



HILLINGDON  
LONDON



# Audit Committee

## Members of the Committee

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

**Date:** WEDNESDAY 17 OCTOBER 2018

**Time:** 5.10 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 9 October 2018

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***Putting our residents first***

Lloyd White  
Head of Democratic Services  
London Borough of Hillingdon,  
Phase II, Civic Centre, High Street, Uxbridge, UB8 1UW  
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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**

- |          |  |         |
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| <b>1</b> | Apologies for absence  |         |
| <b>2</b> | Declarations of interest   |         |
| <b>3</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>4</b> | Minutes of the Meeting held on 26 July 2018  | 1 - 6   |
| <b>5</b> | External Audit Annual Audit Letter   | 7 - 38  |
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| <b>8</b> | Audit Committee Forward Programme 2017/18  | 75 - 78 |

## **PART II**

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## Minutes



### AUDIT COMMITTEE

26 July 2018

Meeting held at Committee Room 5 - Civic Centre, High Street, Uxbridge

	<p><b>Committee Members Present:</b> John Chesshire (Independent Chairman), Councillors Scott Seaman-Digby (Vice-Chairman), Martin Goddard, Tony Eginton and Susan O'Brien.</p> <p><b>LBH Officers Present:</b> Sian Kunert (Head of Pensions, Treasury and Statutory Accounts), Muir Laurie (Head of Business Assurance), Sarah Hydrie (Internal Audit Service Manager), Zac O'Neil (Counter Fraud Manager) Stephanie Rao (Interim Risk and Governance Manager) and Anisha Teji (Democratic Services Officer).</p> <p><b>Others Present:</b> Adrian Balmer and Maria Brindley (External Audit - Ernst &amp; Young).</p>
2.	<p><b>APOLOGIES FOR ABSENCE</b> (<i>Agenda Item 1</i>)</p> <p>There were no apologies of interest.</p>
3.	<p><b>DECLARATIONS OF INTEREST</b> (<i>Agenda Item 2</i>)</p> <p>Councillor Tony Eginton declared a non-pecuniary interest arising from the fact that he was a retired member of the Local Government Pension Scheme. He remained for the discussion of all items.</p> <p>Councillors Scott Seaman-Digby and Susan O'Brien, both declared non-pecuniary interests arising from the fact that they were deferred members of the Local Government Pension Scheme. They also remained for the discussion of all items.</p>
4.	<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 11 – 2017/18 Quarter 4 Corporate Risk Register.</p>
5.	<p><b>MINUTES OF THE MEETING HELD ON 11 APRIL 2018 AND 10 MAY 2018</b> (<i>Agenda Item 4</i>)</p> <p><b>RESOLVED –</b></p> <ol style="list-style-type: none"> <li>1. That the minutes from the meeting on 11 April 2018 be approved as an accurate record.</li> <li>2. That the minutes from the meeting on 10 May 2018 be approved subject to recording apologies from Councillor Tony Eginton.</li> </ol>

6.	<p><b>APPROVAL OF THE 2017/18 STATEMENT OF ACCOUNTS, EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2018 AND EXTERNAL AUDIT REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS 2017/18</b> (<i>Agenda Item 5</i>)</p> <p>The Committee was provided with reports which summarised the findings of Ernst &amp; Young (EY), the External Auditor, on the external audit of the 2017/18 Statement of Accounts, including the Pension Fund Accounts. The reports summarised the Council's main financial statements and the Pension Fund accounts audit.</p> <p>The Committee was informed that based on the work undertaken to date, EY anticipated issuing an unqualified opinion on the Council's financial statements, subject to the completion of outstanding work.</p> <p>The Committee was provided with details of Key Audit Risks that were identified prior to audit and reported to Audit Committee on 11 April 2018.</p> <p>It was reported that EY had substantially completed their audit of London Borough of Hillingdon's financial statement for the year ended 31 March 2018 and had performed the procedures outlined in the External Audit plan.</p> <p>The statement of accounts was inclusive of the Pension Fund accounts, however, the Pension Fund accounts were audited separately due to the specialist nature. Subject to completion of the outstanding areas, the auditor had indicated that this part of the financial statements would receive an unqualified opinion.</p> <p>During Member discussions, it was noted that Internal Audit and EY had a good working relationship where there was regular contact and a co-ordinated approach. Both teams kept each other up to date about work plans.</p> <p>Further information in relation to amortisation rates of intangible assets would be provided to the Committee by the Head of Pensions, Treasury and Statutory Accounts.</p> <p><b>RESOLVED -</b></p> <p><b>1. That the Audit Committee approved the audited Statement of Accounts for 2017/18.</b></p>
7.	<p><b>ANNUAL INTERNAL AUDIT REPORT AND OPINION STATEMENT 2017/18</b> (<i>Agenda Item 6</i>)</p> <p>The Committee considered the Annual Internal Audit Report and Opinion Statement 2017/18.</p> <p>The Head of Business Assurance reported that despite a reduction in Internal Audit capacity, the 2017/18 Internal Audit plan was 90% complete to draft stage report by stage 31 March 2018 and 98% complete to final report stage by 30 June 2018.</p> <p>Members commented that it was an interesting report and congratulated officers for their work.</p> <p>In the report, it was noted that for KPI 4 (Internal Audit recommendations where management actions was taken within agreed timescales) actual performance was 49% and for KPI 7 there was a 57% actual performance (for draft reports issued as a final report within 15 working days). Following Member questions, the Head of</p>

Business Assurance explained that in relation to KPI 4, managers were given three weeks to respond to reviews, which in most circumstances was a reasonable time frame. However, in cases where the recommendations were more complicated, sometimes several senior managers would need to be consulted which could impact timings. Improvements to actual performance in KPI 7 could potentially be made if managers were consistently put on notice of the areas of concern by the relevant lead auditor, prior to the draft report being issued. The Head of Business Assurance recognised that the Internal Audit service needs to improve consistency in this area, although it was noted that the KPIs are deliberately challenging for the Internal Audit service.

**RESOLVED – That the contents of the Annual Internal Annual Report and Opinion Statement 2017/18 be noted.**

8. **INTERNAL AUDIT PROGRESS REPORT FOR 2018/19 QUARTER 1 (INCLUDING THE QUARTER 2 INTERNAL AUDIT PLAN) (*Agenda Item 7*)**

The Internal Audit (IA) Service Manager presented the report which provided summary information on all IA work covered in relation to the 2018/19 Quarter 1, together with assurance levels in this respect.

The Committee was informed that in 2018/19 Quarter 1, one 2018/19 assurance review had concluded, one consultancy review had been finalised, one grant claim had been certified and nine pieces of 2017/18 work had been finalised. The planned IA consultancy review of CYPS Thematic Review Ofsted preparations had also concluded. In addition, the Council had recently been tasked with identifying at least 450 turned around families for the August 2018 Troubled Families submission. IA was liaising closely with officers given the tight timescale and backdrop of the current reduction in IA resource.

It was noted by the Committee that the IA team was operating at a significantly reduced capacity which had negatively impacted the number of 2018/19 reviews completed in Quarter 1. The Head of Business Assurance explained that the IA service had been victims of their own success by recruiting good people and training them up well. That coupled with the IA service being one of only several Councils to achieve 'Fully Conforms in its External Quality Assessment meant that staff from the Hillingdon IA service were highly sought after in the job market. Nevertheless, the Head of Business Assurance explained that there is a recruitment plan in place and following a recent restructure which deleted the size of the IA team by 1 trainee post, the salaries on offer for posts in the IA service at Hillingdon are now even more competitive with the salaries on offer elsewhere for similar roles. Two new roles (Senior Internal Auditor and a Principal Internal Auditor) were due to be advertised next week at significantly higher salary bandings. It was anticipated that this would attract more candidates with the relevant skills set and will help staff retention moving forward. There was also an agreement in place with Mazars to help support the in-house team during the interim period as much as is needed to deliver the IA plan.

Members requested further information or a matrix on the head count of IA staff and number of projects completed per individual. The Head of Business Assurance confirmed that this information could be provided. Members' attention was also drawn to the Annual IA Report and Opinion Statement 2017/18, in which it was reported that 34 IA assurance reviews were undertaken in 2014/15, 33 in 2015/16, 30 in 2016/17 and 25 in 2017/18.

Members questioned the delay in the IA consultancy review of the introduction of Universal Credit. It was clarified that it had already been introduced in two postal areas

and one area was due to go live in September 2018. It was noted that there had been a dispute about whether one postal area belonged to Uxbridge and IA had been requested (by the Tenancy Management team) to assist them in Q2 (early August) when the Tenancy Management team were more prepared for the rollout rather than in Q1, as originally anticipated.

Since the Q1 Progress Report was published, two further assurance reviews had concluded. In relation to Early Years Centres a 'No' assurance opinion was given by Internal Audit. The details concerning this audit would be presented in 2018/19 Q2 Progress Report to the Audit Committee.

**RESOLVED –**

- 1. That the Internal Audit Progress Report for 2018/19 Quarter 1 be noted and approval be given to the Quarter 2 Internal Audit Plan for 2018/19.**
- 2. That the Committee noted that the coverage, performance and results of Business Assurance Internal Audit activity within this quarter.**

**9. 2018/19 QUARTER 1 COUNTER FRAUD PROGRESS REPORT (*Agenda Item 8*)**

The Committee was provided with a report which gave details on the work being undertaken by the Business Assurance Counter Fraud Team (BACFT) in relation to 2018/19 Quarter 4 and assurances in this respect. The Counter Fraud Manager provided an oral summary of the report.

It was reported that the major restructure was now completed with all permanent posts recruited to and all new members of staff in place. The Committee were informed there are 17 members of staff in the BACFT plus the Counter Fraud Manager, and the new structure would help to ensure that the team had the right mix of skills, qualifications and experience to meet the changing needs of the Council moving forward. It was noted that a Home Office Immigration Enforcement Officer also joined the BACFT in April 2018 and positive results had already been seen from this work in terms of loss prevention.

Other key points reported included more engagement and fraud awareness work with managers around the Council being undertaken. In terms of housing tenancy fraud cases, seven properties had been recovered to the Council this quarter. Three cases of fraudulent right to buy applications (RTB) had been identified. There had also been a prosecution in the Crown Court of a fraudulent RTB application where a suspended sentence and community service was issued along with costs being rewarded to the Council. Further details of this would be provided in the next quarter report.

A proactive Blue Badge misuse operation was carried out in Uxbridge with eight parking contraventions notices being issued, three blue badges being seized for misuse and three criminal investigations being opened following badge seizures.

Three cases had been identified to discontinue funding for Section 17 emergency accommodation and two cases of prevention of first time buyer scheme fraud resulted in loss savings of approximately £36,000.

Key performance indicators have been developed by the Counter Fraud Manager this quarter and were reported to the Committee for the first time. Although they were not currently being met (i.e. at green status) major improvement work was ongoing by the Counter Fraud Team to modernise their ways of working to a risk based approach. The

	<p>Counter Fraud Manager also made the point that the performance indicators were deliberately stretching to help the team focus on the improvements required.</p> <p>Members were pleased to be provided with Counter Fraud benchmarking data for the first time. Whilst it has been difficult for the team to obtain comparative data, it was not impossible and the Head of Business Assurance highlighted that this was the first step in providing the Audit Committee with transparency on the actual performance of the Counter Fraud team. Moving forward increased benchmarking data will be provided to the Audit Committee. This will include the recovery of council properties against the total number of tenancies for each London Borough (where the information is publicly available). The Head of Business Assurance stated that a number of London authorities had been reluctant to share performance data with Hillingdon.</p> <p><b>RESOLVED – That the Counter Fraud Progress Report for 2018/19 Quarter 1 be noted.</b></p>
10.	<p><b>AUDIT COMMITTEE SKILLS MATRIX/ TRAINING AND DEVELOPMENT PLAN</b> (Agenda Item 9)</p> <p>Members were asked to review the draft skills matrix and make any amendments. Councillor Eginton suggested that Pensions should be added to the matrix.</p> <p>Members were informed that once the draft skills matrix was approved, it would be sent to them to complete on a confidential basis. Relevant training sessions would then be arranged in consultation with other teams across the Council.</p> <p><b>RESOLVED – That the draft Member skills matrix be approved.</b></p>
11.	<p><b>AUDIT COMMITTEE FORWARD PROGRAMME 2017/18</b> (Agenda Item 10)</p> <p><b>RESOLVED – That the forward work programme be noted.</b></p>
12.	<p><b>2017/18 QUARTER 4 CORPORATE RISK REGISTER</b> (Agenda Item 11)</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 Corporate Risk Register for Quarter 4 (January 2018 – March 2018) report was presented to Members. The report provided evidence about how identified corporate risks were being managed and the actions which were being taken to mitigate those risks.</p> <p><b>RESOLVED –</b></p> <p><b>That the Committee reviewed the Corporate Risk Register for Quarter 4 (January to March 2018), as part of the Committee’s role to independently assure the risk management arrangements in the Council.</b></p>
	<p>The meeting, which commenced at 5.10 pm, closed at 6.25 pm.</p>

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

## EXTERNAL AUDIT ANNUAL AUDIT LETTER

<b>Committee name</b>	Audit Committee
<b>Officer reporting</b>	Sian Kunert, Finance
<b>Papers with report</b>	EY Annual Audit Letter
<b>Ward</b>	All

### HEADLINES

This is a covering report to EY's Annual Audit Letter which provides a summary of the results and conclusions from their audit work undertaken for the year ended 31 March 2018.

### RECOMMENDATION:

**That the Committee is asked to note the report.**

### SUPPORTING INFORMATION

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

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

### Financial Implications

There are no financial implications arising from this report.

### Legal Implications

There are no legal implications arising from this report.

### BACKGROUND PAPERS

NIL.

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# **London Borough of Hillingdon & Hillingdon Pension Fund**

Annual Audit Letter for the year  
ended 31 March 2018

August 2018

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Focused on your  
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Audit Fees



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](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 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



# 01 Executive Summary



## Executive Summary

We are required to issue an annual audit letter to London Borough of Hillingdon (the Council) following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's and Pension Fund's:</b>	Unqualified - the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2018 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

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



## Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report on the Pension Fund was issued on 09 July 2018 and discussed at the Pensions Committee meeting on 18 July 2018 and also at the Audit Committee meeting on 26 July 2018. The Audit Results Report for the main audit was issued on 16 July 2018 and presented at the Audit Committee meeting on 26 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	<p>We did not issue our certificate with the opinion and value for money conclusion as we had not completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack which was due by 31 August 2018.</p> <p>We completed this work on 4 August 2018 and there were no issues identified. The audit certificate was issued on 23 August 2018.</p>

In November 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP



## 02 Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 26 July Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 11 April 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

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As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2017/18 financial statements, including the pension fund; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO. We have completed our work on the WGA return with no significant issues noted.

## Responsibilities of the Council

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

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



# 03

## Financial Statement Audit

# Financial Statement Audit

## Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 26 July 2018. Our detailed findings were reported to the 26 July 2018 Audit Committee.

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

### Significant Risk

#### Misstatements due to fraud or error

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.

### Work completed and Conclusion

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

We considered accounting estimates most susceptible to bias. These estimates include for example Property, Plant and Equipment estimates.

We evaluated the business rationale for any significant unusual transactions.

We did not identify any material weaknesses in controls or evidence of material management override.

We did not identify any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business

## Financial Statement Audit (cont'd)

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The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p> <p>The risk is focused on significant transactions that are outside the normal course of business for the entity, or that otherwise appear unusual given our understanding of the entity and its environment and other information obtained during the audit.</p> <p>We have identified the following significant transactions which we consider present a risk of revenue and expenditure recognition:</p> <ul style="list-style-type: none"><li>- Minimum Revenue Position (MRP);</li><li>- Capital Financing Requirement (CFR);</li><li>- Revenue and Expenditure Funded from Capital Under Statute; and</li><li>- Property, Plant and Equipment (PPE) additions.</li></ul>	<p>Our testing did not identify any material misstatements from revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.</p>



## Areas of Audit Focus

### Other areas of audit focus

In our Audit Planning Report, we identified other areas of the audit, that were not 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 Land and Buildings

Land and buildings is one of the most significant balances in the Council's Balance Sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

#### What did we do?

We have:

- ▶ Reviewed the data sent to, and the report produced by, the Council's valuer;
- ▶ Challenged the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists; and
- ▶ Tested the journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements.

**Conclusion:** We completed our work on this area and identified no issues that we needed to bring to the attention of the Audit Committee

##### Pension Liability Valuation

The Local Council 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 London Borough of Hillingdon Pension Fund.

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 2018 this totalled £525 m.

The information disclosed is based on the IAS 19 report issued by the actuary to the London Borough of Hillingdon. Accounting for these schemes 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 have:

- ▶ Liaised with the auditors of London Borough of Hillingdon Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Council's scheme members, this identified no issues with the information provided to the actuary;
- ▶ Assessed the work of the LGPS Pension Fund actuary (Hymans Robertson) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

**Conclusion:** We concluded our work in this area and identified no material issues. We reported one unadjusted audit difference of approx. £1.8 m in respect of assets, this was due to a timing issue on the estimation of asset valuation and was not material to the financial statements.

## Financial Statement Audit (cont'd)

### Our application of materiality

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

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £14.75 m (2016/17: £14.34 m), which is 2% of Gross Revenue Expenditure reported in the accounts adjusted for other items of expenditure which sit below the line.</p> <p>We consider Gross Revenue Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.74 m (2016/17: £0.72 m)

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

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

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

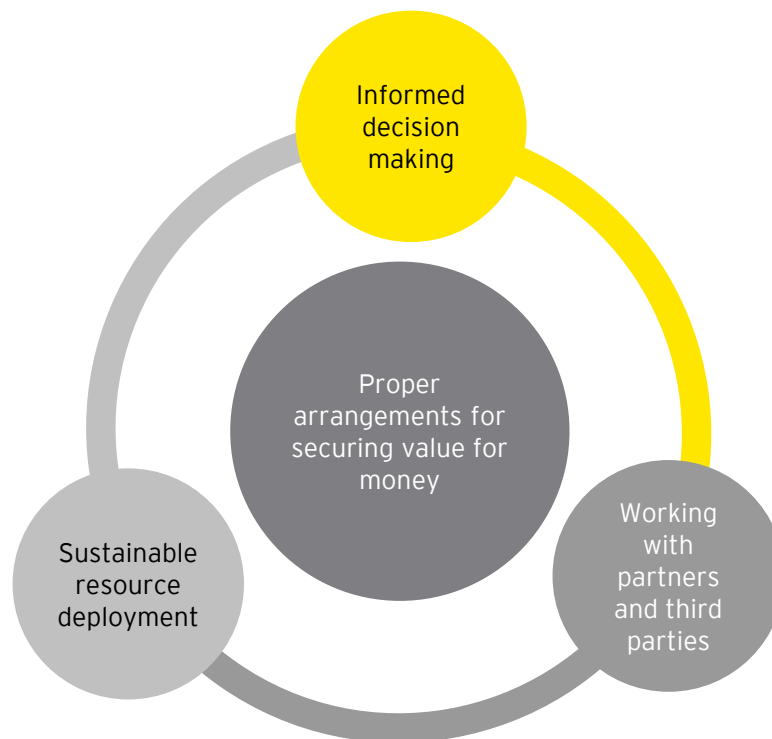


## 04 Value for Money

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

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

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



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

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore issued an unqualified value for money conclusion on 26 July 2018.



## 05 Other Reporting Issues



## Other Reporting Issues

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### Whole of Government Accounts

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

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We completed this work and did not identify any areas of concern.

### Report in the Public Interest

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

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

### Written Recommendations

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

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



## Other Reporting Issues (cont'd)

### Objections Received

We did not receive any formal objections to the 2017/18 financial statements from members of the public. We did consider some correspondence from a member of the public.

### Other Powers and Duties

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

### Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 26 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

### Control Themes and Observations

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

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

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



## 06 Data Analytics



# Use of Data Analytics in the Audit

## Data analytics – supporting our work on revenue recognition and management override

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



# Data Analytics

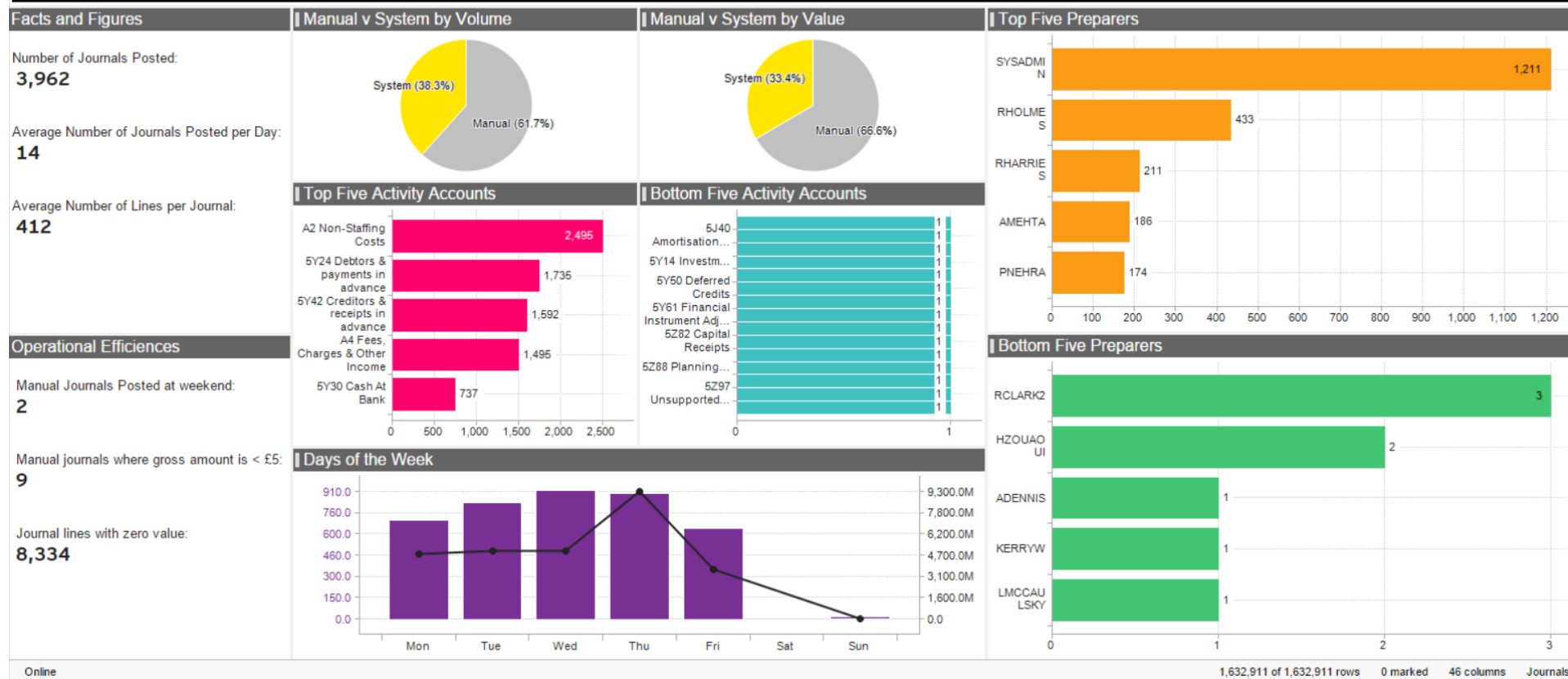
## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples. We can also shared this information with management to provide additional insight and value from our audit procedures.



### Helix - GLASS: Journal Entry Data Insights - London Borough of Hillingdon - YE - 31/03/2018





## Journal Entry Testing

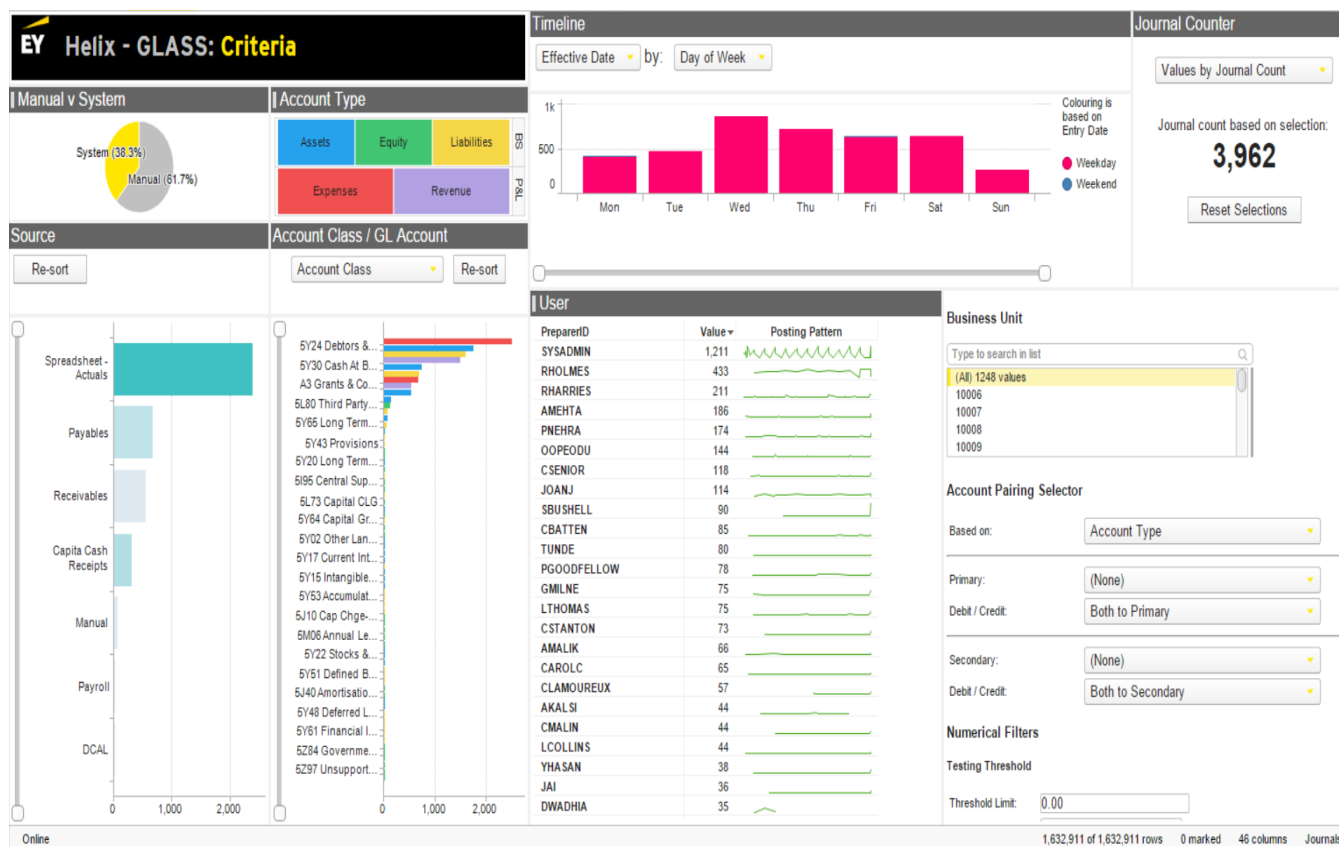
### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – London Borough of Hillingdon – 31 March 2018



### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

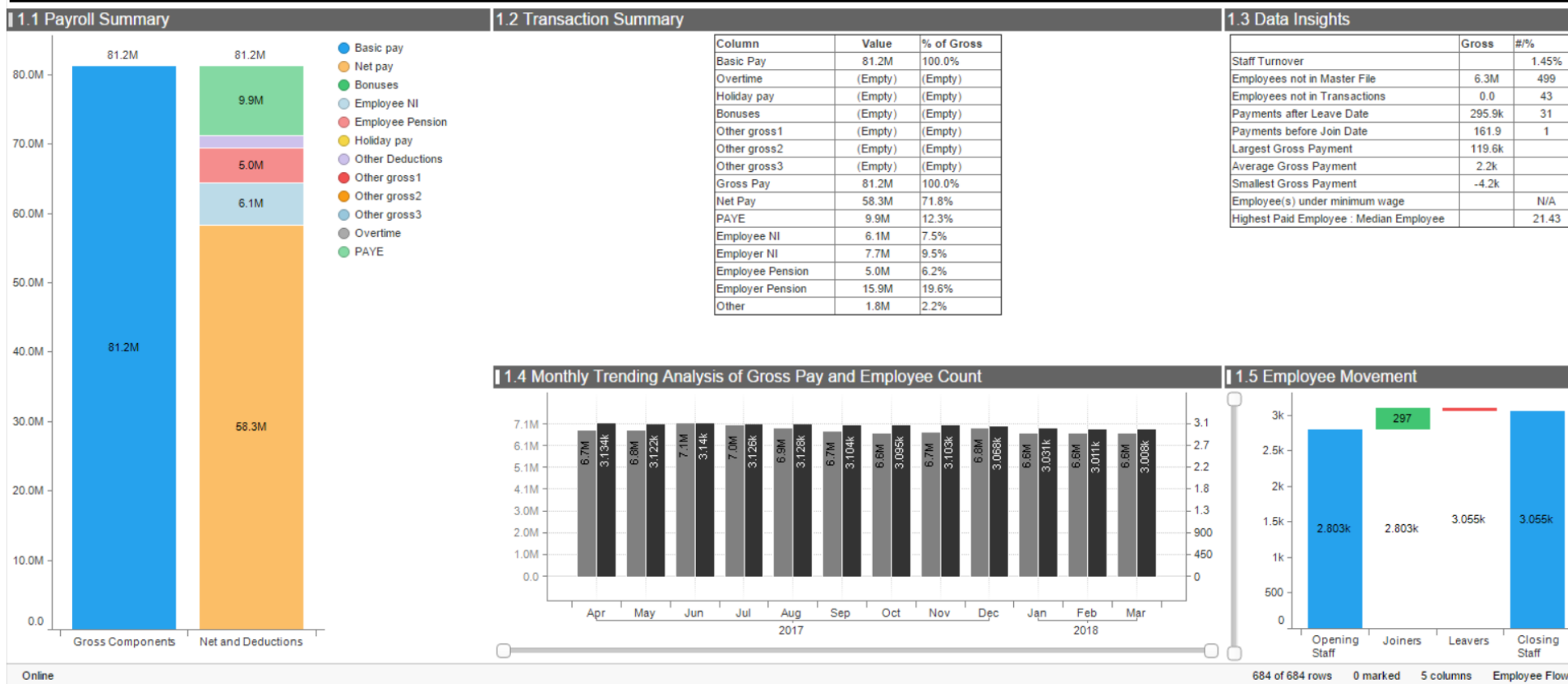


# Data Analytics

## Payroll Analyser Insights

The graphic outlined below summarises the payroll data for 2017/18. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.

### EY Helix - Payroll Analyser: 1. Payroll Overview





## Payroll Testing

### What judgements are we focused on?

Using our analysers we are able to identify anomalies in the payroll data which allow us to focus our testing and enquires over unusual or unexpected transactions.

### Payroll Data – London Borough of Hillingdon – 31 March 2018



### What did we do?

We obtained payroll data for the period and have used our analysers to identify unusual payments based on expectations of average pay per designation, date inconsistencies where payments made to individuals after they have left the organisation or before they have joined and payments made in the year that appears anomalous compare to average monthly payments.

We then tested the anomalies to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub set of anomalies for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



07

## Focused on your future



## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured;</li> <li>▶ How the impairment of financial assets are calculated; and</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets</li> <li>▶ Re-measure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items.</li> </ul>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ For local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



## Focused on your future (cont'd)

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Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>



# 08

## Audit Fees

## Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 11 April 2018 Audit Plans

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Total Audit Fee - Code work	158,941*	157,268	157,268	158,712
Total Pension Fund Audit Fee - Code work	21,666*	21,000	21,000	23,285
Total Fee	180,607	178,268	178,268	181,997

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We confirm we have not yet undertaken any non-audit work outside of the PSAA's requirements in 2017/18. We will discuss with officers regarding the completion of the Teacher's Pension and Housing Capital Receipts Returns for 2017/18. Both of these returns are outside of the PSAA's requirements and we completed the returns in 2016/17 with a combined fee of £15,000. We will update the Audit Committee at a later date regarding the outcomes of that work and relevant fees should officers wish for us to also complete the 2017/18 returns.

\* Additional fees are in respect of significant risks and also in respect of correspondence with a member of the public. These fees will be submitted to PSAA and are subject to their review.

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## AUDIT COMMITTEE - Internal Audit Progress Report for 2018/19 Quarter 2 (including the 2018/19 Quarter 3 IA Plan)

<b>Committee name</b>	Audit Committee
<b>Officer reporting</b>	Muir Laurie, Head of Business Assurance
<b>Papers with report</b>	Internal Audit Progress Report for Quarter 2 2018/19 & Internal Audit Plan for Quarter 3
<b>Ward</b>	All

### HEADLINES

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in 2018/19 Quarter 2 and assurance in this respect. It also provides an opportunity for the Head of Business Assurance (HBA) to highlight to the Audit Committee any significant issues that they need be aware of that have arisen since the last IA progress report.

Further, it enables the Audit Committee to hold the HBA to account on delivery of the IA Plan and facilitates in holding management to account for managing risk and control weaknesses identified during the course of IA activity.

Appended to this report is the IA Plan for Quarter 3 2018/19 which has been produced in consultation with senior managers and outlines the planned programme of IA work to be carried out within the next quarter.

### RECOMMENDATIONS:

**That the Audit Committee:**

- 1. Notes the IA Progress Report for 2018/19 Quarter 2 and consider the 2018/19 Quarter 3 IA Plan and, subject to any further minor amendments, approve it; and**
- 2. 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.**

### SUPPORTING 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 proper practices.

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Classification: Public

Audit Committee – 17 October 2018

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.

## **BACKGROUND PAPERS**

The Business Assurance service holds various background research documents in relation to the Quarter 3 IA Plan.

# BUSINESS ASSURANCE

## **Internal Audit Progress Report to Audit Committee: 2018/19 Quarter 2 (including the Quarter 3 Internal Audit Plan)**

**30<sup>th</sup> September 2018**



# Contents

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

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## 1. Introduction

### 1.1 The Role of Internal Audit

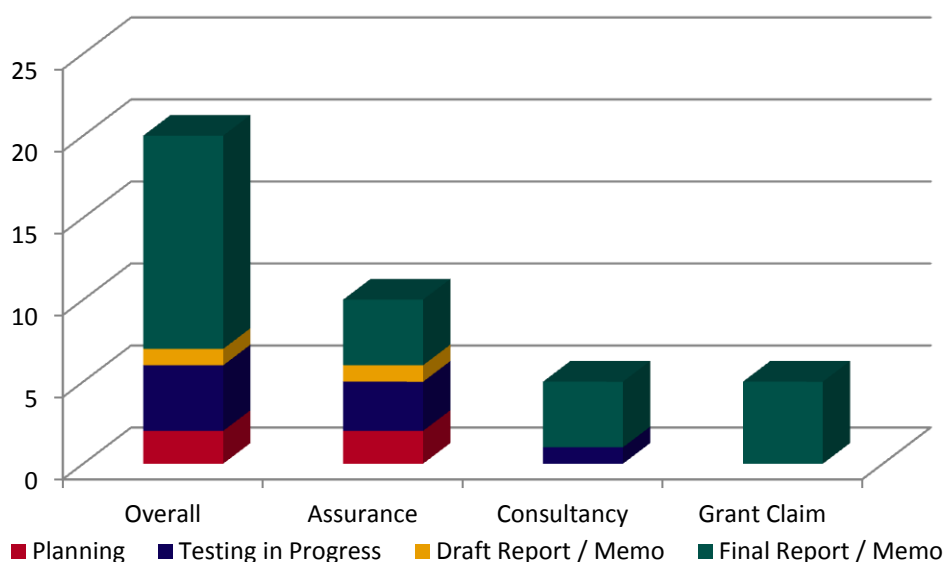
- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Council achieve its corporate objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) 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 Quarter 2 progress report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on IA work covered since the Quarter 1 progress report for the period 1<sup>st</sup> July to 30<sup>th</sup> September 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 in Quarter 2. It also highlights to CMT, the Audit Committee and other IA stakeholders the revisions to the Quarter 2 IA plan since its approval in July 2018 (refer to [Appendix B](#)).
- 1.2.2 A key feature of the Quarter 2 IA progress report is the inclusion of the 2018/19 Quarter 3 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 Quarter 3 period (1<sup>st</sup> October to 31<sup>st</sup> December 2018).

## 2. Executive Summary

- 2.1 Since the last IA Progress Report to CMT and the Audit Committee dated 30<sup>th</sup> June 2018, **4 assurance reviews** have concluded, **4 consultancy reviews** have been finalised, **5 grant claims** have been certified and **4 residual pieces of 2017/18 work** have been finalised. Progress has improved this quarter although we are still behind schedule in terms of delivery of the IA plan for the year. Nevertheless, the IA team is currently operating with several vacancies so the overall IA delivery is in line with expectations at this stage.

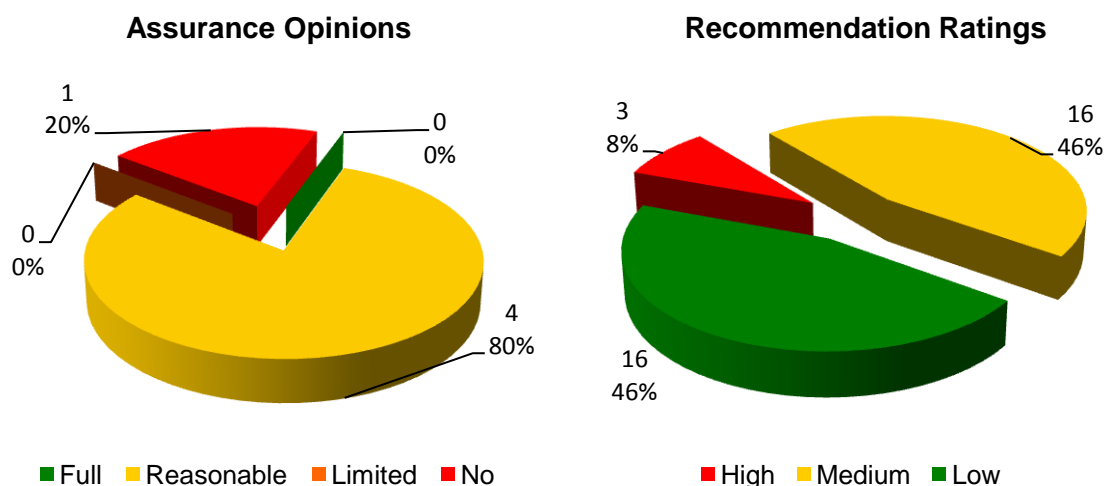


- 2.2 Our work on the 2018/19 Quarter 2 IA plan commenced on 1<sup>st</sup> July and work is now well underway on all Quarter 2 planned work. Whilst the IA team is not yet back to being fully resourced, the existing team is performing well and is continuing to provide positive assurance to its range of stakeholders. The recruitment campaign has progressed well this quarter complimented by additional IA resource from Mazars to support the team with the completion of the IA Plan (refer to [Appendix C](#)).
- 2.3 Key assurance reviews finalised this quarter have included **Officer Declarations of Interests, Complaints and Symology Data Quality** all of which received **REASONABLE** assurance opinions. In addition, a review of **Early Years Centres** was completed which received **NO** assurance over the management of the key risks. These results are in line with our expectations and the risk-based approach which we deploy. Specifically, IA resources have been targeted on the areas of the highest risk as part of a reduced IA assurance programme. **Positive action has been proposed by management** to address all of the **HIGH** and **MEDIUM** risk recommendations raised within each respective review and these recommendations will be followed-up by us in due course.
- 2.4 We continue to undertake a variety of IA advisory work across the Council. The **Housing Benefit Subsidy Grant Claim** has been a significant piece of work for us this quarter, working in liaison with External Audit (Ernst & Young). IA also continues to undertake a variety of consultancy work across the Council including our review of **Recruitment and Retention of Foster Carers** which has been fed back to us as adding particular value.
- 2.5 There have not been any amendments to the Quarter 2 IA operational plan (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

#### 3.1 Assurance Work in Quarter 2

- 3.1.1 During this quarter 4 2018/19 IA assurance reviews have been completed to final report stage, with a further 1 progressed to draft report stage. At the date of this report, the remaining IA reviews are at varying stages of background and information gathering or verification testing. The four assurance reviews finalised this quarter include **Officer Declarations of Interests, Complaints, Symology Data Quality** and **Early Years Centres**.
- 3.1.2 All five 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 Early Years Centres raised **3 HIGH** and **5 MEDIUM** risk recommendations and gave an overall **NO** assurance opinion. The absence of procedural documents was apparent during the course of this review with significant inconsistencies identified throughout the testing process, in particular invoicing, arrears management (including debt recovery), financial recording and record keeping (including document retention).
- 3.1.4 We could not evidence a clear, consistent and timely approach to raising invoices was adopted across each of the three Centres. Further, we were unable to verify the accuracy of the invoices to the original contract agreement for a child due to changes in contracted hours since initial sign up and a failure to apply the variation process, as per the terms and conditions of the contract.
- 3.1.5 Our testing highlighted a significant and varied approach to creating invoices at each of the three Centres. The adopted approach had resulted in significant discrepancies arising. The root cause of this was due to misinterpretation of the fees and charges schedule. In addition, a change in days or hours resulting in adjustments on future invoices and / or credit notes issued was identified, incurring additional use of resources.
- 3.1.6 Our sample testing over the registration and contract process identified significant inconsistencies in the level of data recorded. The severity of this missing information varied, although some cases failed to record key information such as identifying the child's special needs. We also noted that none of the sample registration forms recorded whether or not a registration fee had been paid.
- 3.1.7 We were unable to locate contracts for 6 of the 30 children sampled with a further 9 contracts, deemed incomplete. Upon raising our findings with the Service Manager, they explained that 5 of the 6 children's accounts without contracts were due to the child being fully-funded. However, there were no records to support this and in the absence of documented guidance we were unable to verify this process.
- 3.1.8 Management have responded positively to our findings and have provided a comprehensive response and prompt action plan to address the control weaknesses and risks identified within the control framework. There was also a parallel BID review that took place on the Early Years Centre and the action plan from that review is now at the implementation stage. That incorporates a staffing restructure including the appointment to a new business manager post which will address most of the financial control issues raised in the audit.
- 3.1.9 Nevertheless, due to the significance of the internal control risks highlighted and the recommendations raised, it has been agreed that a formal IA follow-up review will be carried out during Quarter 3. The follow-up IA review will provide independent assurance to CMT and the Audit Committee in relation to the Early Years Centres.
- 3.1.10 Other 2018/19 assurance reviews finalised during this quarter have included **Officer Declarations of Interests, Complaints** and **Symology Data Quality**. Each of these reviews provided a **REASONABLE** assurance opinion and together raised **9 MEDIUM** and **10 LOW** risk recommendations (refer to **Appendix A**). Positive management action has been proposed to address all of the **MEDIUM** risk recommendations raised as part of this review.

## 3.2 Consultancy Work in Quarter 2

- 3.2.1 Despite the reduced IA resources this quarter, the IA team has continued 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 this quarter with **3** consultancy reviews completed and a further **2** reviews nearing completion. The planned IA consultancy review of the **Recruitment and Retention of Foster Carers** was concluded within the quarter. In Hillingdon's Children's Services' self-evaluation submitted to Ofsted in March 2018, senior management identified that recruitment and retention of in-house foster carers remained a challenge and needed to be a priority moving forward. Subsequently, IA was asked to review the Council's strategy and suggest methods for improvement. We identified areas where further enhancements / opportunities could be gained for example, establishing and promoting a clear performance culture and working collaboratively with Corporate Communications to promote the Fostering scheme.
- 3.2.4 The planned IA consultancy review of **Financial Assessments** was concluded within the quarter. This review focused on the financial assessment process, visiting and quality assurance. During testing we found the number of errors being identified (60% error rate) was inflated by the lack of a clear definition as to what constituted an error; rectification of this would justify a reduction in the number of quality checks being performed. We also found opportunities to improve the performance culture within the team which will help improve the control framework.
- 3.2.5 IA was asked to provide consultancy advice on **Adult and Community Learning**, in relation to the examination marking process. We found no internal policies and procedures in place; however the Service complies with the defined regulations and guidance of all 11 examining boards. One compliance issue regarding the security of examination material was raised and an improvement suggestion was agreed with management.
- 3.2.6 In addition, **2** other IA consultancy reviews are at an advanced stage (**Introduction of Universal Credit** and **Client Financial Affairs**), the findings of which will be discussed at the next IA Progress Report.

### 3.3 Grant Claim Verification Work in Quarter 2

- 3.3.1 During this quarter IA has also assisted the Council in certifying **5** grant claims. As detailed at **Appendix A**, IA continues to carry out verification work on the **Troubled Families Grant** and **Housing Benefit (HB) Subsidy Grant** as well as completing verification work regarding the **Disabled Facilities Grant (DFG)**, **Bus Subsidy Grant** and **Pothole Action Fund** which equates to £3.8m, £21.7k and £96.9k respectively.
- 3.3.2 This quarter IA assisted the Council's External Auditors (Ernst & Young), with a review of the Council's **HB Subsidy Grant Claim**. This verification work has included:
- Module 2 - Up Rating  
Testing to help ensure the Council's Revenues and Benefits software is using the correct housing benefit parameters to calculate benefit entitlement;
  - Module 3 - Workbooks  
Testing calculations and verifying evidence for an initial sample of 60 cases (HRA, Non HRA and Private Tenants); and
  - Module 5 - Software Diagnostic Tool  
Testing to ensure the claim had been completed using recognised software for completion and benefit 'granted' to benefit 'paid' was reconciled in accordance with the software supplier's instructions. IA documented evidence to verify that the Council had complied with a series of control questions relevant to the Benefits software.

- 3.3.3 The **HB Subsidy Grant Claim audit** has been a significant piece of work for IA involving approximately 40 IA days of testing. Nevertheless, the work we carry out in this area saves the Council considerable money by way of a reduced External Audit fee in relation to this grant claim. This type of approach also demonstrates good collaborative working between IA and External Audit, as well as an effective and efficient use of resources.
- 3.3.4 As detailed at **Appendix A** the planned quarterly verification work on the **Troubled Families (TFs) Grant** progressed this quarter. IA tested a sample of TFs that had been identified as being 'turned around' by the Council's TFs Team. At the conclusion of our work we issued 3 IA memos in July, August and September 2018 (total number of families claimed by the Council in quarter 2 was 204).
- 3.3.5 Following the recent departure of the Council's TF Co-ordinator the TF process is moving to Children's Social Care (from the Key Working Service) where IA have been working with the new TF Co-ordinator to discuss their strategy for the programme. They have reiterated the need to continue with monthly submissions and IA is working closely with the TF Leadership Group and the TF Co-ordinator in relation to this work given the ambitious target and the very tight timescales. This scheduled work has been captured in the Quarter 3 IA Plan (refer to **Appendix C**).
- 3.3.6 The **DFG** provides a framework for local authorities to provide mandatory grants for housing adaptations for disabled people to enable them to live independently in their own homes, whether they be privately owned, rented or social housing. Our DFG certification work confirmed compliance, in particular expenditure, against the set grant conditions. As a result of our testing, we are pleased to state that the grant claim to Department for Communities and Local Government (DCLG) was signed off by the HIA and Chief Executive, prior to the 30<sup>th</sup> September 2018 deadline, with an unqualified opinion.
- 3.3.7 The Local Authority **Bus Subsidy Grant** for 2017/18 covers both commercial and non-commercial bus routes and is administered centrally by the Department for Transport. The Grant is the partial refund on fuel duty received from the government by operators of local bus services in England. To the best of our knowledge and belief, and having carried out appropriate investigations and checks, it is our opinion that, in all significant respects, the conditions attached to Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Determination 2017/18 have been complied with.
- 3.3.8 The **Pothole Action Fund** for 2017/18 is administered centrally by the Department for Transport and provides support to local authorities in England towards expenditure and repair of potholes in their respective borough. As part of this investment, the Fund will give local authorities in England £50m a year, over the next 5 years, to help tackle more than 4m potholes. Funding is calculated according to the size of the local road network in the area. To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the Transport Capital Block Funding (Pothole Action Fund) Specific Grant Determination (2017/18) No. 31/2951 have been complied with. There has been no other grant claim verification work carried out by IA this quarter.

### 3.4 Follow-up of Previous Internal Audit Recommendations in Quarter 2

- 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. This work is aimed at providing enhanced assurance to key stakeholders that IA recommendations have been implemented and fully embedded within the control environment to mitigate the risks identified.
- 3.4.2 Our follow-up work on **Physical Access Controls (PAC)** has concluded. In November 2016 IA awarded PAC **NO** assurance and raised **3 High** and **5 Medium** risk recommendations. As a result of our recent follow-up testing we are pleased to confirm that all **8** recommendations raised have been verified by IA as fully **Implemented**.

- 3.4.3 In quarter 2 we also completed follow-up work on **Extra Care**. In November 2017 IA gave Extra Care a **LIMITED** assurance opinion and raised **2 High** and **5 Medium** risk recommendations. Following testing we can confirm **2** of the **Medium** risk recommendations raised have been **Implemented**.
- 3.4.4 Further, it is our opinion that **4** recommendations were **Partly Implemented**, and **1** recommendation was deemed to be **Not Implemented**. As a consequence, the recommendations deemed either **Partly Implemented** or **Not Implemented** were escalated to senior management and given an extended implementation date. IA will review the implementation against each of these **5** recommendations in due course to ensure a robust control environment is in place and to provide assurance to CMT and the Audit Committee on the progress made.
- 3.4.5 Follow-up work within this quarter has commenced on the dedicated follow-up IA verification review of **Houses in Multiple Occupation**. This review is an additional piece of work that was added to the quarter 2 plan following a request from senior management (refer to **Appendix B**). The results of this review will be presented in the Quarter 3 IA progress report.
- 3.4.6 We have also continued 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 has continued throughout quarter 2 and we aim to provide a more detailed quarterly snapshot to the CMT and the Audit Committee of progress against implementation of IA recommendations in the next quarterly progress report.

### 3.5 Other Internal Audit Work in Quarter 2

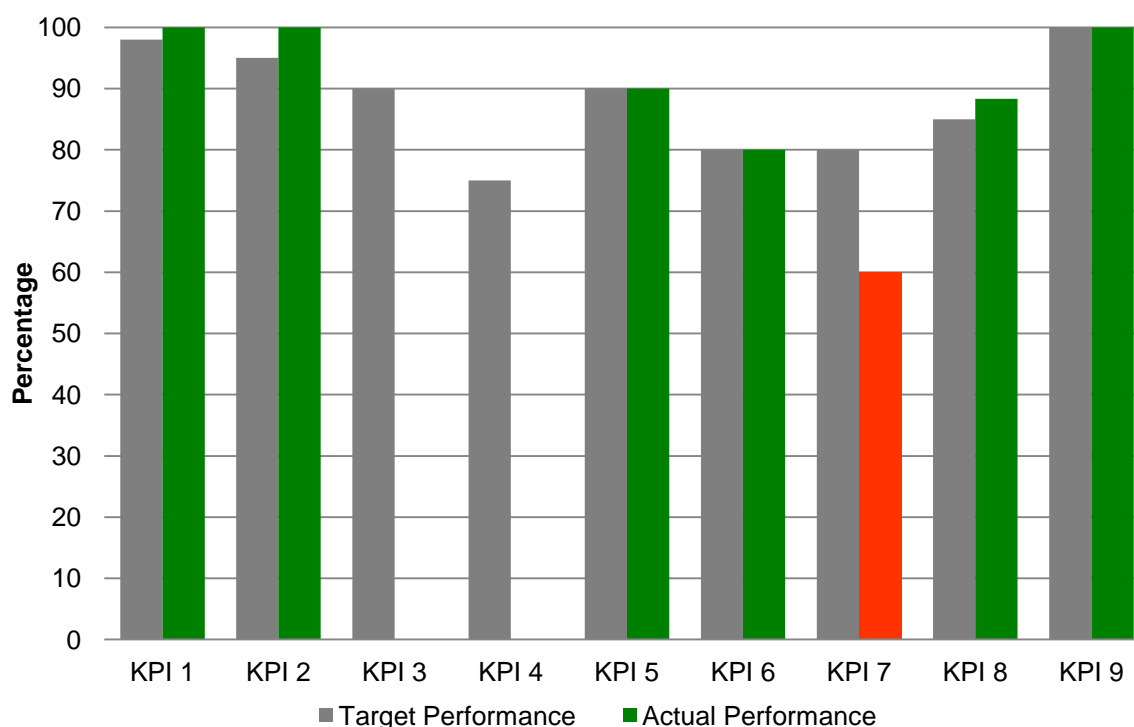
- 3.5.1 We continue to undertake a quarterly approach to IA planning to ensure emerging risks and new areas of concern are captured, particularly within the fast changing environment the Council operates in. Over the last month we have undertaken our risk based planning meetings, alongside operational and corporate risk discussions due to the synergies between these two functions. Further to this, we have produced the detailed operational IA plan for Quarter 3 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.
- 3.5.2 Due to reduced staffing capacity and focus on recruiting new staff members in the IA team, no **Quality Assurance and Improvement Programme (QAIP)** exercise has been undertaken by IA this quarter. The QAIP is designed to provide assurance that IA work continues to be fully compliant with the UK PSIAs and also helps enable the ongoing performance monitoring and improvement of IA activity. The next QAIP exercise is planned for November and December 2018 and will focus on IA management review points and closure of IA files.

## 4. Analysis of Internal Audit Performance

- 4.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. In line with best practice, IA will continue to report quarterly on performance against its agreed 9 KPIs.
- 4.2 We believe that the 2018/19 IA KPIs are meaningful and will provide sufficient challenge to the IA service. They measure the quality, efficiency and effectiveness of the IA service and thus assist us in providing an added value assurance and consulting service to our range of stakeholders. These KPIs effectively capture and measure IA delivery as well as seek continuous improvement within the service.

- 4.3 Performance data for **KPI 3** and **KPI 4** is not yet available as none of the 2018/19 the **HIGH** or **MEDIUM** risk recommendations raised have fallen due yet. **KPI 7** continues to be the one IA KPI where targeted performance is not being achieved and as a result is reported as **RED** for the first two quarters of 2018/19 (refer to **Table 1** below).

Table 1



- 4.4 The poor performance against **KPI 7** is primarily due to 2 of the 5 IA Assurance reports finalised experiencing delays in receipt of management response. Whilst IA facilitates this process, we are reliant on timely management responses within the set timeframe to achieve this performance indicator.
- 4.5 The time taken to finalise final reports from draft stage is on average 10 working days and thus within tolerances. However, due to historic non performance against **KPI 7** we plan to provide greater oversight of compliance against these KPIs to Corporate Directors as part of a quarterly IA dashboard, reporting a snapshot of IA performance at a Group level.
- 4.6 We are currently exceeding several of our KPI targets, including achieving the ambitious 85% Client Satisfaction Rating for **KPI 8**, which we are hopeful will continue throughout the remainder of the year as the volume of CFQ feedback increases.
- 4.7 In this quarter we have been reviewing the CFQ feedback from our stakeholders, looking at opportunities for improving IA practice and to help identify the perceived quality of our service. This process highlighted a couple of instances where our audit approach could be better refined. We have reflected on this feedback and have discussed the issues identified at IA team meetings as well as at one to ones, to help encourage improvement in this area.

## 5. Forward Look

- 5.1 As has already been highlighted earlier in this report, the IA service has been operating with a reduced capacity for a considerable time following the resignation of several members of the IA team over a relatively short period, **including two key members of staff**. Nevertheless, this quarter we have concluded the restructure of the IA service and have made successful offers to fill the posts of Senior Internal Auditor and Principal Internal Auditor. The HBA believes the Council has successfully recruited, subject to references, **two exceptional candidates to join the IA team in October/ November**.

- 5.2 Looking ahead to Quarter 3 we will shortly commence recruitment to our Internal Audit Apprentice vacancy. In the meantime, we will continue to use our external IA partner (Mazars) to assist in the completion of the IA Plan.
- 5.3 IA would like to take this opportunity to formally thank all staff throughout the Council with whom it had contact during the year. There has been a continued collaborative approach in IA's working relationship with staff and management who have generally responded very positively to IA findings.
- 5.4 There are no other matters that the HBA needs 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)**

30<sup>th</sup> September 2018

**APPENDIX A****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2018/19****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	

**2018/19 IA Assurance Reviews:**

IA Ref.	IA Review Area	Status as at 30 <sup>th</sup> September 2018	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
18-A8	Early Years Centres	Final report issued on 10 <sup>th</sup> July 2018	No	3	5	2	0	✓
18-A3 (17-A33)	Corporate Payments	Final report issued on 29 <sup>th</sup> June 2018	Reasonable	0	2	4	0	✓
18-A5	Complaints	Final report issued on 27 <sup>th</sup> July 2018	Reasonable	0	4	6	0	✓
18-A4	Symology Data Quality	Final report issued on 4 <sup>th</sup> Sept 2018	Reasonable	0	2	2	0	✓
18-A2	Declarations of Interests	Final report issued on 12 <sup>th</sup> Sept 2018	Reasonable	0	3	2	0	✓
18-A12	Youth Offending Service	Draft report in progress						
18-A1	Cyber Security	Testing in progress						
18-A6	Positive Behaviour Support Team	Testing in progress						
18-A13	Emergency Duty Team	Testing in progress						
Total Number of IA Recommendations Raised				3	16	16	-	
Total % of IA Recommendations Raised				8%	46%	46%	-	

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2018/19****2018/19 IA Follow-Up Reviews:**

IA Ref.	IA Follow-Up Review Area	Status as at 30 <sup>th</sup> September 2018	Recommendations				CFQ Received?
			Implemented	Partly Implemented	Not Implemented	Total	
18-A9	Physical Access Controls	Memo issued on 31 <sup>st</sup> July 2018	8	0	0	8	✓
18-A10	Extra Care	Memo issued on 9 <sup>th</sup> August 2018	2	4	1	7	✓
18-A14	Follow-up of implemented recommendations	Verification testing in progress					
18-A15	Houses in Multiple Occupation	Verification testing in progress					
Total Number			10 67%	4 27%	1 6%	15	

**2018/19 IA Consultancy Reviews:**

IA Ref.	IA Review Area	Status as at 30 <sup>th</sup> September 2018	CFQ Received?
18-C3	CYPS Thematic Review - Ofsted Preparations	Memo issued on 9 <sup>th</sup> May 2018	✓
18-C4	Recruitment and Retention of Foster Carers	Memo issued on 4 <sup>th</sup> July 2018	✓
18-C5	Financial Assessments	Memo issued on 12 <sup>th</sup> July 2018	✓
18-C6	Adult and Community Learning	Memo issued on 17 <sup>th</sup> July 2018	✓
18-C2	Client Financial Affairs	Memo in progress	
18-C1	Introduction of Universal Credit	Testing in progress	

**APPENDIX A (cont'd)****2018/19 IA Grant Claim Verification Reviews:**

IA Ref.	IA Review Area	Status as at 30 <sup>th</sup> September 2018
18-GC1	Troubled Families Grant - Quarter 1	Certified and memos issued on 25 <sup>th</sup> April 2018, 17 <sup>th</sup> May 2018 and 12 <sup>th</sup> June 2018
18-GC3	Troubled Families Grant - Quarter 2	Certified and memos issued on 26 <sup>th</sup> July 2018, 30 <sup>th</sup> August 2018 and 26 <sup>th</sup> September 2018
18-GC4	Disabled Facilities Grant	Certified and memo issued on 28 <sup>th</sup> August 2018
18-GC2	Housing Benefit Subsidy Grant	Certified and memo issued on 3 <sup>rd</sup> September 2018
18-GC6	Pothole Action Fund	Certified and memo issued on 13 <sup>th</sup> September 2018
18-GC5	Bus Subsidy Grant	Certified and memo issued on 18 <sup>th</sup> September 2018

**APPENDIX B****REVISIONS TO THE 2018/19 INTERNAL AUDIT PLAN ~ QUARTER 2****Amendments to the 2018/19 Operational IA Plan for Quarter 2:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
N/A	No amendments to the Q2 IA Plan		-	-	-

**IA work DEFERRED from the 2018/19 Operational IA Plan for Quarter 2:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
18-A7	CYPS - Quality Assurance	Assurance	<b>MEDIUM</b>	<b>Tony Zaman</b> Corporate Director of Social Care	Following the Ofsted inspection of Children's Social Care, where a 'Good' rating was awarded to the Service and the IA reviews concerning Ofsted preparations, the Deputy Director, Children's Services has requested that this work be deferred for the foreseeable future as the risk has reduced in light of the aforementioned events.

**IA work ADDED to the 2018/19 Operational IA Plan for Quarter 2:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
18-A15	Houses in Multiple Occupation	Assurance (Follow-Up)	<b>HIGH</b>	<b>Jean Palmer</b> Deputy Chief Executive & Corporate Director of Residents Services	This review was requested by senior management following a previous follow-up in December 2017, where IA found <b>2 HIGH</b> risk recommendations were <b>Partly Implemented</b> and the <b>5</b> remaining IA recommendations were deemed <b>Not Implemented</b> .

**APPENDIX C****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 3****IA work scheduled to commence in the 1<sup>st</sup> October to 31<sup>st</sup> December 2018 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
18-A17	Mortuary	Assurance	<b>HIGH</b>	<b>Jean Palmer</b> Deputy Chief Executive & Corporate Director of Residents Services	Uxbridge Mortuary is subject to licensing and site inspections by the official regulatory body, the Human Tissue Authority (HTA) under the Human Tissue Act 2004. The Mortuary must comply with the HTA Standards and 3 Codes of Practice. Inspections take place in a 3-yearly cycle. The last HTA inspection occurred in 2015 (which IA assisted with) this means a new inspection is due to take place this year and therefore management have requested IA to assist them again in preparation for this.
18-A18	Gifts and Hospitality	Assurance	<b>MEDIUM</b>	<b>Fran Beasley</b> Chief Executive & Corporate Director of Chief Executive's Office	The Council is committed to the application of the Nolan principles in everything that they do. The Integrity principle states that "Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties". This IA review will seek to provide assurance over the adequacy and application of the control and governance framework in place.
18-A19	General Data Protection Regulation (GDPR)	Assurance	<b>MEDIUM</b>	<b>Fran Beasley</b> Chief Executive & Corporate Director of Chief Executive's Office	The Council has a statutory requirement to comply with the EU GDPR, with significant breaches subject to financial penalties and adverse publicity. IA has been requested to undertake a review of the Council's compliance against the regulation. The IA Service Manager and HIA have assisted in the implementation of GDPR; therefore this audit will be conducted and reviewed by Mazars to ensure audit independence.
18-A20	Merchiston House	Assurance	<b>MEDIUM</b>	<b>Tony Zaman</b> Corporate Director of Social Care	This is a newly refurbished children's home which opened recently to provide shelter and services to vulnerable young people who are in Council care. The home was opened following the closure of Mulberry Parade and recent staffing changes. The Head of Service has requested IA provide independent assurance over safeguarding, health and safety and general management of the facility.

**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 3****IA work scheduled to commence in the 1<sup>st</sup> October to 31<sup>st</sup> December 2018 period:**

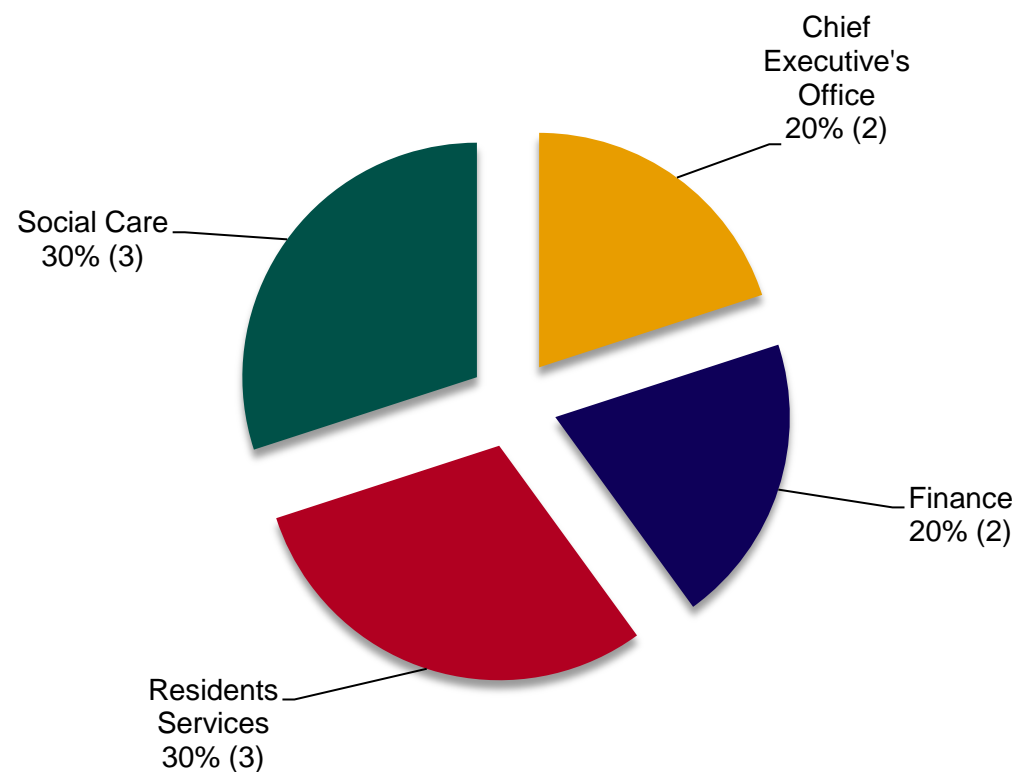
IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
18-A21	Financial Resilience and Appetites for Public Sector Contracts	Assurance	<b>MEDIUM</b>	<b>Paul Whaymand</b> Corporate Director of Finance	Public sector contracts provide a host of valuable services and support to our residents and service users. This year there have been reports in the press over the financial resilience of some external suppliers and providers if they fail to deliver the required level of service due to financial difficulties and/or going out of business. This IA review follows on from the assurance mapping exercise undertaken in 2018/19, providing independent assurance over the adequacy and effectiveness of the system of control to safeguard the Council's financial management through public sector contracts.
18-A14	Follow-Up of implemented recommendations	Assurance (Follow-Up)	<b>MEDIUM</b>	<b>Paul Whaymand</b> Corporate Director of Finance	In preparation for the Annual Head of Internal Audit Opinion we will seek to undertake follow-up verification on the 2015/16, 2016/17 and 2017/18 IA recommendations where management have self certified that the recommendation has been implemented via the Team Central System.
18-A22	Extra Care Follow-Up	Assurance (Follow-Up)	<b>MEDIUM</b>	<b>Tony Zaman</b> Corporate Director of Social Care	Following the 2017/18 IA assurance review in this area which received a <b>NO</b> assurance opinion, this follow-up review, with a refined scope, focuses on the implementation of the <b>4 Partly Implemented</b> and <b>1 Not Implemented</b> recommendation.
18-A23	Housing Planned Maintenance and Housing Repairs Follow-Up	Assurance (Follow-Up)	<b>HIGH</b>	<b>Jean Palmer</b> Deputy Chief Executive & Corporate Director of Residents Services	Following the 2015/16 IA assurance reviews in these areas which both received <b>LIMITED</b> assurance opinions, this follow-up review encompasses two audits because the key contacts and management responsibility are the same. With a refined scope IA will focus on the status/implementation of <b>1 HIGH</b> and <b>6 MEDIUM</b> risk recommendations raised.

**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 3 (cont'd)****IA work scheduled to commence in the 1<sup>st</sup> October to 31<sup>st</sup> December 2018 period:**

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
18-A24	Housing Needs Allocations & Assessments and Tenancy Management Follow-Up	Assurance (Follow-Up)	<b>HIGH</b>	<b>Jean Palmer</b> Deputy Chief Executive & Corporate Director of Residents Services	Following the 2015/16 IA assurance review of Housing Needs and the 2016/17 IA assurance review of Tenancy Management which received <b>LIMITED</b> and <b>REASONABLE</b> assurance opinions respectively, this follow-up review encompasses two audits because the key contacts and management responsibility are the same. With a refined scope IA will focus on the implementation of the 2 <b>HIGH</b> and 2 <b>MEDIUM</b> risk recommendations raised.
18-GC7	Troubled Families (TF) Grant - Quarter 3	Grant Claim	N/A	<b>Tony Zaman</b> Corporate Director of Social Care	The TF programme is a govt 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 TF have been 'turned around'.

**APPENDIX C (cont'd)****DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 3 (cont'd)**

**IA work scheduled to commence in the 1<sup>st</sup> October to 31<sup>st</sup> December 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 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 D (cont'd)****INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

RISK	DEFINITION
<b>HIGH</b> 	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> 	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> 	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> 	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>

## AUDIT COMMITTEE - 2018/19 Quarter 2 Counter Fraud Progress Report

<b>Committee name</b>	Audit Committee
<b>Officer reporting</b>	Muir Laurie, Head of Business Assurance
<b>Papers with report</b>	2018/19 Quarter 2 Counter Fraud Progress Report
<b>Ward</b>	All

### HEADLINES

The attached report presents the Audit Committee with summary information on all Counter Fraud work covered in relation to 2018/19 Quarter 2 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 Counter Fraud Strategic Plan and facilitates in holding management to account for managing issues identified during the course of the Business Assurance Counter Fraud Team activity.

### RECOMMENDATIONS:

That the Audit Committee:

1. Notes the Counter Fraud Progress Report for 2018/19 Quarter 2; and
2. Suggests any comments/amendments.

### SUPPORTING INFORMATION

The Counter Fraud 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 team underpins the Council's commitment to a zero tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.

### BACKGROUND PAPERS

The Business Assurance service holds various background research documents in relation to the Counter Fraud Strategic Plan.

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# BUSINESS ASSURANCE

## **Counter Fraud Progress Report to Audit Committee: 2018/19 Quarter 2**

**30<sup>th</sup> September 2018**



## Contents

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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, there is also a range of preventative work that the team is responsible for carrying out. This includes, 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 2 period (1<sup>st</sup> July to 30<sup>th</sup> September 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 2.
- 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 During this quarter the team has completed **one prosecution for housing fraud**. The defendant, Mr Saleban, was **sentenced to 15 months custody**, suspended for 2 years and **ordered to pay the prosecution costs of over £10k**. This positive result has been widely communicated following a successful and proportional criminal investigation conducted by the BACFT.
- 2.2 In this quarter the BACFT has focussed on the delivery of a number of new counter fraud projects as part of the planned increase in proactive counter fraud work. The team has at the same time continued its fraud prevention and detection coverage through its investigations and verifications activities. New areas of verifications work have been started in different aspects of Housing with new verification work also planned within Social Care. **Some additional benchmarking data has been obtained relating to counter fraud activity in other London Boroughs**, although there remains reluctance by some authorities to transparently share their performance data in this area. The benchmarking data helps the BACFT assess its own performance against other London Boroughs, alongside measuring performance against the **BACFT KPIs implemented last quarter**.
- 2.3 Following the **successful recruitment to all vacant position within the BACFT**, the key focus this quarter has been on developing the knowledge and skills of the team. This is an essential element of the BACFT strategy for ensuring that all staff receive appropriate training and development to enable them to provide a professional counter fraud service. **Both Lead Investigators have completed their professional qualification BTEC Level 7 in Investigations this quarter**. Two Principal Investigations Officers have also recently begun studying the same qualification, with one other Principal Investigations Officer planning on commencing their studies for this qualification during Quarter 3. In addition, we have recently developed a partnership arrangement with CIPFA which will see **ten unqualified members of the BACFT complete their studies in Quarter 3 to become Accredited Counter Fraud Technicians**. This represents a significant development and shows a commitment by the Council to providing a professional counter fraud service.

- 2.4 During Quarter 2 the HBA and Counter Fraud Manager have continued working as part of the Government's Counter Fraud **Trailblazer Group**. This involves working in collaboration with counter fraud colleagues from the Cabinet Office, the Treasury, HM Revenue and Customs and a number of other central government and local government organisations to help develop the Counter Fraud profession. This includes developing a new **Counter Fraud Investigator Apprenticeship**, which is linked to the launch of the *Government Counter Fraud Profession* due to launch this month. It is intended that all BACFT officers will eventually formally join the *Government Counter Fraud Profession* once eligible to do so.
- 2.5 Having a **Home Office Immigration Enforcement Officer** (IEO) as part of the BACFT continues to help the Council successfully prevent fraud against Hillingdon taxpayers. The IEO results to date highlight that the financial benefit of having direct access to this resource clearly outweighs the cost. It also demonstrates the value of a collaborative approach to counter fraud work and public service provision which is in line with the Counter Fraud Strategy approved by CMT and Audit Committee in March 2018.
- 2.6 Other work this quarter has included **drafting/updating all of the Council's investigation related policies**. Further detailed analysis of the BACFT's work in Quarter 2 is included in section 3 of this report below.

### 3. Analysis of Counter Fraud Activity in Quarter 2

#### 3.1 Housing Fraud - Work in Quarter 2

- 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 faced by the Council 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 being occupied by people who have no right to live there. As a result, the Council takes tenancy fraud extremely seriously and will always take robust and proportionate action to regain possession of properties and recover any unlawful profits made by residents wherever we find any 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** over the page, in the 2018/19 financial year to date, the BACFT has successfully recovered **10** Council properties and are actively pursuing a further **2** cases for eviction. A further **26** investigations for suspected tenancy fraud are ongoing.

**Table 1 ~ Housing Tenancy Fraud Cases**

Housing Tenancy Fraud Cases	2018/19 (to date)*		2017/18		2016/17	
	Cases	£k/value**	Cases	£k/value	Cases	£k/value
Total number of recovered properties	10	£180k	43	£774k	64	£1,152k
Total number of ongoing cases	26	£468k	-	-	-	-

\* = as at 30<sup>th</sup> September 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** and some as high as **£150k per property** as a representation of property replacement costs.

- 3.1.4 BACFT KPI 5 (refer **Table 4** in **Appendix A**) was set in Quarter 1 at a **20% property recovery rate** for tenancy fraud referrals received. In Quarter 2 the team has only achieved **8.6%** compared to **24%** achieved in Quarter 1. This is despite an increase in referrals this quarter from **38** compared to only **24** in Quarter 1. The performance reduction in Quarter 2 is partly linked to the new risk assessment process. We are currently engaging with the Council's Housing Team to better understand the core reasons for the reduction, but an element of this is the quality of the referrals being passed to the BACFT i.e. 25 of the 38 referrals did not pass our risk assessment stage. Nevertheless, an additional **13** tenancy fraud referrals from Quarter 2 are now ongoing investigations, in addition to **13** ongoing investigations from previous quarters (26 ongoing in total).
- 3.1.5 In addition to work on tenancy fraud, the BACFT carries out investigations into suspected **fraudulent Right to Buy (RTB) applications**. This is where a person is applying to buy their council house under the statutory scheme, and at a significant discount to market values. The scheme operates under strict conditions that must be met by the applicant if they are to qualify for the discount. In 2018/19 to date the team has identified **3** cases of fraudulent RTB applications which have been stopped meaning the prevention of fraud valuing **£310,800** in RTB discount. Currently **5** Right to Buy cases are being investigated or actively pursued in the criminal court by the BACFT.
- 3.1.6 As part of the BACFT's **fraud prevention coverage** it proactively carries out verification work on existing Council tenancies and other housing services. Using information gathered by the Intelligence Officers and Verification Officers, the BACFT carry out confirmation checks which often includes actual visits to the properties. The team also work with a variety of social landlords and statutory agencies to help detect fraud where information sharing protocols are in place, to try and make sure the right people are living in Council properties.
- 3.1.7 Per **Table 2** below, in the 2018/19 year to date, the BACFT has successfully identified **286** housing tenancy cases that should be rejected for various reasons.

**Table 2 ~ Housing Tenancy Verification Cases**

Housing Tenancy Verification Cases	2018/19 (to date)*	2017/18
Total number of cases reviewed	747	2,485
Total number verified as accurate	462	1,398
Total number rejected	286	1,087
% identified by BACFT for rejection	38%	44%

\* = as at 30<sup>th</sup> September 2018

3.1.8 Of the **286** cases that have been rejected, **20** 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 Following agreement with Housing management as part of Quarter 1 planning, three new verification processes have been implemented in Quarter 2. These expand the range of verification work carried out and provide additional assurance over expenditure of grants to residents for property purchasing and high value expenditure on temporary accommodation. The new areas of verification are:

- **First time buyer scheme** - eligibility based grants scheme helping residents who aspire to property ownership to buy their first home;
- **Right to Buy** - formal verification of every RTB application to identify suspected fraud and ineligibility; and
- **Bed & Breakfast accommodation** - residency check of all Bed & Breakfast accommodation on a rolling 8 week basis to provide assurance over expenditure.

In Quarter 3 the BACFT intends to introduce further verifications processes to cover mutual exchanges for housing.

### 3.2 National Fraud Initiative - Quarter 2 Update

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 a number of 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 continue to place greater emphasis on the use of data analytics to help prevent and detect fraud against the Council.

3.2.3 The next NFI exercise for Hillingdon is scheduled for this year and uploading of data for our next exercise will begin in Quarter 3 and then be returned to the Council for review during Quarter 4. For now, the BACFT will continue to work through the data matches identified in the 2016/17 exercise as well as the Housing pilot matches.

3.2.4 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 2

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 with a planned approach of at least one Blue Badge proactive 'operation' per quarter.

3.3.2 In Quarter 2 a proactive Blue Badge misuse operation was carried out at Ruislip Lido. This operation follows on from a successful operation in Quarter 1 resulting in **3 criminal sanctions** for identified misuse delivered in Quarter 2, with **1 financial penalty** for misuse, and **2 ongoing Blue Badge investigations**. The results of the drive are as follows:

- **39 badges checked** by BACFT officers;
- **1 parking contravention notice issued** by attending Parking Enforcement Officer; and
- **1 criminal investigation opened** following badge seizure.

3.3.3 These results reflect positively on how the Council tackles Blue Badge Fraud and provides reassurance to residents that fraud in this area will not be tolerated by this Council. Further proactive operations in this area are scheduled for Quarters 3 and 4.

### 3.4 Social Care Fraud - Work in Quarter 2

3.4.1 In Quarter 2 the BACFT carried out a proactive counter fraud project looking at Unaccompanied Asylum Seeking Children (UASC) funding. The team has also agreed to implement a new verifications process in Quarter 3 for Social Care Section 17 (s.17) funding residency checks. This follows on from the successful project in Quarter 1.

3.4.2 **Table 3** below provides the summary results of a proactive counter fraud project was undertaken in Quarter 2 to review all USAC accommodation and expenditure. This is the first time this project has been undertaken and was completed with the assistance of the in-house Home Office IEO.

**Table 3 ~ Unaccompanied Asylum Seeking Children Proactive Counter Fraud Project**

UASC Funded Accommodation	Q2 2018/19
Total number of cases reviewed	85
Number assessed to continue funding	67
Number of cases recommended for discontinuation of funding <sup>1</sup>	18
Financial value <sup>2</sup>	£134,316

<sup>1</sup> The reasons for discontinuation includes the young person either misusing funding accommodation or has status in the UK and therefore should be funded from central government.

<sup>2</sup> Young people receiving funding can receive funding from the ages of 18 through to 25. The value of loss prevention is therefore cumulative. For reporting purpose, only one full year of average funding value has been used (£7,462).

### 3.5 Immigration Enforcement Officer - Work in Quarter 2

3.5.1 Since the 16<sup>th</sup> April, the BACFT has had a Home Office IEO working as part of the team. The purpose is to provide enhanced access to Home Office data for the purpose of assessing cases involving immigration status, for assisting in counter fraud work requiring access to home office data. The IEO is also provides front line assistance when dealing with a matter involving immigration status.

3.5.2 As of 30<sup>th</sup> September, the IEO has provided assistance in **362 cases** where requests have been made by Council officers outside the BACFT. Of these cases the following outcomes have been identified:

- **37 instances** where all rights have been exhausted or the person is an illegal immigrant overstayed in the UK and has no recourse to public funds;
- **4 cases** which have been referred to the Immigration Compliance Enforcement (ICE) Team for removal; and
- **2 cases** of prevention of First Time Buyer scheme grants application fraud resulting in a **financial loss prevention of £35,646** (average grant of £17,823).

- 3.5.3 Further information on case outcomes is continuing to be sought from services to provide an assessment of the financial impact of the IEO's presence within the BACFT. This will include circumstances where the Council no longer is required to fund an individual due to status and also for individuals that should be funded by the National Asylum Seeker Support (NASS), rather than the Council where appropriate.
- 3.5.4 The IEO has provided invaluable assistance in proactive counter fraud projects by carrying out background checks on all cases where there is potentially an immigration issue. As a result of the IEO work financial loss prevention valued at approximately **£82,000** has been identified. In addition to the First Time Buyer scheme savings, this is made up of prevention of Social Care s.17 and UASC expenditure.

### 3.6 Other Counter Fraud Work in Quarter 2

- 3.6.1 With the drive to improve efficiency and quality of all investigations, **all BACFT referrals are now being robustly risk assessed and intelligence checked** before being considered for escalation to the formal investigation stage. **In Quarter 2 there were 103 referrals to the team** from internal or external sources. Nevertheless, the newly embedded risk assessment approach has actually reduced the overall number of ongoing full investigations. As a result at 30<sup>th</sup> September, there are **46** ongoing investigations and **69%** of these (**32**) relate to different aspects of housing and tenancy fraud.
- 3.6.2 As a result of the intention to **introduce internal data matching** to the scope of the BACFT operational plan, work has been carried out on implementing a Data Protection Privacy Notice to cover this area of work. Data Protection Impact Assessments have also been undertaken as required by GDPR in order to start to process data for data matching purposes. The BACFT is now ready to commence this data matching exercise in Quarter 3 and will report to CMT and the Audit Committee at the end of the next quarter.
- 3.6.3 This quarter the BACFT has carried out four proactive counter fraud projects including the University Bursary scheme. As part of this work the team successfully prevented one bursary from being granted to an ineligible candidate.
- 3.6.4 Other work by the BACFT this quarter has included drafting/updating all of the Council's investigation related policies which includes:
- Prosecution, Sanctions and Enforcement Policy;
  - Anti-Money Laundering Policy;
  - Anti-Bribery Policy;
  - Surveillance Policy;
  - Fraud Response Plan;
  - Internal Investigations Protocol;
  - Whistleblowing Policy; and
  - BACFT Code of Ethics.

**These are all in the process of being produced and will be circulated with key stakeholders, including the Audit Committee for comment over the next month.**

## 4. Analysis of the Counter Fraud Team Performance in Quarter 2

- 4.1 In Quarter 1 KPIs for the BACFT were agreed and implemented to allow effective measurement of BACFT performance and enable the team and the HBA to be better held to account by CMT and Audit Committee. Attached at **Appendix A** is **Table 4** which sets out the actual cumulative performance by the BACFT against the KPIs as at 30<sup>th</sup> September 2018.

- 4.2 As can be seen from **Table 4** actual performance for all KPIs is significantly lower in most areas of the desired standard of performance. Nevertheless, as highlighted earlier in this report, a strategic move to a risk-based approach has been implemented and significant investment in training and developing the BACFT staff has been required. Both of these initiatives will help the Council deliver a much higher level of performance in the longer term. The HBA remains confident that by the end of the 2018/19 financial year actual performance against the KPIs will have significantly improved for the BACFT.
- 4.3 In addition, during Quarter 1 we carried out an exercise in gathering benchmarking data comparisons with other London Borough counter fraud teams. During Quarter 2 we have continued to seek to obtain benchmarking data relating to counter fraud activity. In particular, following the request from Audit Committee members for comparison data concerning housing stock for London boroughs, this data has been obtained for the majority of London boroughs (refer to **Table 5** at **Appendix B**).
- 4.4 **Table 5** provides a summary for London boroughs of the number of council properties recovered by counter fraud work, against the total housing stock for each London borough (as at 2016/17). What can be seen from this table (as per **Table 6** at **Appendix C**) is that **Hillingdon is amongst the highest performers in London** in this area of counter fraud work. The results achieved this quarter demonstrate a positive direction of travel and that overall the team has continued to be successful in achieving positive outcomes by preventing and detecting fraud against Hillingdon taxpayers.

## 5. Forward Look

- 5.1 Looking ahead to Quarter 3 there are a number of key priorities for the BACFT. These include:
- Further progress towards a **fully qualified professional team** of Investigators, Verification Officers and Intelligence Officers;
  - Continue embedding the new **Counter Fraud processes and methodology** within the team, including the risk-based approach to all referrals;
  - Fully introduce the use of **internal data matching processes** to assist in the prevention and detection of fraud; and
  - Broaden the scope of **engagement with key stakeholders through fraud awareness and risk workshops** to further promote the counter fraud culture within the Council;
  - Begin planning the process of **joint working with the Department for Work and Pensions** on benefit fraud affecting the Council, due to commence in Quarter 4; and
  - Carry out **counter fraud** work on areas of highest risk to **maximise loss prevention opportunities** for the Council.
- 5.2 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 2. 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**

30<sup>th</sup> September 2018

**APPENDIX A****Table 4 ~ BACFT KPIs and Quarter 2 Actual Performance**

KPIs	Target	Q2
1. Percentage of fraud referrals risk assessed within 3 working days	95%	51%
2. Verification work timescales for completion:		
a. Housing Allocations completion within 3 working days	95%	89%
b. First Time Buyer completion within 5 working days	95%	71%
c. Right to Buy completion within 28 working days	95%	N/A <sup>3</sup>
3. Housing Bed and Breakfast clients verified every 40 working days	95%	N/A <sup>3</sup>
4. Investigation plan completion within 5 working days of case allocation	95%	25%
5. Tenancy fraud referrals received resulting in property recovery	20%	8.6%
6. Investigations resulting in sanction ( <i>prosecution/penalty/caution</i> )	10%	4.5%
7. Investigations resulting in loss prevention/financial saving outcome	25%	16%

<sup>3</sup> = data is not yet available as the Civica process for reporting is currently in development with ICT.

**APPENDIX B****Table 5 ~ Benchmarking Information for Properties Recovered in 2016/17**

No.	Council	Total Stock	Recovered Properties	%
1	Merton	60	10	16.67
2	Bexley	90	6	6.67
3	City of London	440	11	2.50
<b>4</b>	<b>Hillingdon</b>	<b>9,940</b>	<b>64</b>	<b>0.64</b>
5	Enfield	10,080	59	0.59
6	Waltham Forest	9,740	49	0.50
7	Camden	23,080	110	0.48
8	Hackney	21,780	103	0.47
9	Tower Hamlets	11,690	44	0.38
10	Croydon	13,800	45	0.33
11	Lambeth	23,720	73	0.31
12	Haringey	15,420	48	0.31
13	Wandsworth	16,800	48	0.29
14	Harrow	4,840	13	0.27
15	Southwark	38,550	89	0.23
16	Greenwich	21,550	39	0.18
17	Hammersmith & Fulham	12,300	21	0.17
18	Sutton	5,980	9	0.15
19	Lewisham	14,420	19	0.13
20	Hounslow	12,920	6	0.05
21	Ealing	11,910	5	0.04
22	Newham	15,810	5	0.03
23	City of Westminster	11,890	13	0.11
24	Richmond upon Thames**	0	16	N/A
25	Barking & Dagenham*	*	*	N/A
26	Barnet*	*	*	N/A
27	Brent*	*	*	N/A
28	Bromley*	*	*	N/A
29	Havering*	*	*	N/A
30	Islington*	*	*	N/A
31	Kensington & Chelsea*	*	*	N/A
32	Kingston upon Thames*	*	*	N/A
33	Redbridge*	*	*	N/A

\*\* = Councils are able to investigate Housing fraud on behalf of social landlords and recover properties on their behalf. This is normally done in return for nomination rights on properties or as a commercial service.

\* = 2016/17 data for these 9 London authorities was not readily available and to date we have been unable to obtain the data from them directly.

**APPENDIX C****Table 6 ~ Benchmarking Data No. of Tenancy Fraud Properties Recovered in 2016/17**

No.	Council	No. of Recovered Properties in 2016/17
1	Camden	110
2	Hackney	103
3	Southwark	89
4	Lambeth	73
<b>5</b>	<b>Hillingdon</b>	<b>64</b>
6	Enfield	59
7	Waltham Forest	49
8	Wandsworth	48
9	Haringey	48
10	Croydon	45
11	Tower Hamlets	44
12	Greenwich	39
13	Hammersmith & Fulham	21
14	Lewisham	19
15	Richmond upon Thames	16
16	Westminster	13
17	Harrow	13
18	City of London	11
19	Merton	10
20	Sutton	9
21	Bexley	6
22	Hounslow	6
23	Newham	5
24	Ealing	5
25	Barking & Dagenham	*
26	Barnet	*
27	Brent	*
28	Bromley	*
29	Havering	*
30	Islington	*
31	Kensington & Chelsea	*
32	Kingston upon Thames	*
33	Redbridge	*

\* = 2016/17 data for these 9 London authorities was not publicly available and to date we have been unable to obtain the data from them directly.

## AUDIT COMMITTEE FORWARD PROGRAMME 2018/19

<b>Committee name</b>	Audit Committee
<b>Officer reporting</b>	Anisha Teji, Chief Executive's Office
<b>Papers with report</b>	None
<b>Ward</b>	All

### HEADLINES

This report is to enable the Audit Committee to review planned meeting dates and the forward programme.

### RECOMMENDATIONS:

That the Committee:

1. Confirms the dates for Audit Committee meetings; and
2. Makes suggestions for future agenda items, working practices and / or reviews.

### SUPPORTING INFORMATION

All meetings to start at 5.10pm. There will be a pre meeting with officers and the Committee at 5.00pm.

Meetings	Room
11 April 2018	CR 5
26 July 2018	CR 5
17 October 2018	CR 5
6 February 2019	CR 6
25 April 2019	CR 5

<b>Meeting Date</b>	<b>Item</b>	<b>Lead Officer</b>
<b>6 February 2019</b>	<b>*Private meeting with Head of Business Assurance 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>EY - Annual Grant Audit Letter</b>	<b>Corporate Director of Finance /Ernst &amp; Young</b>
	<b>Internal Audit Progress Report 2018/19 Quarter 3 &amp; Internal Audit Plan Quarter 4</b>	<b>Head of Business Assurance</b>
	<b>Counter Fraud Progress Report Quarter 3 2018/19</b>	<b>Head of Business Assurance</b>
	<b>Q2 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>

<b>Meeting Date</b>	<b>Item</b>	<b>Lead Officer</b>
<b>25 April 2019</b>	<b>*Private meeting with External Audit (Ernst &amp; Young) to take place before the meeting</b>	
	<b>Audit Committee Annual Report</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>Annual Review of the Effectiveness of the Audit Committee 2018/19</b>	<b>Head of Business Assurance</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>Draft Internal Audit Plan 2019/20</b>	<b>Head of Business Assurance</b>
	<b>Internal Audit Progress Report 2018/19 Quarter 4 (including the 2019/20 Quarter 1 IA Plan)</b>	<b>Head of Business Assurance</b>
	<b>Counter Fraud Progress Report Quarter 4 2018/19</b>	<b>Head of Business Assurance</b>
	<b>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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