   | CYPS Thematic Review                | Consultancy | <b>MEDIUM</b>      | <b>Tony Zaman</b><br>Corporate Director of Social Care | We will be undertaking thematic reviews each quarter, this quarter to provide consultancy guidance on the readiness of Children and Young People's Service for an Ofsted inspection. This will seek to demonstrate the Council's commitment to high standards of practice, management and leadership in the safeguarding of children.                                                                                                                    |
| 18-GC1  | Troubled Families Grant - Quarter 1 | Grant Claim | N/A                | <b>Tony Zaman</b><br>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'. |

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

**IA work scheduled to commence in the 1<sup>st</sup> April to 30<sup>th</sup> June 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 <b>HIGH</b> risk IA recommendations where positive management action is proposed                 | 98%                | 100%               | GREEN      |
| KPI 2    | 2017/18 <b>MEDIUM</b> risk IA recommendations where positive management action is proposed               | 95%                | 100%               | GREEN      |
| KPI 3    | 2017/18 <b>HIGH</b> risk IA recommendations where management action is taken within agreed timescale     | 90%                | 100%               | GREEN      |
| KPI 4    | 2017/18 <b>MEDIUM</b> risk IA recommendations where management action is taken within agreed timescale   | 75%                | 34%                | RED        |
| KPI 5    | Percentage of annual (Q1 to Q4) IA Plan delivered to <b>draft report</b> stage by 31 <sup>st</sup> March | 90%                | 90%                | GREEN      |
| KPI 6    | Percentage of annual (Q1 to Q4) IA Plan delivered to <b>final report</b> stage by 31 <sup>st</sup> March | 80%                | 80%                | GREEN      |
| KPI 7    | Percentage of draft reports issued as a final report within 15 working days                              | 75%                | 58%                | RED        |
| KPI 8    | Client Satisfaction Rating (from CFQs)                                                                   | 85%                | 92%                | GREEN      |
| KPI 9    | IA work fully compliant with the UK <b>PSIAS</b> and <b>IIA Code of Ethics</b>                           | 100%               | 100%               | GREEN      |

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

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

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

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

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

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## **BUSINESS ASSURANCE - DRAFT ANNUAL INTERNAL AUDIT PLAN 2018/19**

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

### **REASON FOR ITEM**

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

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

### **RECOMMENDATION**

**That the Audit Committee notes the draft Annual IA Plan for 2018/19.**

### **INFORMATION**

The outcomes from the work proposed in the 2018/19 IA Plan underpin the Head of Business Assurance's statutory annual IA opinion statement. This opinion concludes on the overall adequacy and effectiveness of the Council's internal control, risk management and corporate governance arrangements. It also supports the Council's Annual Governance Statement which forms part of the statutory financial statements.

In 2018/19, the Business Assurance service at Hillingdon will continue to apply a fully risk-based approach to its IA coverage. This means that Business Assurance gives greater assurance to the Council because its IA coverage is closer aligned to the key risks to the achievement of the Council's objectives. As a result, Business Assurance will not just be commenting on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.

In order to deliver this assurance it is vital for the organisation to have a comprehensive IA Plan which gives sufficient risk-based coverage and support to management. To help meet this need, the risk-based IA Plan for 2018/19 has been linked to the organisational objectives and strategic priorities, whilst also taking account of the Council's wider assurance framework.

In preparing the draft Annual IA Plan 2018/19, we have carried out a risk assessment exercise which has involved consideration of risk registers, reviewing committee and HIP reports as well as reports from external inspectorates. Further, the Annual IA Plan has been developed in accordance with the IA Charter and the IA Strategy. We have also consulted with External Audit and all senior managers in addition to considering legislative updates, as well as exercising our own professional judgement.

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

## **LEGAL IMPLICATIONS**

There are no legal implications arising directly from this report.

## **BACKGROUND PAPERS**

The Business Assurance service holds various background research papers in relation to the Annual IA Plan 2018/19.

## **Internal Audit Plan 2018/19: Draft for Audit Committee**

**29<sup>th</sup> March 2018**

## 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 IA provides an objective opinion to the Council on whether the control environment, corporate governance arrangements and risk management framework are operating effectively. In 2018/19 the IA service at Hillingdon will continue to apply a fully risk-based approach to its IA coverage, establishing **quarterly risk-based plans** to determine the priorities of the IA activity, in accordance with PSIAS 2010 - Planning. This means that IA gives greater assurance to the Council because it is based on the key risks to the organisation's objectives. As a result, we will not just be commenting on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.

### 1.2 The Purpose of the Internal Audit Plan

- 1.2.1 The IA Plan is a crucial component of the annual assurance opinion statement provided by the Head of Business Assurance, as the Council's Head of Internal Audit (HIA), to those charged with governance. In order to deliver this assurance it is vital for the organisation to have a comprehensive IA Plan which gives sufficient risk-based coverage and support to management. Hillingdon, in common with all other councils, faces a number of challenges including increased demand for services in a number of key areas. The test for Hillingdon Council is therefore to continue to try to balance the needs of our most vulnerable communities with the continually decreasing financial resources.
- 1.2.2 To help meet this need, the risk-based IA Plan for 2018/19 has been linked to the organisational objectives and strategic priorities, whilst also taking account of the Council's corporate risk register and wider assurance framework. In addition, the IA Plan for 2018/19 has been developed in accordance with the recently updated IA Charter and the five year IA Strategy.

## 2. The Internal Audit Planning Process

### 2.1 Skills and Resources

- 2.1.1 In line with the PSIAS Attribute Standard 1210 - Proficiency, the HIA is professionally qualified and suitably experienced whilst the IA activity collectively possess (or obtain) the knowledge, skills and other competencies needed to perform its responsibilities. The skills mix within the rest of the in-house Internal Audit team has continued to evolve over the last 12 months, with **every member of the IA service now either professionally qualified or actively studying for a relevant professional qualification**.
- 2.1.2 As per the IA strategy, we continue to invest in the training and development of all our staff, including identifying opportunities for further development in associated areas of assurance. The recent movement in staffing structure within the IA service has provided the Head of Internal Audit with an opportune time to reflect on the structure and skills mix across the Internal Audit team. This has enabled internal promotion, in line with our IA recruitment strategy and model, providing additional responsibility where merited and as a result of continued excellent performance.

- 2.1.3 Demand for IA assurance and consulting services usually exceeds available IA resources at local authorities. This means choices have to be made that will determine the impact IA has upon the organisation and the way key stakeholders perceive the value of IA. The starting point in the IA planning process at Hillingdon is therefore to **determine the total available IA staff resources**.
- 2.1.4 After deducting an appropriate amount of allocated time for IA planning, reporting, staff training, etc, the calculated **total available IA chargeable time for 2018/19** at Hillingdon is **900 IA Days**. By comparison, this represents a 100 day reduction on the 2017/18 IA Plan as highlighted at **Appendix B**. This decrease in days is primarily due a change in the composition and skills of the IA team and a resulting increase in training and development, rather than a reduction in the IA budget for 2018/19.
- 2.1.5 Overall, available IA resources fulfil the PSIAS requirements in terms of the combination of professionally qualified and experienced staff and are broadly in line with similar size and types of authority in England. As a result, following recruitment, we are confident that there will be sufficient IA resources available to meet the skills and resource requirements needed to deliver the 2018/19 risk-based IA Plan.

## 2.2 Planning Sources

- 2.2.1 Although the IA Plan for the year is determined by the number of days available, the primary purpose of the IA Plan is ensuring that the key risks facing the Council are given sufficient IA attention. Therefore the next step in developing the risk-based annual IA Plan has been to make reference to a variety of planning sources (as per the flowchart of the IA Process attached at **Appendix A**) including:

- **Team Plans** – We carried out a review of team plans, where these could be traced, to help us confirm the strategic objectives of each service area;
- **Corporate Risk Register** – Review of the Council's Corporate Risk Register to establish those charged with governance's view of the main risks facing the Council;
- **Group & Service Risk Registers** – We conducted a review of Group and Service risk registers (where they were in place), to help identify the key risks facing each service;
- **Senior Management** – We have met or spoken with all senior managers across the Council including members of Corporate Management Team (CMT), to develop our knowledge of the risks and challenges facing their services;
- **Key Documents** – We have carried out a desktop review of key Council documents including minutes and reports of Cabinet and various committee meetings, as well as recent Business Improvement Delivery (BID) and Hillingdon Improvement Programme (HIP) reports, in addition to the draft budget papers for 2018/19;
- **Audit Committee** – We will invite comments from all members of the Audit Committee when they consider the draft IA plan at the next Audit Committee meeting on 11<sup>th</sup> April 2018. The IA plan will be subsequently updated to reflect any further comments and observations the Audit Committee members may have, before being formally finalised and circulated to all key stakeholders;
- **Members** – We have consulted with the Leader of the Council to seek his views on the key risks facing the Council; we have previously invited comments from all Cabinet Members, in addition to providing training at the Member development day;
- **External Audit** – We have liaised with Ernst and Young (EY) to discuss any matters of concern and to identify those areas where they are likely to consider IA work to inform their own risk assessment;
- **External Inspections** – We have given consideration to any relevant external inspection or peer review reports; and
- **IA Cumulative Knowledge** – We also make reference to the cumulative knowledge of the Business Assurance service of known control weaknesses and risks facing the Council, including the wider strategic issues and regulatory changes emerging elsewhere, effecting local government.

## 2.3 Risk Assessment

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

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

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

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

## 3. The 2018/19 Internal Audit Plan

- 3.1 The results of the **overall risk assessment** process are then used to determine IA priorities and produce the allocation of IA resources. Both the HIP and BID processes help the Council deal with the budget pressures and increasing demand for its services. However, this transformational work results in a fast changing control environment and we therefore introduced a revised method to IA planning during the 2015/16 financial year. We continue to operate this quarterly approach, providing a **high-level estimation** of where we expect to utilise our resources over the coming year, with detailed operational IA Plans being produced and agreed by CMT and Audit Committee on a **quarterly basis**. It is our opinion that this approach has helped to ensure that IA resources are directed in a more flexible and targeted manner to maximise the benefit to our stakeholders.

- 3.2 Attached at **Appendix B** is a pie chart which provides the IA Plan high-level estimation by audit type for 2018/19. We believe this allocation provides the best value to our key stakeholders, using a risk-based approach to internal control, risk management and corporate governance.
- 3.3 The relevant senior managers will be consulted with regards to the individual reviews that make up each of the high-level categories. Actual time spent on each category will be detailed in the quarterly IA progress reports.
- 3.4 The definitions of types of IA work and allocation (as detailed in the high-level IA Plan at **Appendix B**) are as follows:

| Type of IA Work        | Definition                                                                                                                                                                                                             | % of IA Plan | 2018/19 Allocation | 2017/18 Allocation |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------------|--------------------|
| Assurance              | Work which provides comfort to CMT and the Audit Committee that risks to the achievement of objectives (including transformation projects) are being effectively mitigated and arrangements are operating as expected. | 56%          | 500 Days           | 500 Days           |
| Consultancy & Advice   | Work where the primary purpose is to advise and support management to improve systems and processes, mitigate risk and enable the achievement of objectives.                                                           | 21%          | 190 Days           | 220 Days           |
| Core Financial Systems | Assurance coverage of the core financial processes that have a material impact on the financial position of the Council.                                                                                               | 9%           | 80 Days            | 100 Days           |
| RBIA - CRR             | Risk-based IA (RBIA) reviews that provide assurance on the Council's strategic risks identified in the <u>Corporate Risk Register (CRR)</u> .                                                                          | 5.5%         | 50 Days            | 70 Days            |
| Grant Claims           | Grant work on behalf of the Council including the Housing Subsidy and Troubled Families claims.                                                                                                                        | 5.5%         | 50 Days            | 60 Days            |
| Follow Up              | Activity which ascertains the implementation of agreed management actions.                                                                                                                                             | 2%           | 20 Days            | 30 Days            |
| Facilitation           | Activity which supports CMT in their management of risk and the production of the Annual Governance Statement (AGS).                                                                                                   | 1%           | 10 Days            | 20 Days            |
|                        |                                                                                                                                                                                                                        | 100%         | 900 Days           | 1,000 Days         |

- 3.5 However, as stated earlier, IA will **carry out a quarterly planning cycle** behind the high-level plan to ensure that we have the flexibility to respond to the dynamic environment in which the Council operates. As a result, formal updates of the IA Plan will be reported to CMT and the Audit Committee as part of the quarterly progress reports. This enables a continuous risk-based IA approach in line with the PSIAS. This will also make sure that the IA Plan will be subject to quarterly review, ensuring it remains aligned with the Council's objectives and emerging risks impacting their achievement.
- 3.6 CMT and the Audit Committee should also note that **there are a significant number of audit areas identified in the audit universe which fall below the risk threshold**. These areas are therefore unlikely to form part of the detailed operational IA Plans produced each quarter, unless specifically requested by management.

3.7 Appended to the Quarter 4 Progress report, presented to the Audit Committee, is the detailed operational IA plan for **Quarter 1** as agreed with the relevant senior managers. The detailed IA Plan has a number **key features**, detailed below:

- **ICT Audit** – The IA Plan makes provision for specialised computer audit work to be undertaken by our external contractor with some support provided by the in-house team. The scope of this assurance work will be to assess and report upon the adequacy of the key ICT controls present within major Council systems and ICT processes.
- **Projects** – Many local authorities have projects which struggle to deliver the benefits that are expected of them, often having major knock on effects and sometimes even conflicting with other projects. We can provide quality assurance on projects through the entire life cycle of change, from project identification through to final delivery.
- **Contracts** – With the increasing number of contracts in operation across the Council, there will be an increased focus by IA on contract related ‘assurance’ audits. This will include reviews of the procurement process, as well as contract management arrangements for the significant / high value contracts.
- **Consultancy** – In line with the PSIAS, IA coverage will include a range of consultancy work. The table at para 3.4 and chart at **Appendix B** highlights that 190 days has been allocated for IA consultancy which includes advice, training, facilitation or conducting specific consultancy reviews. Through participation in corporate project groups we will also provide insightful, independent and informed advice in order to reduce risk.
- **Grant Claim** - The public sector is funded from a number of sources, including hypothecated and unhypothecated grants. Hypothecated grants are grants for a specific purpose and their receipt is dependent on funding being spent in a particular way. Unhypothecated grants are general grants. The IA planning process has identified the number and timing of grant audits required during the year, to ensure that there is appropriate resource available to audit claims within the required timescales.
- **Counter Fraud** – Whilst the Business Assurance Counter Fraud Team (CFT) is the lead assurance provider for the Council on fraud and corruption, the PSIAS require IA to evaluate the risk of fraud and thus we have a responsibility to give regard to the possibility of fraud and corruption as part of our coverage. IA will review the Council’s counter fraud and corruption key controls as part of its ‘assurance’ coverage whilst, as a result of business transformation, closer working and liaison with the CFT is now in place, providing critical risk intelligence in order to focus IA resources.
- **Value for Money** – As part of our ‘assurance’ coverage, IA will conduct Value for Money (VfM) reviews on specific areas of expenditure and seek to reach a judgement on whether good VfM has been achieved by the Council. Good VfM is defined as the optimal use of resources to achieve the intended outcomes. Our role is not to question the Council’s policy objectives, but to provide independent and rigorous analysis to CMT and to the Audit Committee on the way in which public money has been spent to achieve policy objectives. As well as reaching an overall conclusion on VfM, where applicable we will make recommendations on how to achieve better VfM and to improve the services under examination.
- **Core Financial Systems** – The table at para 3.4 and chart at **Appendix B** highlights that 80 days have been allocated for coverage of the core financial systems. This represents a further reduction of the previous year’s coverage (see bar chart at **Appendix B**), which reflects the substantial assurance we can take from the results of our previous testing in this area in addition to other sources of assurance obtained by management and the fact that there are no major changes in financial systems planned for 2018/19.
- **Contingency** – An allocation for unprogrammed work will be included in each quarterly operational IA Plan. This will be used to respond to urgent requests for unplanned IA work. Where requests for work are not urgent, they will form part of the following quarter’s operational IA Plan.

- 3.8 CMT and the Audit Committee are fully aware that on 22<sup>nd</sup> October 2015, Schools Forum (SF) took a funding decision regarding the future of our IA coverage of schools. SF's decision has resulted in **IA coverage of LBH maintained schools being reduced to the statutory minimum** for the 2016/17 period onwards, which is subject to a comprehensive risk-based approach.

#### 4. Internal Audit Reporting

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

#### 5. The Internal Audit Follow Up Process

- 5.1 IA evaluates the Council's progress in implementing management agreed IA recommendations against set targets. Although detailed follow up work will not be carried out by us for any **LOW** risk recommendations, IA continues to monitor all **HIGH** and **MEDIUM** risk recommendations raised. The full definitions of all the **IA Risk Ratings** are included at **Appendix C**. If progress is unsatisfactory or management fail to provide a reasonable response to our follow up requests, we will implement the escalation procedure agreed with CMT, as clearly set out in our Management Protocol.
- 5.2 In addition to this, we continue with the renewed approach to follow-up work implemented within 2016/17, actively following up on prior **Limited** or **No** assurance reports within 6 months to a year after their issue. This approach provides additional assurance to CMT and the Audit Committee over the implementation of IA recommendations and whether the control environment is now operating as intended.
- 5.3 Linked to this, it is important that all key stakeholders are clear on our role; we do not tell management what to do; we identify internal control, risk management and corporate governance weaknesses along with notable practices for management's attention. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways (**the 4 T's**):
- i) **Transfer** the risk i.e. insure against it;
  - ii) **Terminate** the risk i.e. stop carrying out the activity that creates the potential risk;
  - iii) **Treat** the risk i.e. take mitigating action to reduce the risk; and
  - iv) **Tolerate** the risk i.e. do nothing and accept that this risk could materialise.

- 5.4 IA support and advise managers in formulating a response to the risks identified. As an organisational improvement function, we will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Progress on the implementation of IA recommendations will continue to be formally reported to CMT and the Audit Committee on a quarterly basis.

## 6. Measuring Internal Audit Performance

### 6.1 The Public Sector Internal Audit Standards

- 6.1.1 The PSIAS, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The standards, revised in April 2016, stress the importance of robust, independent and objective IA to provide senior management with the key assurances to support them in managing the organisation and in producing the AGS.

### 6.2 Internal Audit Measures of Success

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

### 6.3 Reporting Internal Audit Performance

- 6.3.1 There are a wide range of IA stakeholders to satisfy, but the key stakeholders for the purposes of the IA progress reports are CMT and the Audit Committee. Further to this, attached at **Appendix D** are the agreed **IA KPIs** for use in 2018/19. We will continue to use the monitoring data maintained on our dedicated IA software system (TeamMate). A summary of actual IA performance against the targeted performance will continue to be reported to CMT and the Audit Committee as part of the quarterly IA progress reports. These results will allow all stakeholders to measure the performance and robustness of the IA team delivered by the Business Assurance Service at Hillingdon.

### 6.4 Analysing Internal Audit Performance

- 6.4.1 All nine of the agreed IA KPIs (per **Appendix D**) need management co-operation to enable them to be achieved. In fact IA in isolation is unable to achieve any of these KPIs; they can influence the results but they cannot completely control them i.e. IA KPI 3 (**HIGH** risk IA recommendations where management action is taken within agreed timescale). IA influences this KPI by raising pragmatic recommendations and agreeing reasonable timescales with management, but ultimately the reliance is on management to strengthen the control environment in the agreed timeframe.
- 6.4.2 It is therefore important that interpretation of the IA KPIs is not taken in isolation, as other factors should be taken into account i.e. the increased risk focused IA approach being applied has resulted in a greater number of **HIGH** risk recommendations and a greater number of **LIMITED** assurance reports.
- 6.4.3 The IA KPI targets are ambitious, but they are achievable and realistic for a high performing Business Assurance service, which is what we strive to be at Hillingdon. In terms of KPI 8 (Client Satisfaction Rating), this is based on an average score of 3.4 out of 4.0 from the IA Client Feedback Questionnaires completed by management. KPI 9 (IA reviews compliant with the PSIAS and IIA Code of Ethics) is an internal quality check completed, as part of an annual assessment of the service, to verify that all our IA work meets the required standards.

## 6.5 Individual Internal Audit Staff Performance

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

## 7. Acknowledgement

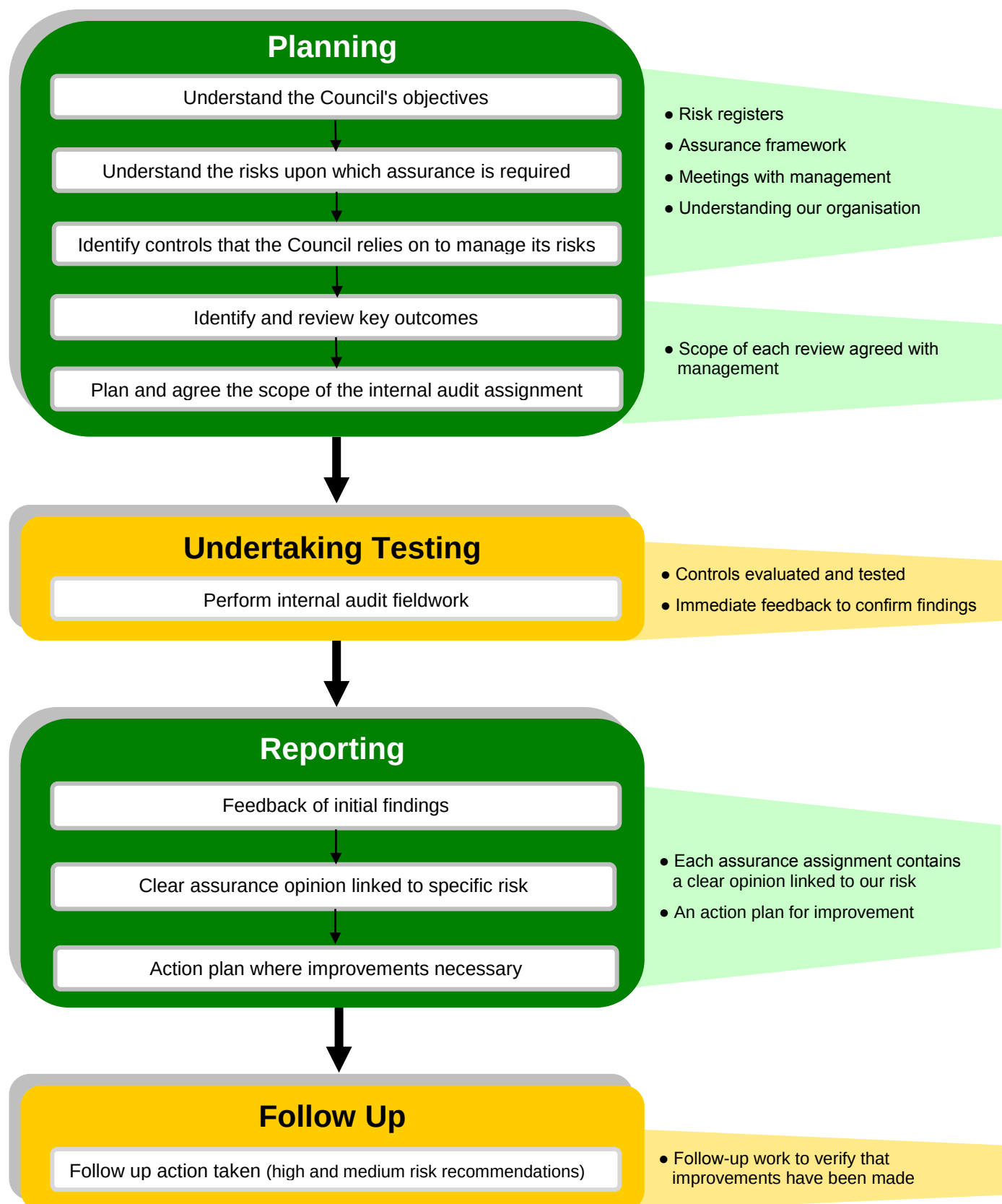
- 7.1 The draft IA Plan was formally considered by CMT at its meeting on 28<sup>th</sup> March 2018 and is due to be presented to the Audit Committee at its planned meeting on 11<sup>th</sup> April 2018. It will then be finalised and circulated to key stakeholders including all senior managers across the Council.
- 7.2 Business Assurance would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the Council's management as part of the risk-based planning process.

Muir Laurie FCCA CMIIA  
**Head of Business Assurance**

29<sup>th</sup> March 2018

**APPENDIX A****THE INTERNAL AUDIT PROCESS**

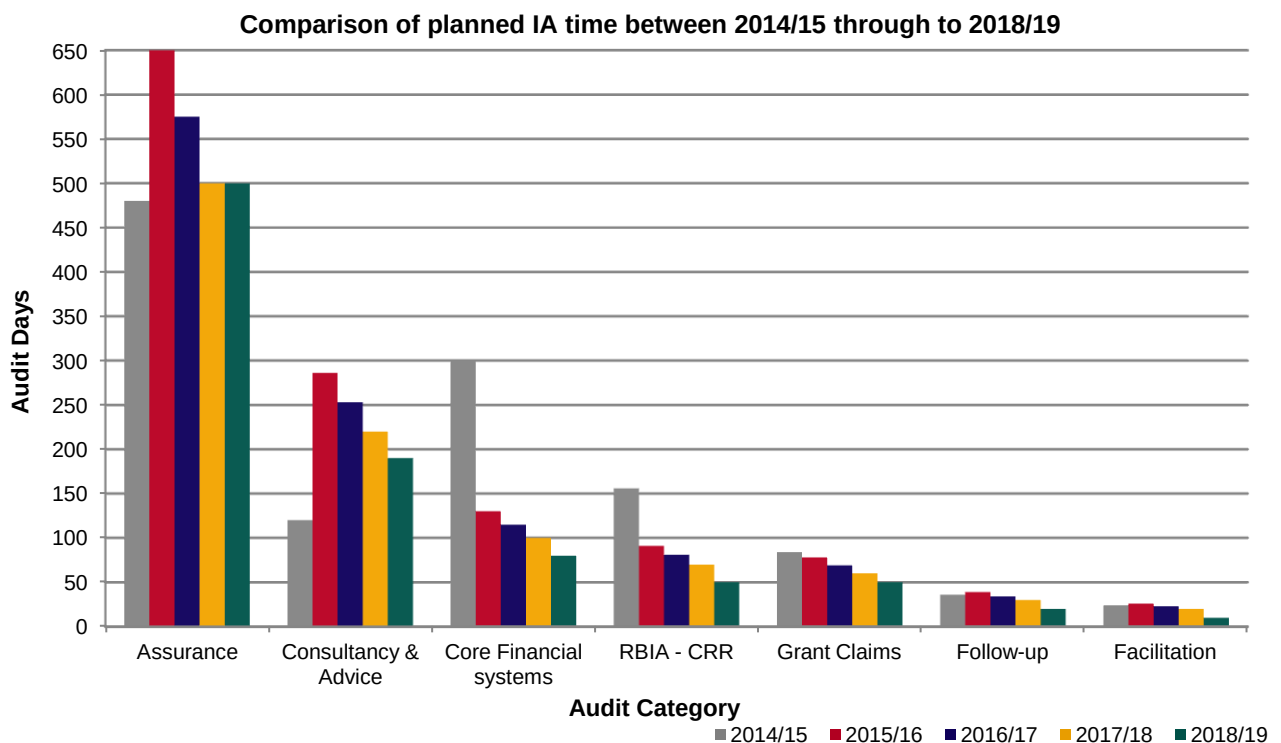
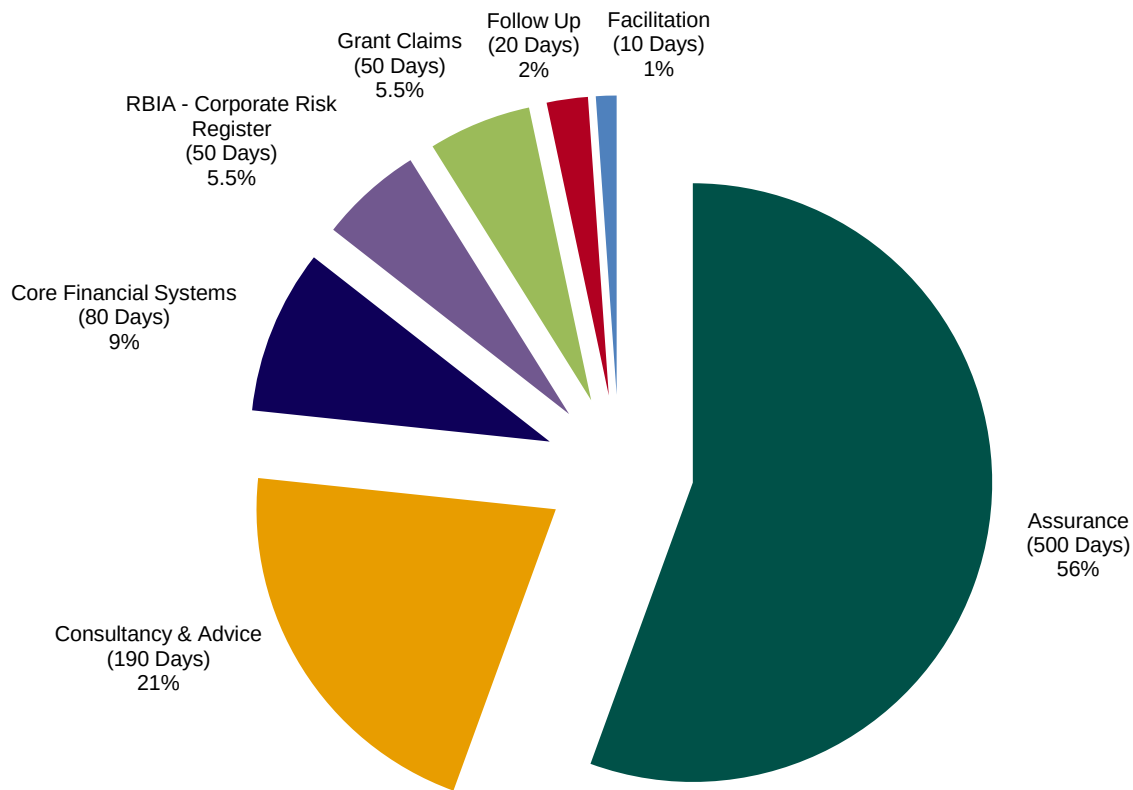
As per para 2.2.1, once total IA available IA resources have been determined, the overall IA process is summarised below:



## APPENDIX B

### THE 2018/19 ANNUAL INTERNAL AUDIT PLAN ~ ESTIMATED ALLOCATION BY AUDIT TYPE

As per the **definitions at para 3.4**, the 2018/19 Annual IA Plan estimated allocation by audit type is as follows:



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

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

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

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

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

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

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

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

**APPENDIX D****INTERNAL AUDIT KEY PERFORMANCE INDICATORS 2018/19**

The Key Performance Indicators (KPIs) for IA quarterly reporting to CMT and the Audit Committee in 2018/19 are set out below:

| KPI Ref. | Performance Measure                                                                            | Target Performance 2018/19* |
|----------|------------------------------------------------------------------------------------------------|-----------------------------|
| KPI 1    | <b>HIGH</b> risk IA recommendations where positive management action is proposed               | <b>98%</b>                  |
| KPI 2    | <b>MEDIUM</b> risk IA recommendations where positive management action is proposed             | <b>95%</b>                  |
| KPI 3    | <b>HIGH</b> risk IA recommendations where management action is taken within agreed timescale   | <b>90%</b>                  |
| KPI 4    | <b>MEDIUM</b> risk IA recommendations where management action is taken within agreed timescale | <b>75%</b>                  |
| KPI 5    | Percentage of IA Plan delivered to <b>draft report</b> stage by 31 March                       | <b>90%</b>                  |
| KPI 6    | Percentage of IA Plan delivered to <b>final report</b> stage by 31 March                       | <b>80%</b>                  |
| KPI 7    | Percentage of draft reports issued as a final report within 15 working days                    | <b>80%</b>                  |
| KPI 8    | Client Satisfaction Rating (from completed CFQs)                                               | <b>85%</b>                  |
| KPI 9    | IA work fully compliant with the <b>PSIAS</b> and <b>IIA Code of Ethics</b>                    | <b>100%</b>                 |

\*All IA KPIs Target Performance for 2018/19 have been set at the same thresholds as it was for 2017/18.

**Key for above:**

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

**Key for future reporting on actual KPI performance:**

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

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## **BUSINESS ASSURANCE – UPDATED INTERNAL AUDIT CHARTER**

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

### **REASON FOR ITEM**

The IA charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

As such, it is a key document in respect to the Council's internal control, risk management and corporate governance framework. This refresh of the IA Charter is in line with best practice, and reflects minor changes to the UK Public Sector Internal Audit Standards (PSIAS) and International Internal Audit Professional Practices Framework (IPPF). The last update of the IA Charter was previously approved by the Council's Audit Committee on 15<sup>th</sup> December 2016.

The Attribute Standard 1000 Purpose, Authority and Responsibility, a mandatory standard of the PSIAS and IPPF, requires that the Council's Head of Internal Audit to periodically review the IA Charter and present it to CMT, as Senior Management (the officer body with overall responsibility for the Council's internal control, corporate governance and risk management arrangements).

### **RECOMMENDATION**

**That the Audit Committee approve the updated internal Audit Charter.**

### **INFORMATION**

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

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

### **LEGAL IMPLICATIONS**

There are no legal implications arising directly from this report.

### **BACKGROUND PAPERS**

The IA Charter - December 2016 (tracked changes between versions attached).

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## Internal Audit Charter

### 1. Purpose

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

### 2. Statutory Requirement and Authority

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

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

### 3. Status of Internal Audit within the Council

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

### 4. Objectives and Mission

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

### 5. Scope of Internal Audit

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

- (i) **Risk Management** - Risk Management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
- (ii) **Corporate Governance** - Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
- (iii) **System of Internal Controls** - The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and nonfinancial systems.

- 5.2 In addition to the above **3 core annual opinion areas**, IA may, subject to specific arrangements, undertake engagements in the areas of anti-fraud and anti-corruption as detailed within this IA Charter.
- 5.3 IA also has the responsibility to provide consulting and advisory services to management relating to risk management, control and governance as appropriate for the Council. The IA service may evaluate specific operations at the request of the Audit Committee or Senior Management, as appropriate. Before any consultancy work is agreed, the HIA will ensure that IA has the appropriate skills, resources and approval to undertake the review. The HIA will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future IA activity.

## 6. Responsibility

### Professional Standards

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

### Risk Based IA Strategy and IA Plan

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

## Management of Engagements

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

## Follow-up

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

## Management Responsibilities

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

## 7. Reporting Lines

### Reporting Lines

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

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

### **Staff Training and Development**

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

## **8. Other Internal Audit Work**

### **Wider Remit of Business Assurance**

- 8.1 The IA activity sits within the Council's Business Assurance service. The role of the Head of Business Assurance incorporates wider responsibilities of Counter Fraud, Information Governance (as the Council's Senior Information Risk Owner (SIRO), Business Continuity, Risk Management, Insurance as well as Health & Safety. Whilst expanding the remit of Business Assurance we will continue to focus on delivering consistently high quality value added IA reviews to help services to succeed. This will be undertaken through the application of appropriate safeguards to maintain independence and objectivity to ensure an unbiased assessment, having regard to the principles contained within the Code of Ethics.

### **Third Parties**

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

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

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## Major Projects

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

## Risk Management

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

## 9. Ethics

### Code of Ethics

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

### **Due Professional Care and Competency**

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

### **Independence and Objectivity**

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

## **10. Quality Assurance**

### **Professional Standards**

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

### **Staff Training and Development**

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

### **Quality Assurance Improvement Programme**

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

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## Internal Audit Charter

### 1. Purpose

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

### 2. Statutory Requirement and Authority

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

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

### 3. Status of Internal Audit within the Council

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

### 4. Objectives and Mission

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

### 5. Scope of Internal Audit

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

Authority's statutory requirement under Regulation 6 of the Accounts and Audit (Amendments) (England) Regulations 2015 and is in line with the UK PSIAS.

- (i) **Risk Management** - Risk Management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
- (ii) **Corporate Governance** - Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
- (iii) **System of Internal Controls** - The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and nonfinancial systems.

- 5.2 In addition to the above **3 core annual opinion areas**, IA may, subject to specific arrangements, undertake engagements in the areas of anti-fraud and anti-corruption as detailed within this IA Charter.
- 5.3 IA also has the responsibility to provide consulting and advisory services to management relating to risk management, control and governance as appropriate for the Council. The IA service may evaluate specific operations at the request of the Audit Committee or Senior Management, as appropriate. Before any consultancy work is agreed, the HIA will ensure that IA has the appropriate skills, resources and approval to undertake the review. The HIA will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future IA activity.

## 6. Responsibility

### Professional Standards

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

### Risk Based IA Strategy and IA Plan

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

- 6.5 The quarterly IA plan, including resource requirements and limitations, is presented to CMT and Audit Committee for approval. Any significant deviation from the approved IA plan will be communicated to CMT and the Audit Committee through periodic activity progress reports.

### **Management of Engagements**

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

### **Follow-up**

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

### **Management Responsibilities**

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

## **7. Reporting Lines**

### **Reporting Lines**

- 7.1 The Head of Business Assurance, in his role as HIA, has overall responsibility for the day to day management of the IA service. The HIA reports administratively to the Corporate Director of Finance.

- 7.2 Organisationally, the HIA reports to the Audit Committee. The HIA also has direct right of access to the Chief Executive, Chair of Audit Committee and Leader of the Council as and when required, as set out at para. 3.4.
- 7.3 In agreement with those charged with governance, the HIA will determine the way in which findings will be reported. Standards will be set for reporting and will include arrangements for the review and approval of reports by the HIA before issue. Reports will be balanced, clear, concise and constructive and will be issued within laid-down timescales.
- 7.4 The IA service will maintain effective relationships with management within the Council, including consultation in the IA planning process at quarterly planning level and with respect to individual reviews. The HIA will share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

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- Client Feedback Questionnaires (CFQs) that are sent out at the completion of each audit;
  - A self-assessment of the IA service each year and its compliance with the PSIAS;
  - On-going internal performance monitoring and reporting by the HIA, as well as an external assessment at least once every five years by a suitably qualified, independent assessor.

- 10.5 The results of the QAIP and progress against any improvement plans will be reported to Senior Management and the Board through quarterly IA progress reports, as well as within the Annual IA Report.
- 10.6 To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

## **BUSINESS ASSURANCE - COUNTER FRAUD PROGRESS REPORT FOR 2017/18 QUARTER 4**

**Contact Officer:** Muir Laurie

**Telephone:** 01895 556132

### **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 4 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 4 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.

### **RECOMMENDATIONS**

**That the Audit Committee notes the Counter Fraud Progress Report for 2017/18 Quarter 4.**

**That the Audit Committee ensures 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 statistical management documents in relation to the Quarter 4 Progress Report.

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## Counter Fraud Progress Report: 2017/18 Quarter 4

29<sup>th</sup> March 2018



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| <b>Martyn White</b><br>Senior Internal Audit & Counter Fraud Manager<br>t: 01895 250354<br>e: <a href="mailto:mwhite@hillingsdon.gov.uk">mwhite@hillingsdon.gov.uk</a> | <b>5. Forward Look</b>                                | <b>7</b> |
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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) 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 BACFT 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 have up-to-date and appropriate investigation policies and procedures.

### 1.2 The Purpose of the Counter Fraud Progress Report

- 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 4 period (5<sup>th</sup> December 2017 to 29<sup>th</sup> March 2018). 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 4.
- 1.2.2 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 Strategic Plan), which provides an opportunity for the HBA to be held to account in this respect.

## 2. Executive Summary

- 2.1 The new permanent Counter Fraud Manager (Zac O'Neil) joined the Council on 11<sup>th</sup> December 2018 and the restructure of the BACFT is now well progressed, with job offers to the eight successful candidates having all been recently accepted. The new structure will help ensure that moving forward the Council has the right mix of skills, qualifications and experience to meet the needs of the service.
- 2.2 Also during Quarter 4, work on producing the Counter Fraud Strategic Plan has been completed (*see separate item for approval by CMT and Audit Committee*). Running alongside this work has been the process of building the Council's fraud risk profile and the development of the Fraud Universe. The risk profiling work has included review of relevant key documents and meetings with senior managers as part of the integration of the Internal Audit and Counter Fraud annual planning cycle.
- 2.3 In addition, we have started a programme of increased engagement with teams across Council to help improve fraud awareness across the organisation. This has included delivering fraud awareness training to key stakeholders, introducing a Fraud Alert service and updating a number of the Council's investigative policies and procedures that underpin the Counter Fraud Strategic Plan; this work is ongoing.
- 2.4 During the significant period of change this quarter, reasonable progress has been made by the team. As at 21<sup>st</sup> March, there are **84** ongoing investigations and **90%** of these (**76**) relate to different aspects of housing fraud. This includes our preventative work as well our detection work, where we actively pursue the leads provided by the Intelligence Officers and Verification Officers within the team, along with our other sources. We also have several internal investigations ongoing, including one at an LBH school. Further analysis of the BACFT's work in Quarter 4 is included in section 3 of this report below.

### 3. Analysis of Counter Fraud Activity in Quarter 4

#### 3.1 Housing Fraud - Work in Quarter 4

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 **43** Council properties, and has a further **64** suspected tenancy fraud investigations ongoing. This includes **1** case that is now in court and being actively pursued for prosecution in conjunction with the Home Office and the DWP.

**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 | 43                 | £774k      | 64      | £1,152k  |
| Total number of ongoing cases        | 64                 | £1,152k    | -       | £0k      |

\* = as at 21<sup>st</sup> March 2018

\*\* = In 2014, the Audit Commission reported the national average temporary accommodation costs to Local Authorities for one family as **£18k per property**. We continue to use this prudent estimate for reporting purposes, although across London a number of authorities are reporting that the true cost of each tenancy fraud case is more accurately estimated as **£94k per property**.

3.1.4 A general target for the team of recovering **52** properties per year was set by the previous Manager. However, the HBA and Counter Fraud Manager are now in the process of reviewing this target alongside other potential performance measures for the BACFT as a part of a wider review of how and where counter fraud resources are deployed.

3.1.5 As per **Table 1** above, 64 properties were recovered in 2016/17. The 43 recovered to date in 2017/18 is in the context of the team going through a period of significant change including implementation of a risk-based approach and a major staff restructure.

- 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, 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 **1,087** housing tenancy cases that should be rejected for various reasons. In addition, there is **1** case being actively pursued for prosecution and a further **3** investigations ongoing.

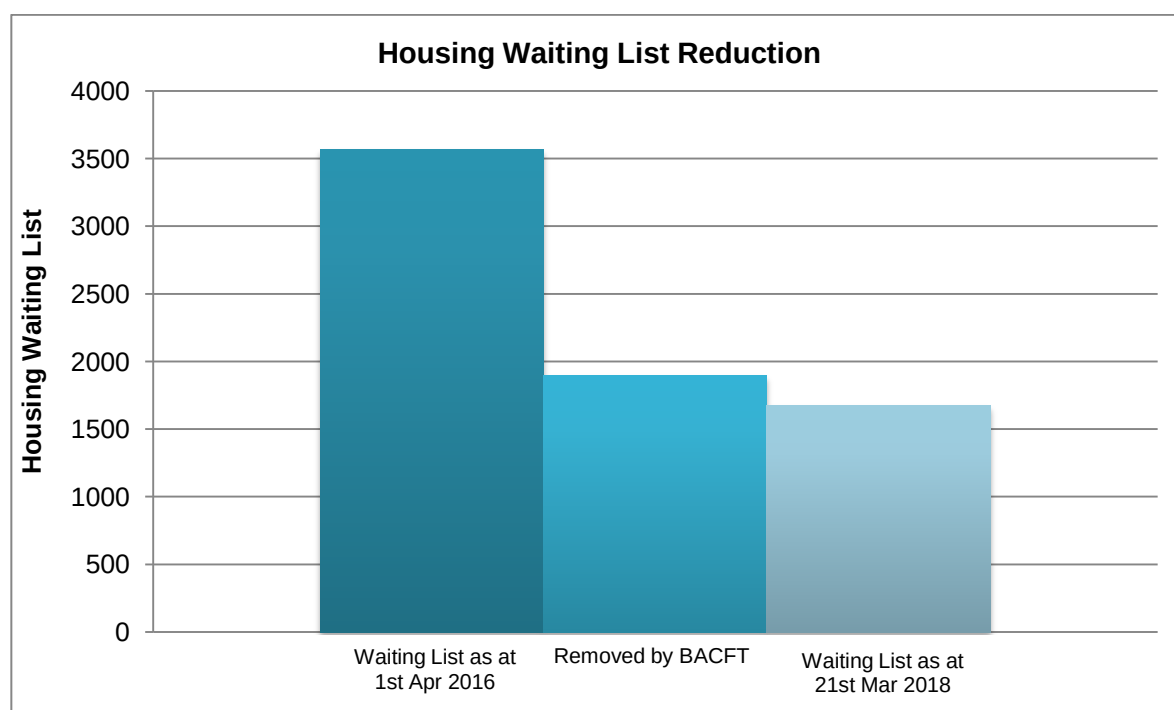
**Table 2 ~ Housing Tenancy Verification Cases**

| Housing Tenancy Verification Cases  | 2017/18 (to date)* | 2016/17 |
|-------------------------------------|--------------------|---------|
| Total number of cases reviewed      | 2,485              | 2,127   |
| Total number verified as accurate   | 1,398              | 1,184   |
| Total number rejected               | 1,087              | 943     |
| % identified by BACFT for rejection | 44%                | 44%     |

\* = as at 21<sup>st</sup> March 2018

- 3.1.8 Of the **1,087** that have been rejected, **47** 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 March 2018**



- 3.1.10 As at 1<sup>st</sup> April 2016, the Council's Housing Waiting List was **3,567 cases**. As at 21<sup>st</sup> March 2018 the waiting list has been reduced to **1,673**. 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** above, the net reduction in the Housing Waiting List over the last two years as a result of the BACFT's verification work is **1,894** cases and this does not take account of the cases added to the waiting list during that period. We confirmed that since 1<sup>st</sup> April 2017 there have been a total of **707** new cases added to the Housing Register.

- 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. We are also aware that across London a number of authorities are reporting that the true cost of each tenancy fraud case is more accurately estimated as **£94k** 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. Linked to this, we are in the process of liaising with the Council's Housing Team with a view to revising the BACFT's approach in relation to the review of the Housing register.

### **3.2 National Fraud Initiative - Work in Quarter 4**

- 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. As part of the Counter Fraud Strategic Plan 2018/19, we will be placing greater emphasis on the use of data analytics to help prevent and detect fraud against the Council.
- 3.2.3 The next NFI exercise is scheduled for 2018/19, although the BACFT are still continuing to gradually work through the data matches identified in the 2016/17 exercise and the Housing pilot matches. Following the recent restructure, the Council's Revenues & Benefits team now review all Single Person Discount (SPD) and Council Tax Relief (CTR) data matches. As part of the new risk based approach to the deployment of BACFT resources, SPD and CTR cases will only be referred to the CFT where fraud, rather than error, is suspected.

### **3.3 Blue Badge Fraud - Work in Quarter 4**

- 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 successful Blue Badge operations carried out by the BACFT during Quarters 1 and 2, 2 cases of fraudulent use have received official Cautions with a further 3 cases commencing investigation following referral. These cases are progressing well and the ongoing results reflect positively on how the Council tackles Blue Badge Fraud, providing reassurance to residents that fraud in this area will not be tolerated by this Council.

### **3.4 Social Care Fraud - Work in Quarter 4**

- 3.4.1 In line with the move to a risk based approach, a greater focus on social care fraud has commenced this quarter. Whilst it is still relatively early days, our social care fraud work to date has prevented losses of **£64k**. We also have 2 Unaccompanied Asylum Seeker fraud cases and 1 Direct Payments fraud case that are ongoing investigations.

### 3.5 Other Counter Fraud Work in Quarter 4

- 3.5.1 There is a range of other work that has been carried out by the BACFT in Quarter 4 including Council Tax Relief and Right to Buy investigations. As well as our Housing verifications coverage, we also have several internal investigations ongoing. One of these is a whistleblowing investigation in relation to alleged breaches of financial regulations and safer recruitment procedures at one of our maintained schools.
- 3.5.2 In addition, the BACFT **staff restructure** has been completed this quarter, which will ensure that the team has the right mix of skills, qualifications and experience to meet the needs of the Council moving forward. Further, the **Counter Fraud Strategic Plan 2018/19** has been completed this quarter which has been produced using a risk-based approach to the Council's 'Fraud Universe'.
- 3.5.3 As part of the move to a risk based approach several lower risk work streams have been reduced, or in some cases have ceased to be undertaken by the BACFT this quarter. This includes Single Person Discount data matches which 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 4

- 4.1 Historically there have been no formal KPI targets in place for the BACFT as a service or as individuals, making it difficult to transparently demonstrate actual performance. However, these are now under development by the HBA and the new Counter Fraud Manager and will include individual targets and team targets. The KPIs will be primarily focussed on ensuring that everyone in the team is operating efficiently and the BACFT is achieving the overall counter fraud strategy of maximising fraud loss prevention for the Council. The new **KPIs will be introduced early in Quarter 1 2018/19** and actual performance against these KPIs will be included in the next progress report.
- 4.2 Undoubtedly the staff restructure of the team has impacted available resource during Quarter 4. This in turn, along with the change to a risk-based approach, has had a negative impact on some of the results and outcomes achieved. Nevertheless, what can be seen by the results achieved this quarter and in the 2017/18 year to date (*as highlighted in section 3 of this report*) is that the team has continued to be successful in achieving positive outcomes by preventing and detecting fraud against Hillingdon taxpayers.

## 5. Forward Look

- 5.1 As well as the introduction of formal KPIs, over the next 3 months there are a number of key priorities for the BACFT, which include:
- Induction of **eight new members of staff**;
  - Complete the update of all Council **Counter Fraud related policies**; and
  - Further embed the new **Counter Fraud processes and methodology** currently being implemented within the team, including the risk-based approach to all referrals.
- 5.2 In addition, from 16<sup>th</sup> April 2018 the Council will have a Home Office **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 4. 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**

29<sup>th</sup> March 2018

## 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.

### RECOMMENDATIONS

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     | CR 5            |
| 26 July 2018      | CR 5            |
| 25 October 2018   | CR 5            |
| 6 February 2019   | tbc             |

## AUDIT COMMITTEE

### Forward Programme 2017/18 and 2018/19

| 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                                    |
|              | Audit Committee Skills Matrix/ Training & Development Plan                                                            | Democratic Services / 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 Terms of Reference                                                                                    | Democratic Services / Head of Business Assurance |
|              | Audit Committee Forward Programme                                                                                     | Democratic Services                              |

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

| <b>Meeting Date</b>    | <b>Item</b>                                                                                                     | <b>Lead Officer</b>                                      |
|------------------------|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| <b>6 February 2019</b> | <b>*Private meeting with External Audit (Ernst &amp; Young) to take place before the meeting</b>                |                                                          |
|                        | <b>EY 2017/18 Annual Audit Plan; 2018/19 Pension Fund Audit plan</b>                                            | <b>Corporate Director of Finance / Ernst &amp; Young</b> |
|                        | <b>Annual Review of the Effectiveness of the Audit Committee 2017/18</b>                                        | <b>Head of Business Assurance</b>                        |
|                        | <b>Annual Review of the Effectiveness of Internal Audit 2018/19</b>                                             | <b>Head of Business Assurance</b>                        |
|                        | <b>Audit Committee Annual Report</b>                                                                            | <b>Head of Business Assurance</b>                        |
|                        | <b>EY - Annual Grant Audit Letter</b>                                                                           | <b>Corporate Director of Finance /Ernst &amp; Young</b>  |
|                        | <b>Internal Audit Charter 2018/2019</b>                                                                         | <b>Head of Business Assurance</b>                        |
|                        | <b>Annual Governance Statement 2018/19 – Interim Report</b>                                                     | <b>Head of Business Assurance</b>                        |
|                        | <b>Balances and Reserves Statement</b>                                                                          | <b>Corporate Director of Finance</b>                     |
|                        | <b>Internal Audit Progress Report Quarter 4 2017/18 &amp; Quarter 1 2018/19 Operational Internal Audit Plan</b> | <b>Head of Business Assurance</b>                        |
|                        | <b>Draft Internal Audit Plan 2018/19</b>                                                                        | <b>Head of Business Assurance</b>                        |
|                        | <b>Counter Fraud Progress Report Quarter 4 2018/19</b>                                                          | <b>Head of Business Assurance</b>                        |
|                        | <b>Risk Management Report &amp; Q3 Corporate Risk Register - Part II</b>                                        | <b>Head of Business Assurance</b>                        |
|                        | <b>Audit Committee Terms of Reference</b>                                                                       | <b>Democratic Services / Head of Business Assurance</b>  |
|                        | <b>Audit Committee Forward Programme</b>                                                                        | <b>Democratic Services</b>                               |

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