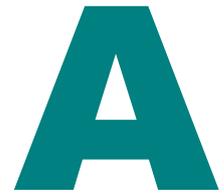




HILLINGDON
LONDON



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 6 FEBRUARY
2019

Time: 5.40 PM

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

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

This Agenda is available online at:
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camera and scan the code below:



Published: Tuesday 29 January 2019

Contact: Anisha Teji
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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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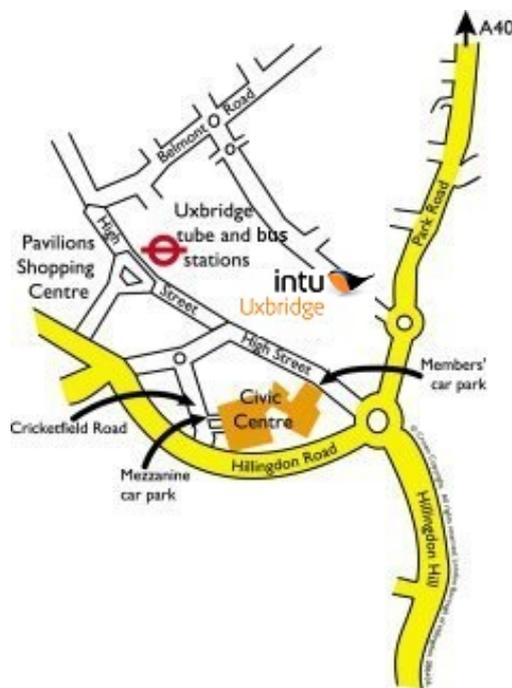
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Terms of Reference

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

Introduction

The Audit Committee's role will be to:

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

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

Internal Audit

1. Review and approve (but not direct) the Internal Audit Strategy to ensure that it meets the Council's overall strategic direction.
2. Review, approve and monitor (but not direct) Internal Audit's planned programme of work, paying particular attention to whether there is sufficient and appropriate coverage.
3. Through quarterly Internal Audit summary reports of work done, monitor progress against the Internal Audit Plan and assess whether adequate skills and resources are available to provide an effective Internal Audit function. Monitor the main Internal Audit recommendations and consider whether management responses to the recommendations raised are appropriate, with due regard to risk, materiality and coverage.
4. Make recommendations to the Leader of the Council or Cabinet Member for Finance, Property and Business Services on any changes to the Council's Internal Audit Strategy and Internal Audit Plans.
5. Review the Annual Internal Audit Report and Opinion Statement and the level of assurance this provides over the Council's corporate governance arrangements, risk management framework and system of internal controls.
6. Consider reports dealing with the activity, management and performance of Internal Audit.
7. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to request work from Internal Audit.

External Audit

8. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
9. Monitor management action in response to issues raised by External Audit.
10. Receive and consider specific reports as agreed with the External Auditor.
11. Comment on the scope and depth of External Audit work and ensure that it gives value for money, making any recommendations to the Corporate Director of Finance.
12. Be consulted by the Corporate Director of Finance over the appointment of the Council's External Auditor.
13. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.
14. Monitor arrangements for ensuring effective liaison between Internal Audit and External Audit, in consultation with the Corporate Director of Finance.

Governance Framework

15. Maintain an overview of the Council's Constitution in respect of contract procedure rules and financial regulations and where necessary bring proposals to the Leader of the Council or the Cabinet for their development.
16. Review any issue referred to it by the Chief Executive, Deputy Chief Executive, Corporate Director, any Council body or external assurance providers including Inspection agencies.
17. Monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the Corporate Risk Register and seeking assurances that appropriate action is being taken on managing risks.
18. Review and monitor Council strategy and policies on anti-fraud and anti-corruption including the 'Raising Concerns at Work' policy, making any recommendations on changes to the relevant Corporate Director in consultation with the Leader of the Council.
19. Oversee the production of the authority's Annual Governance Statement and recommend its adoption.
20. Review the Council's arrangements for corporate governance and make recommendations to the Corporate Director of Finance on suggested actions to improve alignment with best practice.
21. Where requested by the Leader of the Council or Cabinet Member for Finance, Property and Business Services or Corporate Director of Finance, provide recommendations on the Council's compliance with its own and other published standards and controls.

Accounts

22. Review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from financial statements or from the external auditor that need to be brought to the attention of the Council.
23. Consider the External Auditor's report to those charged with governance on issues arising from the external audit of the accounts.

Review and reporting

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

Agenda

PART I

- 1 Apologies for absence
- 2 Declarations of interest
- 3 To confirm that all items marked Part I will be considered in Public and that any items marked Part II will be considered in Private
- 4 Minutes of the Meeting held on 17 October 2018 1 - 4
- 5 EY 2018/19 Annual Audit Plan & Pension Fund Audit Plan 5 - 98
- 6 Internal Audit Progress Report for 2018/19 Quarter 3 (including the 2018/19 Quarter 4 IA Plan) 99 - 122
- 7 Oral Update on Counter Fraud Policies
- 8 2018/19 Quarter 3 Counter Fraud Progress Report 123 - 134
- 9 Oral Update on Member training sessions
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PART II

- 11 2018/19 Quarter 2 Corporate Risk Register 141 - 160

Minutes

AUDIT COMMITTEE

17 October 2018

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

| | |
|-----|---|
| | <p>Committee Members Present: Councillors Chesshire (Chairman), Tony Eginton, Martin Goddard and Susan O'Brien</p> <p>LBH Officers Present: Paul Whaymand (Corporate Director of Finance), 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 (Risk and Insurance Manager) and Anisha Teji (Democratic Services Officer)</p> <p>Others Present: Adrian Balmer and Suresh Patel (External Audit - Ernst & Young).</p> |
| 13. | <p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>Apologies for absence were received from Cllr Scott Seaman-Digby.</p> |
| 14. | <p>DECLARATIONS OF INTEREST (<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>Councillor Susan O'Brien, declared a non-pecuniary interest arising from the fact that she was a deferred member of the Local Government Pension Scheme. She also remained for the discussion of all items.</p> |
| 15. | <p>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 (<i>Agenda Item 3</i>)</p> <p>It was agreed that all the items on the agenda be considered in public with the exception of Agenda Item 9 – Risk Management Annual Report 2017/18 and Agenda Item 10 – 2018/19 Quarter 1 Corporate Risk Register.</p> |
| 16. | <p>MINUTES OF THE MEETING HELD ON 26 JULY 2018 (<i>Agenda Item 4</i>)</p> <p>RESOLVED – That the minutes from the 26 July 2018 be approved, subject to including the information relating to the amortisation rates of intangible assets.</p> |

17. **EXTERNAL AUDIT ANNUAL AUDIT LETTER** (*Agenda Item 5*)

The Committee was provided with the Ernst Young (EY), the External Auditor, Annual Audit Letter and a cover report.

The cover report summarised the key areas of EY's audit work, their findings and the focus of their work going forward. The focus of work going forward included; The Council's Financial Statements; Value for Money conclusion; Whole of Government Accounts and Grants Certification. The Annual Audit Letter detailed the expected conclusions from EY's audit work undertaken for the year ended 31 March 2018.

RESOLVED -

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

18. **INTERNAL AUDIT PROGRESS REPORT FOR 2018/19 QUARTER 2 (INCLUDING THE 2018/19 QUARTER 3 IA PLAN)** (*Agenda Item 6*)

Following Members' request at the last Audit Committee meeting for further information or a matrix on the headcount of IA staff and number of projects completed by individuals, the Head of Business Assurance informed the Committee that (TO BE INSERTED BY MGL)

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 2 IA Plan, together with assurance levels in this respect.

It was reported that since the last IA progress report to CMT and the Audit Committee dated 30 June 2018, four assurance reviews had been concluded, four consultancy reviews, five grant claims and four residual pieces of 2017/18 work had been certified and finalised. It was also reported that the overall IA delivery was in line with expectations at this stage as there were still several vacancies amongst the team.

Key assurance reviews finalised included Officer Declarations of Interest, Complaints and Symology Data Quality which all received reasonable assurance opinions. A review of Early Years Centres was completed which received No assurance over the management of key risks. There was an absence of procedural documents and inconsistencies identified throughout the testing process including invoicing, arrears management, financial recording and record keeping.

It was reported that positive action had been proposed by management to assess all of the high and medium risk recommendations raised within each respective review. This quarter the Housing Benefit Subsidy Grant Claim had been a significant piece of work for IA. IA continues to carry out verification work on the Troubled Families Grant as well as completing verification work regarding the Disabled Facilities Grant, Bus Subsidy Grant and Pothole Action Fund.

It was noted that work done in relation to the Housing Benefit Subsidy Grant Claim was initially undertaken by IA and followed up by EY. An update in relation to the Cyber Security audit would be reported to the Committee at the next meeting. GDPR was a topical concern and Mazars are being commissioned to carry out this review to provide a greater level of independence. In terms of resourcing, the IA apprentice role was outstanding and Mazars was being used to cover other vacancies in the team.

RESOLVED –

That the Internal Audit Progress Report for 2018/19 Quarter 2 be noted and approval be given to the Quarter 3 Internal Audit Plan for 2018/19.

That the Committee noted that the coverage, performance and results of Business Assurance Internal Audit activity within this quarter.

19. **2018/19 QUARTER 2 COUNTER FRAUD PROGRESS REPORT** (*Agenda Item 7*)

The Counter Fraud Manager presented a report giving 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.

In summary, it was reported that during this quarter the team had completed one prosecution for housing fraud. The BACFT had focussed on the delivery of new counter fraud projects as part of the planned increase in proactive counter fraud work. Verification work had been broadened in different aspects of housing and new verification work was also planned within Social Care. There had been successful recruitment to all vacant positions within the BACFT and there had been a key focus on developing the knowledge and skills of the team. There was an aim to professionalise the service with both lead investigators having completed their professional qualifications (BTEC Level 7 in Investigation) this quarter. Other officers in the team had also commenced professional qualifications.

It was highlighted that during quarter 2 there had been collaboration with counter fraud colleagues from the Cabinet Office, the Treasury, HM Revenue and Customs and a number of other central government organisations to help develop the counter fraud profession. A counter fraud investigations apprenticeship would be developed. The Home Office Immigration Enforcement Officer had prevented a loss prevention of £82,000 worth of Council services. A set of investigation policies were in the process of being drafted and would be circulated to Members in due course. Ten properties had been recovered as at 30 September 2018 and three cases of fraudulent right to buy applications had been identified meaning the prevention of fraud valuing £310,000.

It was reported that key performance had not all been met as time and effort had been focussed on developing the team and it was hoped that this would result in the future improvement.

Members commented that it was a good result on the prosecution and officer qualification. Members queried whether the one bursary scheme prevention being given to an ineligible candidate was the applicant's mistake or was it a fraudulent application. It was confirmed that the wrong information had been provided in relation to whether the individual had lived in the Borough ten years and they had been refused but not officially warned. Officers confirmed that much of this work was about raising fraud awareness that the Council took incidents like this seriously. The Council was planning to introduce a fraud awareness work and it would be considered whether something could be included in Hillingdon people to try to promote this.

It was noted that work in relation to unaccompanied asylum seeking children proactive counter fraud project was ongoing.

RESOLVED – That the Counter Fraud Progress Report for 2018/19 Quarter 2 be noted.

20. **AUDIT COMMITTEE FORWARD PROGRAMME 18/19** (*Agenda Item 8*)

| | |
|-----|--|
| | RESOLVED – That the forward work programme be noted. |
| 21. | <p>RISK MANAGEMENT ANNUAL REPORT 2017/18 (<i>Agenda Item 9</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed ‘information relating to the financial or business affairs of any particular person (including the authority holding that information)’ (paragraph 3 of the schedule to the Act).</i></p> <p>The report presented to Members the Risk Management Annual Report 2017/18. The report provided evidence about the movement of individual corporate risks across the year, how they have been managed by the Council and horizon scanning for the future.</p> <p>RESOLVED – That the Audit Committee reviewed the Risk Management Annual Report 2017/18 as part of its role to independently assure the Council’s corporate risk management arrangements.</p> |
| 22. | <p>2018/19 QUARTER 1 CORPORATE RISK REGISTER (<i>Agenda Item 10</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed ‘information relating to the financial or business affairs of any particular person (including the authority holding that information)’ (paragraph 3 of the schedule to the Act).</i></p> <p>The Corporate Risk Register for Quarter 1 (April to June 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>RESOLVED – That the Committee reviewed the Corporate Risk Register for Quarter 1 (April to June 2018), as part of the Committee’s role to independently assure the risk management arrangements in the Council.</p> |
| | The meeting, which commenced at 5.10 pm, closed at 6.05 pm. |

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.

EY 2018/19 ANNUAL AUDIT PLAN & PENSION FUND AUDIT PLAN

| | |
|---------------------------|---|
| Committee name | Audit Committee |
| Officer reporting | Sian Kunert, Finance |
| Papers with report | EY Hillingdon Audit Plan 2018/19 EY Pension Fund Audit Plan 2018/19 EY Audit Committee Briefing December 2018 |
| Ward | All |

HEADLINES

The attached documents set out the initial plans for the 2018/19 audit by the Councils external auditors EY. The plans set out the approach to the audit of the Council's Accounts and the Pension Fund Accounts including a broad timetable which should enable the whole process to be completed by the end of July. Whilst the Pension Fund forms part of the Council's published Financial Statement of Accounts, a separate plan is prepared for that audit.

RECOMMENDATIONS:

That the Committee notes this report, the 2018/19 annual audit plan and pension fund audit plan.

SUPPORTING INFORMATION

Council Financial Statements Audit Plan

Materiality: Due to changes across the audit profession the level of materiality has been reduced to 1.8% of gross expenditure for 2018/19 to £12.84m (2017/18, 2%, £14.36m). EY plan to report on all uncorrected audit misstatements greater than £0.64m (2017/18 £0.72m).

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

- Risk of management override
- Risk of inappropriate capitalisation of revenue expenditure
- PPE valuations
- IAS 19 valuations

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

- Consideration of Group Boundary (Hillingdon First Ltd)

- New accounting standards (IFRS 9 & IFRS 15)

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

The Council is responsible for appointing its own reporting auditor for the Housing Benefit Assurance Process and certification of the Housing Benefit Subsidy Claim. This will be done along with the Teachers Pension Contributions and Capital Receipts Pooling certification process.

Fees

The proposed fees for the 2018/19 audit for the main accounts are £121,096 (Final fee for 2017/18 - £158,715)

Pension Fund Audit Plan

Materiality: Materiality for 2018/19 has been calculated on the basis of 1.0% of the prior year's net assets of the fund, which is estimated as £10.1m. Based on this amount, EY would expect to report on all unadjusted misstatements greater than £0.506m.

Key Financial Statement Risks: The plan highlights the key financial statement, these being the main areas on which specific audit work will focus. For 2018/19 there is one significant risk and two risks of fraud identified as follows:

- Risk of management override
- Risk of misstatement of Investment Income and Valuation through journals
- Valuation of complex Investments

Other areas of audit focus not classified as significant risk include:

- New Accounting standards
- Pooling of Investments

Fees

The proposed fee for the 2018/19 audit is £16,170. (Final fee for 2017/18 £21,000).

Timetable

The timetable for both audits accommodate the deadline for completed draft accounts 31 May 2019 and the audit opinion due by 31 July 2019.

Financial Implications

Included within the body of this report.

Legal Implications

None.

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London Borough of Hillingdon

Audit planning report

Year ended 31 March 2019

20 December 2018

20 December 2018



Audit Committee
London Borough of Hillingdon
Uxbridge
UB8 1UW

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

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

We welcome the opportunity to discuss this report with you on 06 February 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S. Patel', written in a cursive style.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of London Borough of Hillingdon in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of London Borough of Hillingdon those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of London Borough of Hillingdon for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01

Overview of our 2018/19 audit strategy



Overview of our 2018/19 audit strategy

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

Audit risks and areas of focus

| Risks | Risk identified | Change from PY | Details |
|---|-------------------------------|--------------------|---|
| Management Override: Misstatements due to fraud or error | Fraud risk / Significant risk | No change in risk | As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. |
| Risk of inappropriate capitalisation of revenue expenditure | Fraud risk/ Significant risk | Change in focus | For 2018/19 and for the Council we have identified that the specific risk of management override is inappropriate capitalisation of revenue spending. |
| PPE - Valuations | Inherent risk | No change in focus | The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. |
| IAS 19 - Valuations | Inherent risk | No change in focus | The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Surrey County Council. |

Overview of our 2018/19 audit strategy

In addition to the risks outlined above we have identified two areas of audit focus.

| Area of focus | Details |
|---|---|
| Consideration of Group Boundary | In 2018-19 Hillingdon created a housing company, Hillingdon First. Depending on the qualitative and quantitative size of the company the finance team will need to consider the preparation of Group Accounts. We will assess the interpretation of the preparation of Group Accounts as part of the 2018-19 audit. |
| New Accounting Standards - IFRS 9 & IFRS 15 | In 2018-19 2 new accounting standards are applicable. These are IFRS 9 (Financial instruments) & IFRS 15 (Revenue from contracts with customers). We will review the impact assessment of the treatment and disclosure of these at London Borough of Hillingdon as part of the 2018-19 audit. |

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Materiality

Planning materiality
£12.84m

In light of changes across the audit profession and our reconsideration of the larger local authorities we audit we have reduced the top of our range for materiality from 2% to 1.8% of the forecast gross expenditure (based on the PY outturn) of the Council. As a result our materiality has moved from £14.36m in 2017/18 to £12.84m.

Performance materiality
£9.63m

We have set performance materiality at £9.63 m, which represents 75% of materiality. Consistent with the prior year.

Audit differences
£0.64m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account, and collection fund) greater than £0.64 m. We will communicate other misstatements identified to the extent that they merit the attention of the Audit Committee.

Overview of our 2018/19 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of London Borough of Hillingdon give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

Audit team changes

Key changes to our team.



Suresh Patel - Associate Partner

Suresh brings over 20 years of experiencing auditing London Borough councils and will lead the delivery of the overall audit. He is a CIPFA qualified accountant.



John Craigmyle - Assistant Manager

John will lead the onsite audit team having been a key member of the audit team in the last two years. He is a qualified member of the ICAEW with 2 years post qualification experience in a number of sectors including Local Government, Public and Limited Companies and Group Audits.



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02

Audit risks



Our response to significant risks

**Management Override:
Misstatements due to fraud
or error**
(Fraud Risk)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error due to management override of internal controls.

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.

For London Borough of Hillingdon, we have assessed that this risk could manifest in:

- Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council.
- Management bias in key accounting estimates and judgements.

What will we do?

We will:

- ▶ Identify fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Perform mandatory procedures in relation to journal entries, and other adjustments made in the preparation of the financial statements.
- ▶ Assess the nature of any significantly unusual transactions identified.
- ▶ Consider if management bias is present in the key accounting estimates and judgements in the financial statements.

Our response to significant risks (continued)

Inappropriate capitalisation of revenue expenditure

Financial statement impact

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

What is the risk?

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

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

What will we do?

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ We will test PPE with a specific focus on incorrect capitalisation of revenue expenditure

Audit risks

Other areas of audit focus

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

What is the risk/area of focus?

Valuation of Land and Buildings

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

What will we do?

We will:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension Liability Valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £525 million.

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

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

What will we do?

We will:

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

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as risks, but are still important when considering the areas of audit focus.

What is the area of focus?

IFRS 9 financial instruments

This new accounting standard will change:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial assets.

There are transitional arrangements within the standard and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9 and the application of a statutory override.

IFRS 15 Revenue from contracts with customers

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.

The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

Consideration of Group Boundary

In 2018-19 Hillingdon created a housing company, Hillingdon First. Depending on the qualitative consideration of and quantitative size of the company the finance team will need to consider the preparation of Group Accounts.

What will we do?

We will:

- ▶ Assess the Council's implementation arrangements that should include an impact assessment, transitional adjustments and planned accounting for 2018/19;
- ▶ Consider the classification and valuation of financial instrument assets;
- ▶ Review new expected credit loss model impairment calculations for assets; and
- ▶ Check additional disclosure requirements.

We will:

- ▶ Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This will include Local Authority Trading Companies consolidated into the Council's Group Accounts;
- ▶ Consider application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- ▶ Check additional disclosure requirements.

We will assess the interpretation of the preparation of Group Accounts as part of the 2018-19 audit.



03

Value for Money Risks





Value for Money

Background

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

For 2018/19 this is based on the overall evaluation criterion:

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

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

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

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

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

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At this stage, this has resulted in us identifying one significant risk which we outline over the page



Value for Money Risks

What is the significant value for money risk?

The Council has established Hillingdon First and needs to ensure that governance and accountability arrangements are appropriate and effective.

What arrangements does the risk affect?

Informed decision making

What will we do?

We will:

- ▶ Assess the adequacy of the Council's governance arrangements for Hillingdon First.
- ▶ Review the business case, cash flow forecasts and accounting treatment of transactions between the company and the Council.



04

Audit materiality



Audit materiality

Materiality

For planning purposes, we have set materiality for 2018/19 at £12.84m. This represents 1.8% of the Council's prior year gross expenditure on provision of services. In the prior year we applied a threshold of 2%. We have applied a lower percentage on the basis that the Council meets the Local Audit & Accountability Act 2014 criteria for a major local audit based on its size. We have also considered its overall risk profile and public interest in comparison to other councils. We will reassess materiality throughout the audit. We have provided supplemental information about audit materiality in Appendix C.

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

Key definitions

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

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £9.63 m which represents 75% of planning materiality.

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

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

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



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

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

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements. We will not rely on Internal Auditor's work and will adopt a fully substantive testing approach.

Our Audit Process and Strategy (continued)

Earlier deadline for production of the financial statements

The Council needs to prepare draft accounts by 31 May and publish audited accounts by 31 July.

There are risks for both the preparers and the auditors of the financial statements:

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

To mitigate this risk we will require:

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

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.



06

Audit team



Audit team

Audit team structure:



* Key Audit Partner

Use of specialists

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

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

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

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

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



07

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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



08

Independence



Introduction

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

Required communications

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

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In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services. We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted. We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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

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

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 1:4. No additional safeguards are required.

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

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

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

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

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

Relationships, services and related threats and safeguards

Other threats

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

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

Other communications

EY Transparency Report 2018

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

| | Planned fee 2018/19 | Scale fee 2018/19 | Final Fee 2017/18 |
|--|------------------------|----------------------|----------------------|
| | £ | £ | £ |
| Total Fee - Code work | 121,096 | 121,096 | 157,268 |
| Additional Fee - Correspondence with a member of the public | 0 | 0 | 1,444 |
| Total audit | 121,096 | 121,096 | 158,712 |
| Non-audit services (Housing Benefits) | TBC | N/A | 24,445 |
| Non-audit services (Housing Capital Receipts) | TBC | N/A | TBC* |
| Non-audit services (Teacher's Pensions) | TBC | N/A | 10,000 |
| Total other non-audit services | TBC | N/A | 34,445 |
| Total fees | 121,096 | 121,096 | 193,157 |

All fees exclude VAT

TBC - We are still concluding the work in this area and will provide an update at a later Audit Committee once we have finalised and concluded on the final fee*

The agreed fee presented is based on the following assumptions:

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

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

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

Appendix B

Required communications with the Audit Committee

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

Our Reporting to you

| Required communications |  What is reported? |  When and where |
|-------------------------------------|---|--|
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report to be presented to the February 2019 Audit Committee |
| Significant findings from the audit | <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process | Audit results report to be presented to the July 2019 Audit Committee |

Required communications with the Audit Committee (continued)

| | | Our Reporting to you |
|-------------------------|---|--|
| Required communications |  What is reported? |   When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | Audit results report to be presented to the July 2019 Audit Committee |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management | Audit results report to be presented to the July 2019 Audit Committee |
| Fraud | <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud | Audit results report to be presented to the July 2019 Audit Committee |
| Related parties | <ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity | Audit results report to be presented to the July 2019 Audit Committee |

Appendix B

Required communications with the Audit Committee (continued)

|  Our Reporting to you | | |
|--|--|--|
| Required communications |  What is reported? |   When and where |
| Independence | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence | <p>Audit Planning Report presented to the February 2019 Audit Committee and Audit Results Report to be presented to the July 2019 Audit Committee</p> |

Appendix B

Required communications with the Audit Committee (continued)

| | | |  Our Reporting to you |
|---------------------------------------|---|---|--|
| Required communications |  What is reported? |   When and where | |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures | | Audit results report to be presented to the July 2019 Audit Committee |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of | | Audit results report to be presented to the July 2019 Audit Committee |
| Internal controls | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit | | Audit results report to be presented to the July 2019 Audit Committee |

Appendix B

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|--|---|---|
| Required communications |  What is reported? |  When and where |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit results report to be presented to the July 2019 Audit Committee |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report to be presented to the July 2019 Audit Committee |
| Auditors report | <ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report | Audit results report to be presented to the July 2019 Audit Committee |
| Fee Reporting | <ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work | Audit planning report to be presented to the February 2019 Audit Committee; and Audit results report to be presented to the July 2019 Audit Committee |
| Certification work | Summary of certification work undertaken | Certification report to be presented to the December 2019 Audit Committee |

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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A photograph showing a group of people in a meeting. They are gathered around a white table, looking at several documents. One person's hand is pointing at a document. A smartphone is visible on the table. The background is slightly blurred, focusing on the documents and hands.

Hillingdon Pension Fund Audit planning report

Year ended 31 March 2019

23 January 2019 for February Committee

23 January 2019



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

Dear Audit Committee & Pension Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor of the Hillingdon Pension Fund. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving an effective audit for the Pension Fund, and outlines our planned audit strategy in response to them. This report is intended solely for the information and use of the Audit Committee, Pension Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 6 February 2019 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S. Patel', written over a white background.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). 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 April 2018)" issued by the PSAA sets out additional requirements with which auditors must comply, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Hillingdon Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we can state to the Audit Committee, and management of Hillingdon Pension Fund, those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hillingdon Pension Fund for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.



01

Overview of our 2018/19 audit strategy



Overview of our 2018/19 audit strategy

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

Audit risks

| Risk / area of focus | Risk identified | Change from PY | Details |
|---|------------------|----------------------------|--|
| Management Override: Misstatements due to fraud or error | Fraud risk | No change in risk | 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. |
| Risk of misstatement of Investment Income & Valuations through Journals | Fraud risk | Change in focus | We have identified that one specific area where the management override risk could manifest is within the posting of investment value journals into the general ledger. |
| Risk of Incorrect Valuation of complex investments | Significant risk | No change in risk or focus | Based on initial planning work on the Pension Fund and discussions with management we note that the Pension Fund holds a significant balance of investments in alternative investments, including Private Equity funds. By their very nature these investments are more difficult to value and their valuation includes an element of judgement. |

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In addition to the risks outlined above we have identified two areas of audit focus.

| Areas of focus | Change from PY | Details |
|---|----------------|---|
| New Accounting Standards - IFRS 9 & IFRS 15 | New focus area | Two new accounting standards apply for 2018-19 2 - IFRS 9 (Financial instruments) & IFRS 15 (Revenue from contracts with customers). The Fund will need to assess their impact and ensure appropriate accounting treatment and disclosure in the accounts. |
| The London Collective Investment Vehicle | New focus area | This area of testing relates to the breakdown of the investment in the London Collective Investment Vehicle, with a material amount invested in the vehicle and a wide array of investment types, we are going to review the valuation of these investments as part of the 2018-19 audit. |

Overview of our 2018/19 audit strategy

In addition to the risks and areas of focus, we will also take into consideration the steps taken by the Fund to consider the impact of EU Exit on its preparation of the accounts, including any significant changes in the valuation of assets post EU Exit. Although the precise impact cannot yet be modelled, we anticipate that pension funds will be carrying out scenario planning to assess the funding strategy and to manage the Fund in longer term.

Materiality

Planning
materiality

£10.1m

We have set materiality at £10.1m, which represents 1% of the prior year's net assets. In the prior year we used 2% of net assets to determine materiality as £20m. The change reflects our view of the public profile of the Fund and general interest in public sector financial resilience. We provide further details at Section 3.

Performance
materiality

£7.5m

We have set performance materiality at £7.5m, which represents 75% of materiality and is the top of our range.

Audit
differences

£0.506m

We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than £0.506m. We will communicate other misstatements to the extent that they merit the attention of the Audit Committee.

Overview of our 2018/19 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Hillingdon Pension Fund give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended.

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

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

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

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

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

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

Audit team changes

We have made three key changes to the team. In line with our rotation policy and to maintain our independence as your auditor, we have rotated Maria Grindley off the audit as she had completed five years as Engagement Partner. The changes to audit manager and senior reflect our focus on continuity and succession planning as both John and Tomisin have been members of the audit team for the past three years.



Suresh Patel
Engagement Partner

Suresh has 25 years experience of auditing local government pension funds and is currently the auditor of 3 other London funds.



John Craigmyle
Manager

John joined EY's graduate scheme in 2014 and was the Senior on the audit last year.



Tomisin Aliu
Senior

Tomisin is another successful Senior from the 2017 EY graduate scheme. This is her third year on the Hillingdon Pension Fund audit and her first as senior.



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02

Audit risks



Our response to significant risks

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

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| | | |
|--|---|--|
| <p>Management Override: Misstatements due to fraud or error*</p> | <p>What is the risk?</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK) 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.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p> <p>Linking to our risk of management override we have considered the valuation of investments (see below).</p> | <p>What will we do?</p> <p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Identifying fraud risks during the planning stages. ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▶ Understanding the oversight given by those charged with governance of management’s processes over fraud. ▶ Consideration of the effectiveness of management’s controls designed to address the risk of fraud. ▶ Determining an appropriate strategy to address those identified risks of fraud. ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. ▶ Assess the nature of any significantly unusual transactions identified. ▶ Consider if management basis is present in the key accounting estimates and judgements in the financial statements. |
| <p>Misstatement due to Fraud & Error - Posting of investment journals*</p> | <p>What is the risk?</p> <p>There is a risk that due to fraud or error, journals posted into the general ledger for the investment income and values are incorrect.</p> | <p>What will we do?</p> <p>Our approach will focus on testing the appropriateness of manual journal entries recorded in the general ledger posting investment values ensuring:</p> <ul style="list-style-type: none"> • The amount is supported by the fund manager/custodian report; • Correct authorisations have been obtained. |

Our response to significant risks (continued)

Risk of Incorrect Valuation of Complex Investments

Financial statement impact

We have assessed that the risk of incorrectly valuing investments is high for level 3 investments held by the pension fund.

Total of level 3 investments held by the Fund at 31 March 2018:
£114 million

What is the risk?

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

Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.

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

The proportion of the fund comprising of these investment types in 2017/18 is at circa 12.6%, and as these investments are more complex to value, we have identified the Fund's investments in private equity and pooled property investments as higher risk, as even a small movement in these assumptions could have an impact on the financial statements.

What will we do?

We will:

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

Other areas of audit focus

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

| What is the area of focus? | What will we do? |
|--|---|
| <p>There are two new accounting standard applicable for pension fund accounts from the 2018/19 financial year.</p> <p>IFRS 9 financial instruments This impacts:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; and ▶ The disclosure requirements for financial assets <p>IFRS 15 Revenue from contracts with customers 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>We will:</p> <ul style="list-style-type: none"> ▶ Assess the fund's implementation arrangements that should include an impact assessment paper setting out the application of the new standards, transitional adjustments and planned accounting for 2018/19; ▶ Consider the classification and valuation of financial instrument assets; ▶ Review new expected credit loss model impairment calculations for assets; ▶ Consider application to the fund's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and ▶ Check additional disclosure requirements. |
| <p>London Collective Investment Vehicle</p> <p>The London Collective Investment Vehicle invests the fund's money in a pool with other London Borough Pension Funds. As a result, the exact proportion of each investment in the vehicle that is held by Hillingdon Pension Fund is more complex to calculate.</p> <p>This raises an uncertainty on the valuation of these investments to recognise and so we shall look into this as part of the 18/19 audit.</p> | <p>We will:</p> <ul style="list-style-type: none"> ▶ Assess the competence of management experts; ▶ Review the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used; ▶ Review the basis for the separation of Fund assets and Vehicle assets and recalculate it to confirm accuracy; ▶ Performing analytical procedures and checking the valuation output for reasonableness against our own expectations. |



03

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £10.1m. This represents 1% of the Pension Fund's prior year net assets. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.

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

Key definitions

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

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £7.5m which represents 75% of planning materiality.

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

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



04

Scope of our audit



Scope of our audit

Objective and Scope of our Audit scoping

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

Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland). We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

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

Procedures required by the Code

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

Audit Process Overview

Our audit involves:

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

For 2018/19 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

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



05 Audit timeline





Audit timeline

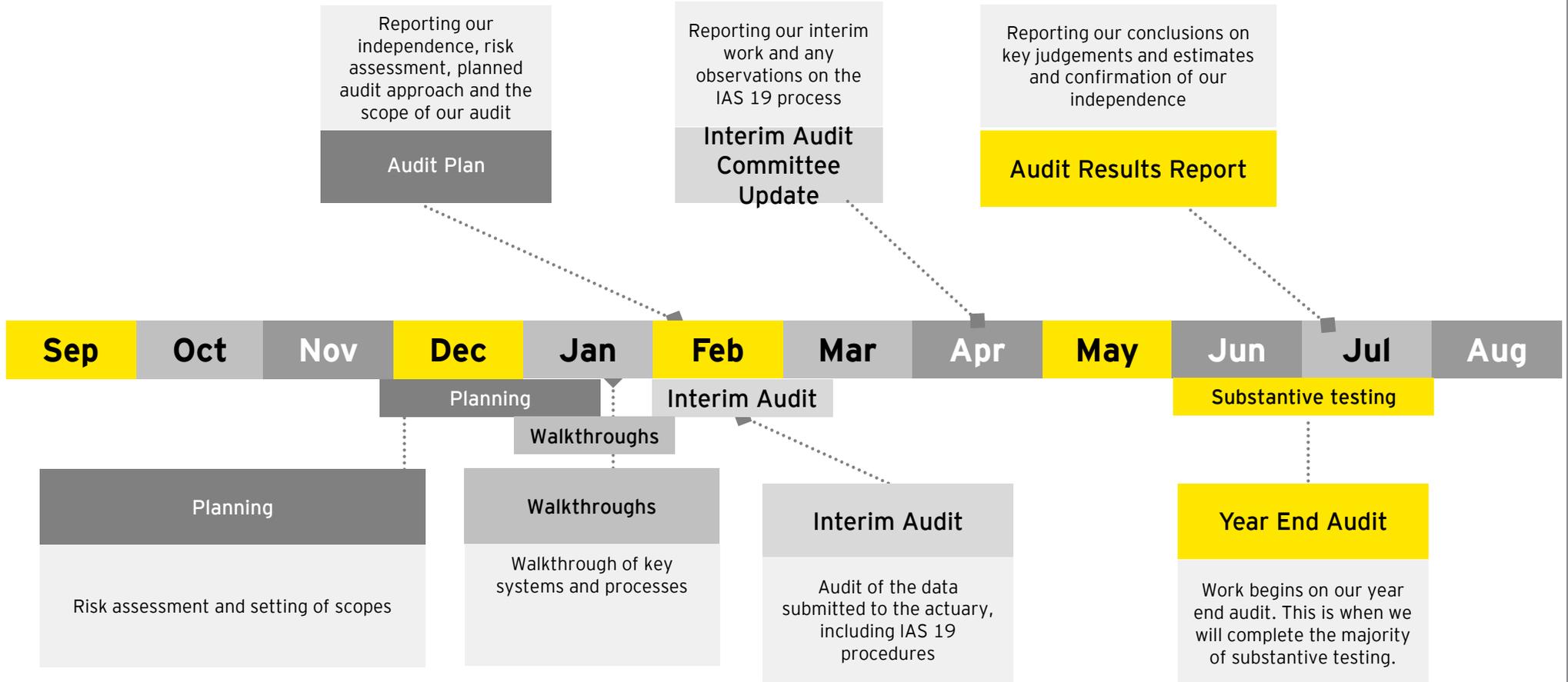
Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

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

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06

Independence



Introduction

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

Required communications

| Planning stage | Final stage |
|--|---|
| <p>▶ Any principal threats to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p> | <p>▶ In order for you to assess the integrity, objectivity and independence of the firm and your audit team, we must provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to consider relationships with the Council, its directors and senior management, its affiliates, and its connected parties and any threats to integrity or objectivity, including those that could compromise independence. We are also required to disclose any safeguards that we have, and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged for them;</p> <p>▶ Written confirmation that all team members are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p> |

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved. None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%. At the time of writing, there are no non-audit services provided by us to Pension Fund.

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

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

Other threats

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

Other communications

EY Transparency Report 2018

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



07

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

| | Planned fee 2018/19 | Scale fee 2018/19 | Final Fee 2017/18 |
|-----------------------|------------------------|----------------------|----------------------|
| | £ | £ | £ |
| Total Fee - Code work | 16,170 | 16,170 | 21,000 |
| Total fees | 16,170 | 16,170 | 21,000 |

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All fees exclude VAT

The agreed fee presented is based on the following assumptions:

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

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

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

Appendix B

Required communications with the Audit Committee

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

Our Reporting to you

| Required communications |  What is reported? |   When and where |
|-------------------------------------|---|--|
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p> | Audit planning report - February 2019 |
| Significant findings from the audit | <ul style="list-style-type: none"> ▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit which were discussed with management ▶ Written representations we have requested ▶ Expected modifications to the audit report ▶ Any other matters significant to the oversight of the financial reporting process | Audit results report - July 2019 |

Appendix C

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|-------------------------|--|--|
| Required communications |  What is reported? |   When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | Audit results report - July 2019 |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management | Audit results report - July 2019 |
| Fraud | <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee and Pensions Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud | Audit results report - July 2019 |
| Related parties | <ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures, Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity | Audit results report - July 2019 |

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|--|--|--|
|  Required communications |  What is reported? |   When and where |
| Independence | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the Council and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence and related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence | <p>Audit planning report - Feb 2019</p> <p>Audit results report - July 2019</p> |

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|--|---|--|
|  Required communications |  What is reported? |  When and where |
| Public Interest Entities | <p>For the audits of financial statements of public interest entities our written communications to the Audit Committee include:</p> <ul style="list-style-type: none"> ▶ A declaration of independence ▶ The identity of each key audit partner ▶ The use of non-member firms or external specialists and confirmation of their independence ▶ The nature and frequency of communications ▶ A description of the scope and timing of the audit ▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▶ Materiality ▶ Any going concern issues identified ▶ Any significant deficiencies in internal control identified and whether they have been resolved by management ▶ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit Committee ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The identification of any non-EY component teams used in the group audit ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant | <p>Audit planning report - Feb 2019 Audit results report - July 2019</p> |

Appendix B

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|--|--|--|
| Required communications |  What is reported? |   When and where |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report to be presented at the July 2019 Audit Committee. |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Asking the Audit Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that they may know about | Audit results report to be presented at the July 2019 Audit Committee. |
| Internal controls | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit | Audit results report to be presented at the July 2019 Audit Committee |
| Representations | Written representations from management and/or those charged with governance | Audit results report to be presented at the July 2019 Audit Committee. |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report to be presented at the July 2019 Audit Committee. |
| Auditors report | <ul style="list-style-type: none"> ▶ Key audit matters which we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report | Audit results report to be presented at the July 2019 Audit Committee. |
| Fee Reporting | <ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work | Audit planning report to be presented at the February 2019 Audit Committee; and Audit results report to be presented at the July 2019 Audit Committee |

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Additional audit information (continued)

Purpose and evaluation of materiality

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

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

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

EY | Assurance | Tax | Transactions | Advisory

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Local Government Audit Committee Briefing

Quarter 4, December 2018



Building a better
working world



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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.



Government and economic news

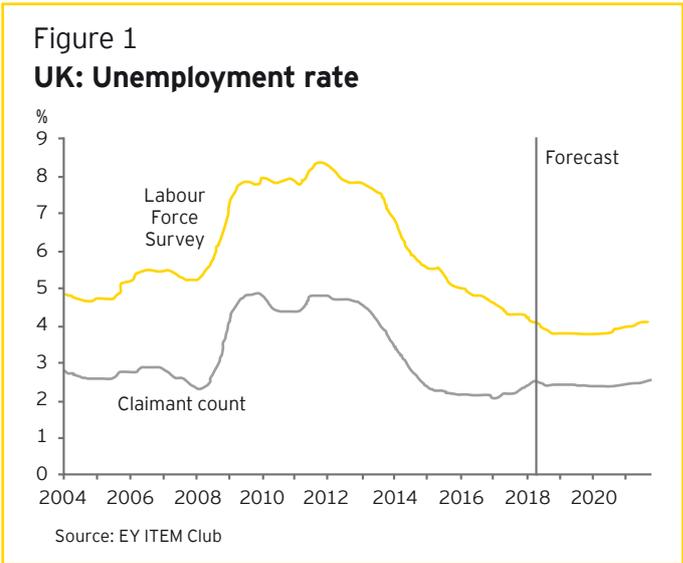
EY Club Item

The latest EY ITEM Club forecast casts a cloudier outlook for the UK economy which will have implications for Local Authorities. This partly reflects increased uncertainties about Brexit, due to the elevated risk of the UK leaving the EU without a deal. It also reflects a more challenging global outlook, and continued pressures on consumer purchasing power.

The forecast has slightly downgraded the UK's economic prospects for 2018 and 2019, with GDP growth for 2018 trimmed from 1.4% to 1.3% – the slowest rate of expansion since 2009. While performance improved in Q2 and Q3, the outlook has since become less certain.

One positive note for UK economy is the robust growth in labour demand. The unemployment rate remained at 4.0% for the three months to July, the lowest level since February 1975. Over the same period, the number of vacancies in the UK rose to 833,000, highlighting the tightness in the labour market.

As shown in Figure 1, it appears that the spare capacity in the labour market created during the crisis has been largely absorbed. The Bank of England's (BoE) recent report about the labour market suggests that very limited slack remains – a BoE's regional Agents survey found that 40% of companies are finding it harder to recruit and retain staff compared to last year.



The recruitment challenges facing employers are well known by local authorities. An expanding and ageing population will only add to the demand pressures, while the supply of workers may be at risk due to the impact of Brexit on migration of EEA workers.

Theory suggests that, with unemployment falling and vacancies rising, there is little scope for further labour market tightening without generating excess wage pressures. However, earnings growth has remained subdued in recent periods, and indeed relapsed in Q2 2018. Some firms appear keen to limit their costs in an uncertain environment, while fragile consumer confidence is likely deterring workers from pushing hard for pay rises.

These consumer pressures are manifesting in many areas of the economy, and notably in the housing market. Caution over engaging in major transactions has seen mortgage approvals at approximately 18.1% below their long-term (1993-2018) average. Given the earnings squeeze, and the faltering demand for private housing, the important role of social housing is likely to persist. There were 1.2 million households on a waiting list for social housing in England on 1 April 2017, exhibiting the significant excess demand. As a result, the announcement by the Government to scrap the HRA borrowing cap is welcome, and should go some way to meeting demand in the market.

As Brexit beckons, what is the impact that local authorities can expect across the UK?

With increasing focus on a potential extension to the Brexit transitional period and the likelihood of a 'no-deal' scenario failing to diminish, local authorities are beginning to prepare for an array of potential impacts from the UK's departure from the EU. We look below at some of the key focus areas for local government in assessing the impact of Brexit.

The impact on social care provision:

The social care workforce is particularly susceptible to the impact of Brexit. Since the referendum in 2016, there has already been a decrease in the number of EU nationals taking jobs in the UK social care sector, and this is likely to be squeezed further with the end of freedom of movement. This has the potential to lead to labour cost inflation, increasing the financial pressure facing local authorities.

The effects described above will be exacerbated further due to challenges in the healthcare system. The NHS is similarly likely to suffer to workforce challenges and hence, funding challenges. This has the potential to increase the pressure on hospitals to discharge early, increasing the burden on the social care system's capacity. The government's winter crisis cash pledge to the system, is unlikely to mitigate such challenges.

The impact on supply chains and logistics:

Some coastal local authorities may face years of road traffic issues if border checks are applied following Brexit; authorities in the South East likely to be most significantly affected, due to the potential of border checks being applied at Dover.

Furthermore, investigations have been made by authorities such as Pembrokeshire Council into the ready availability of food and medicine in the event of road blockages and closures. Additionally, local authorities are struggling to make plans around international trade, as they await information on charges and how long waiting times at ports are likely to be. This is particularly important in the case of livestock and fresh foods being transported.

Changes to customs unions and physical borders may reduce the availability and increase the price of key goods required by local authorities, including adult social care supplies.

Consumer demand:

Brexit will impact the wider economy, and hence local authorities will need to be attuned to the impact on their local economies.

Brexit uncertainty is already beginning to influence the high street and local authorities need to consider the prospect of increasing voids. Furthermore, local economies that are heavily dependent on certain sectors that are vulnerable to the impact of Brexit, such as financial services and agriculture, may bear a greater brunt of the economic shock that Brexit may cause.

Local authorities may also be impacted more directly, especially those authorities that have embarked enthusiastically on commercial property investments, thereby creating direct exposure to certain sectors, especially the retail sector. In respect of this, CIPFA have issued a warning to councils outlining concerns over their commercial activity, suggesting that some have been guilty of putting public funds at 'unnecessary or unquantified risk'. Councils need to evaluate the proposed impact that they were hoping such investments may have on their financial position, along with other trading activity, in light of the potential economic impact of Brexit.

Impact on property and agricultural land prices.

Predictions that property prices in general are likely to fall following Brexit are well documented. Bank of England Governor Mark Carney has stated that UK house prices may fall by up to a third in the event of a 'no-deal' Brexit.

A reduction in property prices may not be perceived to be a bad outcome for all. Furthermore, the government's HRA borrowing cap announcement has the potential to allow councils to increase the supply of housing, further supporting a challenged housing market. However, such a reduction in property values is likely to create a shock that may create financial hardship for many as well as impacting the performance of certain sectors.

Budget 2018

On 29 October 2018 the Chancellor delivered the 2018 Autumn Budget to Parliament. Among the headline policy announcements, such as a new 2% tax on revenue for large digital companies, changes to the income tax threshold bands, and increase in funding to help departments prepare for Brexit, there were a number of announcements that will have a direct impact on local authorities. These key announcements include:

- ▶ Immediate abolition of the Housing Revenue Account (HRA) cap which restricts local authority borrowing for house building.
- ▶ £675mn Investment in the Future High Street Fund created to support local areas prepare long term strategies for their high streets and town centres, including investment in physical infrastructure. As part of this announcement, small retail businesses will see a 33% decrease in business rates and public lavatories will receive 100% business rate relief after April 2019.
- ▶ Increased staff costs for local authorities; as the national living wage is set to increase by 5% from £7.83 to £8.21 an hour.
- ▶ Allocation of additional £420mn to local authorities in 2018/19 to tackle potholes and repair damaged roads.
- ▶ Local authorities in England will receive a further £650mn in social care funding.

CIPFA's response to the budget was that while the additional short term support for the provision of services is welcomed, there are greater long term challenges that need to be addressed to embed sustainable funding. The July 2018 OBR's (OBR) projection, upon which the budget was based, forecasts that within 50 years the UK will not be able to afford anything more than debt interest, health,

social care and pension payments. CIPFA is clear that there is not sufficient funding to sustain expectations of public services at the current levels of taxation.

The Local Government Association (LGA) analysis has estimated that local services face a funding gap of £7.8bn by 2024/25; the funding gap as of 2019/20 is estimated to be £3.9bn. The services where there are the greatest funding pressures include social care, homelessness and public health. However, the growing demand for these services has detrimentally impacted on other services that help maintain local communities including libraries, roads and welfare support.

An unexpected announcement made by Government during the budget was that it will no longer use Private Finance Initiative (PFI) schemes, or its successor PF2, because PFI schemes have been identified by the Office for Budget Responsibility (OBR) as a source of significant fiscal risk to the Government. It is unclear if this decision by central Government will impact on local authorities in future years.

CIPFA Investment Guidance

The media spotlight and public scrutiny surrounding local government finances has increased significantly over the past year due to increased pressures to deliver services from reduced funding. To help authorities better manage their finances CIPFA is updating its guidance on Treasury Management. The new key principle of guidance will be that 'Local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed'.

During 2017/18 the rate at which English councils acquired land and buildings increased by 43% to a total of £4bn; whereas total borrowing increased from £4bn to £10bn (127 %). As such there is a growing concern that too many local authorities are investing heavily in commercial property at a rate that is disproportionate to their available resources. This exposes public funds to unquantified risks. This stands against the primary objective of a local authority's treasury management strategy to safeguard public money.



Accounting, auditing and governance

IFRS 9: Statutory Override update

The 2018/19 financial year will be the first year where the accounting standard IFRS 9 will be implemented by local government. IFRS 9 impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

Following a consultation by the Ministry for Housing Communities and Local Government on the impact of IFRS 9, an initial statutory override has been granted for five years, despite 90% stakeholders opposing a time-limited period. This statutory override means that councils will still be required to account for fair value movements in financial instruments (in accordance with proper practices as set out in the code on local authority accounting); however these movements will not be charged to the revenue account.

The result of which is that statutory override will remove the potential burden that council tax payers or local authorities may have faced if fair value movements were unfavourable.

Public Sector Pension Scheme Valuation

The Government undertakes a valuation of public service pension schemes every four years, this year sees the first full assessment of these since the introduction of reformed schemes in 2015.

The Chief Secretary to the Treasury has stated that early indications would suggest that employers' contribution will need to increase as a result of a proposed decrease in the discount rate. The discount rate, known as the SCAPE rate, is based on the OBR projection of the short-term pay growth in terms of GDP. OBR has reduced this rate from 3.0% to 2.8% in 2016 and a further reduction has been proposed as of April 2019 to 2.4%. This discount rate is used to calculate the current costs of future payments and as the discount rate decreases, the pension liability increases. Given that employee rates are effectively fixed under scheme regulations, employer contributions will need to increase to meet the increased liability. Further details are to be announced later in the year in addition to further discussion taken forward as part of the spending review.

Local Public Audit – Expectations gap

For the public to gain trust and confidence in public spending, a framework of accountability, transparency, governance and ethics needs to be built. The ultimate responsibility lies with the government departments that delegate spending to local public bodies. These public bodies must then be able to demonstrate that the money has been spent efficiently and effectively.

One way the public can gain trust in public spending, is by relying on the external audit process to provide assurance on the financial statements and report by exception on the arrangements the

public body has in place to secure economy, efficiency and effectiveness. However, the role of audit, is often misunderstood creating the audit expectation gap which is the difference between what an auditor actually does, as required by legislation and auditing standards, and what stakeholders think that the auditors' obligations might be and what they might do.

The Institute of Chartered Accountants in England and Wales (ICAEW) produced a report to raise awareness on the expectation gap and suggest some possible solutions. The report also discusses how issues faced by local public bodies such as financial difficulties, increasing demand from an ageing population, complex structures and weaknesses of accountability impacts the audit process and widens the expectation gap.

Some common concerns were noted in the report by interviews with Chief Financial Officers in different sectors and regulatory bodies:

1. Local authorities and health bodies are facing a difficult time with increasing pressure to deliver more services, become innovative and commercial with reduced financial support. This pressure could bring in concerns about behaviours that may not be in the best long-term interests of the public.
2. Reports produced by auditors are not being fully utilised by management and audit committees to build on successes and make improvements within the body where recommendations have been made.
3. Auditors are concerned that qualifications and issues identified in their opinions are not taken seriously enough by those charged with governance.

4. The reduction in audit fees has led to a perception by local bodies that they are receiving reduced scope of work compared to the previous regime (Audit Commission). The concerns are not in relation to compliance with auditing standards, but rather the lack of value added activities that was previously provided.
5. Chief Financial Officers expect more challenge and review of their forward-looking plans which underpin the financial resilience of the authority.
6. Other stakeholders are not getting sufficient assurance over the effectiveness of service delivery and performance in auditors' work.
7. Increased regulation and scrutiny against the reduced number of auditor firms in the local government market.
8. Local public auditors' power being limited by the removal of indemnity insurance and increased difficulty to recover costs.

The ICAEW has offered a number of potential solutions in the report to close this expectation gap including:

1. Chief Financial Officers could consider involving external support to assist them in their financial resilience work, such as challenging their budget assumptions and other key decision making factors, instead of relying on external auditors to provide other value added activities, as these may have some independence restrictions.
2. More broadly, consideration could be given to widen the scope of the audit to include for example a greater future-looking focus.



Regulation news

PSAA: Report on results of 2017/18 audits

PSAA (Public Sector Accounts Appointments) has reported its annual summary on the timeliness and quality of financial reporting in relation to audits for the 2017/18 financial year. A total of 431 (87 %) local government and fire authorities published their audited accounts by the deadline of 3 July 2018. 2017/18 was the first year that the accounts and audit deadline was brought forward from the 30 September to the 31 July. PSAA's Chief Officer stated that whilst these results were encouraging and reflect considerable efforts of both local government finance staff and auditors, there is still more work to be done in order for 100% of authorities to meet the new deadline.

The number of qualified 'Value for Money' conclusions is currently at 7% (compared to 8% for 2016/17); however there 30 conclusions still to be issued for 2017/18. The most common reasons for issuing a qualified Value for Money conclusion were corporate governance issues, financial stability concerns and contract management issues.



Other

EY 2018 Transparency Report

Our profession has come under scrutiny from policymakers and other stakeholders over the year, and the need for transparency has never been greater. Increasingly, the public is expecting more and more from the audit than its current remit requires. This difference is known as the 'audit expectation gap' which has been discussed above. We believe the time is right for all concerned in the corporate control ecosystem to seize the moment and consider deeply what society expects from businesses and the assurance it needs over their activity.

It's in our interests and the public's for EY UK to be as open and transparent as possible. The Transparency Report goes some way towards helping us achieve this, while also providing an opportunity to share a more balanced perspective on what we

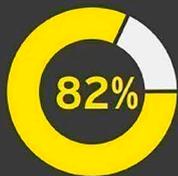
do and how we perform as a business. For example, it refers to our role in building trust and confidence in the capital markets and wider economies, by maintaining and developing positive relationships with our stakeholders. It explains what we do to make a difference to people's lives by helping to improve social mobility in the UK. It also shows how our people are supported in their role as auditors by making reference to our tools, technologies and training programmes. Details on internal and external surveys and inspections are included as well, to show how we are performing against our own expectations and – most importantly – those of our regulators.

We refer to this report in our audit planning reports to audit committees, and we summarise the key headlines below.

2018 Highlights

Audit quality

External review



82% of EY's FTSE 350 audits and **67%** of all inspected audits required no more than limited improvements

(FY17: 92% and 88% respectively)

as at 29 October 2018

No FRC fines for audit work completed in the last five years and **no sanctions** against EY UK partners in respect of that period

Internal review

108 engagements reviewed in FY18, covering

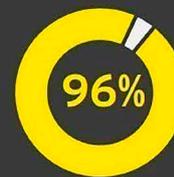
47% of our

Responsible Individuals, of

which **81%** had no improvements or minor improvements only

Delivery

Of our people in Audit



96% consider delivering quality audits a priority

and

97% understand their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest



The result of the FRC's most recent review of our audits showed that 82% of our FTSE 350 audits were graded as requiring no more than limited improvement, against a 90% target. Overall 67% of all EY UK's audits inspected were graded as requiring no more than limited improvements. We are proud of the progress we have made in the UK since the launch of UK Sustainable Audit Quality (SAQ) programme a few years ago. But there is still more work to be done to consider audit quality from the viewpoint of key stakeholders: investors, audit committees, companies, regulators and our people. The work we have done to model the behaviours of our highest performing teams, using cognitive psychologists, will continue. In the year ahead we will prioritise the extent and consistency of the model's adoption. We aim to transform the behaviours that feature in the model into business-as-usual activity across all of our audit teams.

As organisations become more complex, so do audits, making access to different skills and capabilities more important than ever. The traditional audit has already been transformed by the use of technology and digital platforms, and the pace of change will only accelerate. These new capabilities enable us to search, sift and sort through large quantities of data, allowing us to identify potential areas of risk and understand an organisation's performance at a more granular level. The audit process is becoming more forward looking, with a focus on anticipating future risks. Our new capabilities are also providing insights into areas that were once thought to be impossible to measure, such as culture.

This unprecedented scrutiny and demand for change, can be seen as an incredible opportunity to focus our efforts on addressing the root cause, deliver sustainable high quality audit and gain the trust and confidence in the capital markets society needs and demands.

Key questions for the Audit Committee

2018 Budget

How has the 2018 Budget impacted the local authority's financial plans for the current year and the year ahead?

CIPFA Investment Guidance

How much is your authority dependent on commercial investment income to fund services?

What governance structures are in place to ensure that the authority's borrowing is proportionate to its need and level of resources?

IFRS 9: Statutory Override

Have you considered the impact of the new IFRS 9 accounting standard? How will you plan for the possibility that the statutory override will end in five years' time?

Public Sector Pension Scheme Valuation

Have you taken into account the impact of the most recent review of the public sector pension scheme on your budgets and medium term financial position?

Local Public Audit – Expectations gap

How far do you recognise the issues of the ICAEW report on the expectations gap in local public audit? What is your perspective on the value that external audit provides?

PSAA: Report on results of 2017/18 audits

What lessons have you learnt from the earlier accounts and audit deadlines in 2017/18? Are you confident that these lessons will be applied for the 2018/19 accounts and audit process?

Find out more

EY Club Item

<https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

2018 Budget

<https://www.gov.uk/government/news/budget-2018-24-things-you-need-to-know>

<https://www.local.gov.uk/about/news/lga-responds-budget-2018>

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-responds-to-budget-2018>

<https://www.local.gov.uk/sites/default/files/documents/Moving%20the%20conversation%20on%20-%20LGA%20Autumn%20Budget%20Submission%202018.pdf>

CIPFA Investment Guidance

<https://www.publicfinance.co.uk/news/2018/10/cipfa-investment-guidance-will-help-councils-steer-through-challenges>

Local Public Audit – Expectations gap

<https://www.icaew.com/about-icaew/regulation-and-the-public-interest/policy/public-sector-finances/local-public-audit-expectations-gap>

<https://www.icaew.com/-/media/corporate/files/about-icaew/policy/local-public-audit-expectation-gap.ashx?la=en>

IFRS 9: Statutory Override

<https://www.publicfinance.co.uk/news/2018/11/ifrs-9-override-last-five-years>

Public Sector Pension Scheme Valuation

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738917/Technical_Bulletin_Public_Service_Pension_Schemes_Valuations.pdf
<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-09-06/HCWS945/>

PSAA: Report on results of 2017/18 audits

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

EY Transparency Report 2018

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/\\$File/ey-uk-2018-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/$File/ey-uk-2018-transparency-report.pdf)

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AUDIT COMMITTEE - Internal Audit Progress Report for 2018/19 Quarter 3 (including the 2018/19 Quarter 4 IA Plan)

| | |
|---------------------------|--|
| Committee name | Audit Committee |
| Officer reporting | Muir Laurie, Deputy Director of Exchequer & Business Assurance Services (Acting) |
| Papers with report | Internal Audit Progress Report for Quarter 3 2018/19 & Internal Audit Plan for Quarter 4 |
| Ward | All |

HEADLINES

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in 2018/19 Quarter 3 and assurance in this respect. It also provides an opportunity for the Deputy Director of Exchequer & Business Assurance Services (Acting) 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 Deputy Director of Exchequer & Business Assurance Services (Acting) 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 4 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 3 and consider the 2018/19 Quarter 4 IA Plan and, subject to any further minor amendments, approve it; and**
- 2. The Audit Committee should ensure that the coverage, performance and results of Business Assurance IA activity in this quarter are considered and any additional assurance requirements are communicated to the Deputy Director of Exchequer & Business Assurance Services (Acting).**

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.

BACKGROUND PAPERS

The Business Assurance service holds various background research documents in relation to the Quarter 4 IA Plan.

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BUSINESS ASSURANCE

Internal Audit Progress Report to Audit Committee: 2018/19 Quarter 3 (including the Quarter 4 Internal Audit Plan)

14th January 2019



Contents

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1. Introduction

1.1 The Role of Internal Audit

1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, 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 or guidance.

1.1.2 The UK Public Sector IA Standards (PSIAS) define the nature of IA and set out basic principles for carrying out IA within the public sector. The PSIAS help 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

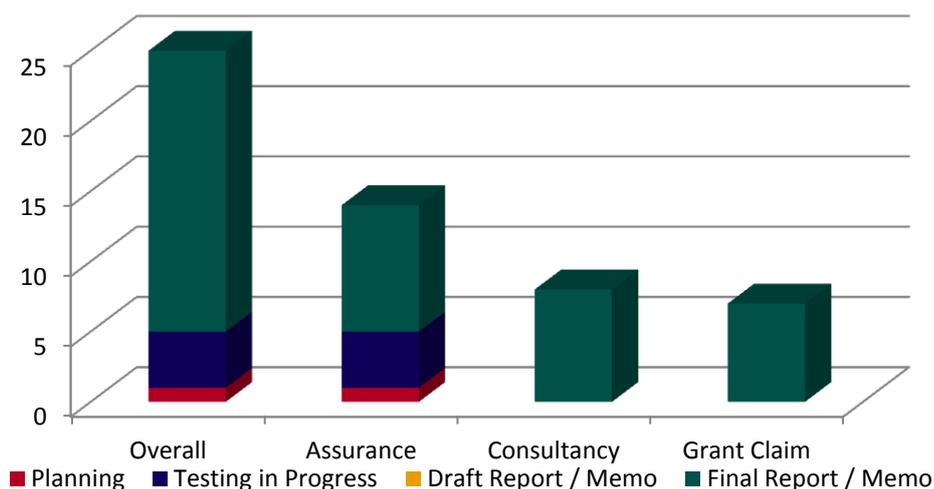
1.2.1 This Quarter 3 progress report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on IA work covered since the Quarter 2 progress report for the period 1st October to 31st December 2018. In addition, it provides an opportunity for the Deputy Director of Exchequer & Business Assurance Services (Acting) (DDEBA), as the Council's Head of Internal Audit (HIA), to highlight any significant issues which have arisen from IA work in Quarter 3. It also highlights to CMT, the Audit Committee and other IA stakeholders the revisions to the Quarter 3 IA plan since its approval in October 2018 (refer to [Appendix B](#)).

1.2.2 A key feature of the Quarter 3 IA progress report is the inclusion of the 2018/19 Quarter 4 IA plan (refer to [Appendix C](#)). This has been produced in consultation with senior managers over the last few weeks and sets out the planned programme of IA coverage due to commence in the Quarter 4 period (1st January to 31st March 2019).

2. Executive Summary

2.1 Since the last IA Progress Report to CMT and the Audit Committee dated 30th September 2018, **4 assurance reviews** have concluded, **4 consultancy reviews** have been finalised, **1 grant claim** has been certified and **3 follow-up reviews** have been finalised. Progress has been steady this quarter although we are still behind schedule in terms of delivery of the IA work for the year. Nevertheless, the IA team is currently operating at a good pace with new staff now in place and further recruitment underway. As a result, the overall IA delivery at this stage is in line with expectations.

Table 1 - 2018/19 IA Work Undertaken To Date

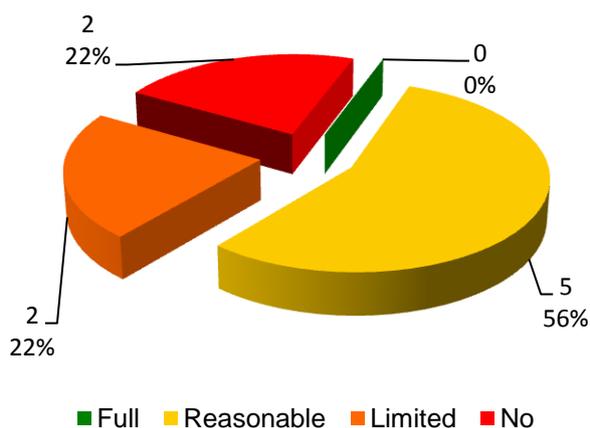
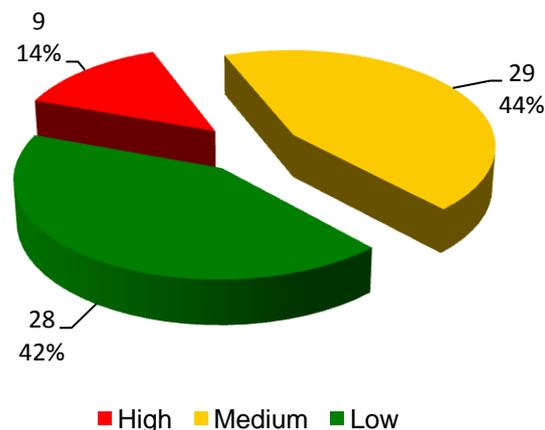


- 2.2 Our work on the 2018/19 Quarter 3 IA plan commenced on 1st October and work is now well underway on all Quarter 3 planned work. Whilst the IA team is not yet back to being fully resourced, the existing team and new team members are performing well and continue to provide positive assurance to its range of stakeholders.
- 2.3 The recruitment campaign has been progressing well during this quarter, with two senior staff members joining the IA team in October and November respectively. We have successfully made an offer of employment to one exceptional candidate for the Internal Auditor position and we are currently recruiting an Internal Audit Apprentice. Whilst we undergo our further recruitment, we continue to be complimented by additional IA resource provided by Mazars to support the in-house team with the completion of the IA Plan (refer to **Appendix B**).
- 2.4 Key assurance reviews finalised this quarter have included **Emergency Duty Team** which received a **NO** assurance opinion, **Cyber Security** and **Positive Behaviour Support Team** which received **LIMITED** assurance opinions respectively and **Youth Offending Service** which received **REASONABLE** assurance opinion over the management of the key risks.
- 2.5 These results are in line with our expectations and the risk-based approach which we deploy. Specifically, IA resources have been targeted in 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.
- 2.6 Within the quarter we have also undertaken **3** follow-up reviews of the recommendations arising from the:
- 2017/18 **NO** assurance review of **Houses in Multiple Occupation**;
 - 2015/16 **LIMITED** assurance review of **Housing Planned Maintenance & Repairs**; and
 - Dedicated follow-up work focused on previous IA reviews achieving a prior **LIMITED** or **NO** assurance opinion.
- 2.7 There have not been any amendments to the Quarter 3 IA operational plan (refer to **Appendix B**). Further details of all IA work carried out in this period are summarised in section 3 of this report below.

3. Analysis of Internal Audit Activity

3.1 Assurance Work in Quarter 3

- 3.1.1 During this quarter, **4** 2018/19 IA assurance reviews have been completed to final report stage. At the date of this report, there are a remaining **4** reviews at an advanced testing stage and **1** review is at planning stage. The **4** assurance reviews finalised this quarter are:
- **Youth Offending Service**;
 - **Cyber Security**;
 - **Emergency Duty Team**; and
 - **Positive Behaviour Support Team**.
- 3.1.2 All **9** 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 overleaf:

Assurance OpinionsRecommendation Ratings

- 3.1.3 The IA assurance review of **Emergency Duty Team (EDT)** raised **4 HIGH**, **3 MEDIUM** and **1 LOW** risk recommendations and gave an overall **NO** assurance opinion. Our initial review of EDT policies and procedures failed to locate formalised documents. We were provided with draft policies and procedures which did not address key processes and required updating.
- 3.1.4 We found there was no Service Level Agreement in place which clearly defined the roles and responsibilities. The performance of Anchor (the service provider for the 24 hour Telecare monitoring service) is not robustly monitored or challenged by senior management or the EDT and the process for alerting and making referrals to EDT staff requires improvement.
- 3.1.5 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. The majority of recommendations are due to be implemented by the 1st April 2019.
- 3.1.6 The IA assurance review of **Cyber Security** raised **2 HIGH**, **3 MEDIUM** and **2 LOW** risk recommendations and gave an overall **LIMITED** assurance opinion. The Council's Cyber Security measures were checked against the 'Cyber Essentials' criteria, which is a UK government scheme. This review was performed by a specialist IT auditor from Mazars with oversight from the Council's IA management team.
- 3.1.7 The areas of high risk identified during this review are in regard to the leaver's process, password control and administrator account management (also referred to as the 'admin account'). Specifically, our audit highlighted the need to manage default passwords to ensure they are aligned to best practice. 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. Following testing, **1 HIGH** and **1 MEDIUM** risk recommendation were marked as **Implemented** at final report stage.
- 3.1.8 The IA assurance review of **Positive Behaviour Support (PBS) Team** raised **4 MEDIUM** and **4 LOW** risk recommendations and gave an overall **LIMITED** assurance opinion. We found the PBS team currently tracks cases via Google sheets and Protocol which contained several inaccuracies and inconsistencies. We found there to be no Key Performance Indicators (KPIs) in place for the PBS team and a review of current job descriptions identified that they were significantly out of date.
- 3.1.9 Other 2018/19 assurance reviews finalised during this quarter have included **Youth Offending Service** which provided a **REASONABLE** assurance opinion and raised **3 MEDIUM** and **5 LOW** risk recommendations (refer to **Appendix A**).

3.2 Consultancy Work in Quarter 3

- 3.2.1 The IA team has continued to undertake 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 Attached at **Appendix A** is a list of consultancy work carried out this quarter with **4** consultancy reviews completed. The planned IA consultancy review of **Introduction of Universal Credit (UC)** was concluded within the quarter. A significant amount of work has gone into ensuring the Council is prepared for the introduction of UC, including the decision to appoint further resource. However, our review identified some concerns and vulnerability in the design and operation of the control environment. We found satisfactory interim measures are in place but a greater focus needs to be on establishing sustainable, long-term measures. During the review we prepared and risk assessed a management action plan which will assist in strengthening controls in this area, in a risk focused and timely manner.
- 3.2.3 The planned IA consultancy review of **Client Financial Affairs (CFA)** was concluded within the quarter. This review focused on the robustness of the referrals process, case management, roles, responsibilities, management oversight, seizure and storage of assets and payments controls and processes. During our detailed testing we highlighted several issues which the CFA team were aware of, but further root-cause analysis performed by IA helped identify specific controls weaknesses such as staff capacity, enhancing system capabilities/ functionality and engaging with Social Care to agree the best care packages for clients.
- 3.2.4 IA was requested by senior management to provide consultancy advice on **Parking Penalty Charge Notices** (refer to **Appendix B**). The review was focused on policies and procedures, cancelled penalty notices and declarations of interest. During testing we found an absence of key controls and deficiencies in existing controls. We suggested that the teams IT system could be utilised more effectively if it was tailored to address the control issues identified during the review. Management have agreed to address all of the improvement suggestions identified.
- 3.2.5 A further addition to the IA Plan for this quarter was a review of the **Mayor of Hillingdon's Charitable Trust Accounts 2017/18** (refer to **Appendix B**). The Mayor's Charity was registered as a charitable trust in November 2015 and is therefore required to comply and operate within the Charity Commission's guidelines. The Council is currently preparing the accounts for the Mayor's Charity and IA was asked to carry out an independent review of the accounts before they are presented to the Trustees for final sign-off. These accounts do not form part of the Council's finances so there was no conflict in IA undertaking this review.

3.3 Grant Claim Verification Work in Quarter 3

- 3.3.1 During this quarter IA has assisted the Council in certifying **1** grant claim. As detailed at **Appendix A**, IA continues to carry out verification work on the **Troubled Families (TF) Grant**. IA tested a sample of TF that had been identified as being 'turned around' by the Council's TF Team. At the conclusion of our work we issued 3 memos in October, November and December 2018 (total number of families claimed for in Quarter 3 was 154).
- 3.3.2 IA continues to work with the TF Co-ordinator to discuss their strategy for the programme. They have reiterated the need to continue with monthly submissions whilst also increasing the number of families eligible for the TF programme. 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 4 IA Plan (refer to **Appendix C**).

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

- 3.4.1 IA continues to monitor all **HIGH** and **MEDIUM** risk recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. In addition to this, we actively follow-up on prior **LIMITED** or **NO** assurance reports within 6 months to a year after their issue.
- 3.4.2 Within the quarter we have been verifying management's assertion that IA recommendations have been implemented, aimed at providing enhanced assurance to CMT and the Audit Committee that these are fully embedded within the control environment to mitigate the risks identified. Due to the large number of recommendations, this project will continue throughout remainder of the year with the aim to provide a detailed snapshot to CMT and the Audit Committee of progress against implementation of IA recommendations in the annual report (refer to **Appendix A**).
- 3.4.3 Dedicated follow-up work within this quarter has been focused on previous IA reviews achieving a prior **LIMITED** or **NO** assurance opinion. Attached at **Appendix A** is a list of follow-up work carried out in Quarter 3, highlighting the **3 follow-up reviews** that have been completed within the period.
- 3.4.4 The first one is the dedicated follow-up review which found that **68%** (32) of the **47** recommendations followed-up within the quarter were deemed **Implemented**. Of the remaining recommendations we confirmed that **30%** (14) were **Partly Implemented** and **2%** (1) were deemed **Not Implemented**. Each of the 15 cases deemed partly or not implemented have been reopened on our dedicated follow-up system, TeamCentral, with new implementation dates applied for active monitoring and tracking. These recommendations will then be followed-up in due course as these revised dates fall due.
- 3.4.5 These results include the follow-up of the 2017/18 **NO** assurance review of **Houses in Multiple Occupation (HMO)**. In July 2017 IA raised **4 HIGH** and **3 MEDIUM** risk recommendations. Previous IA follow-up reviews undertaken in November 2017 and March 2018 found that only **1** of the **7** recommendations were deemed to be **Implemented** and the remaining **6** recommendations (**4 HIGH** and **2 MEDIUM** risk recommendations) were deemed **Partly Implemented**. As a result of our recent follow-up testing we can confirm that the remaining **6** recommendations were deemed to be **Partly Implemented**.
- 3.4.6 During testing, we found that the control environment and system have moved on so significantly since the last follow-up review (in March 2018) that the recommendations are no longer fully relevant. It was therefore agreed with management that we would undertake a wider review of the **Private Sector Housing Service (including HMOs)** in April 2019.
- 3.4.7 In Quarter 3 we agreed to carry out a follow-up review on **Early Years Centres**. In July 2018 IA gave Early Years a **NO** assurance opinion and raised **3 HIGH** and **5 MEDIUM** risk recommendations, which were due to be implemented by August, October and November 2018 respectively. Following a meeting with the Service Manager we can confirm that the implementation dates for all **8** recommendations have been extended to **31st March 2019**. The reason for the extension is due to a BID review and progress with the recommendations has been put on hold until the review is completed.

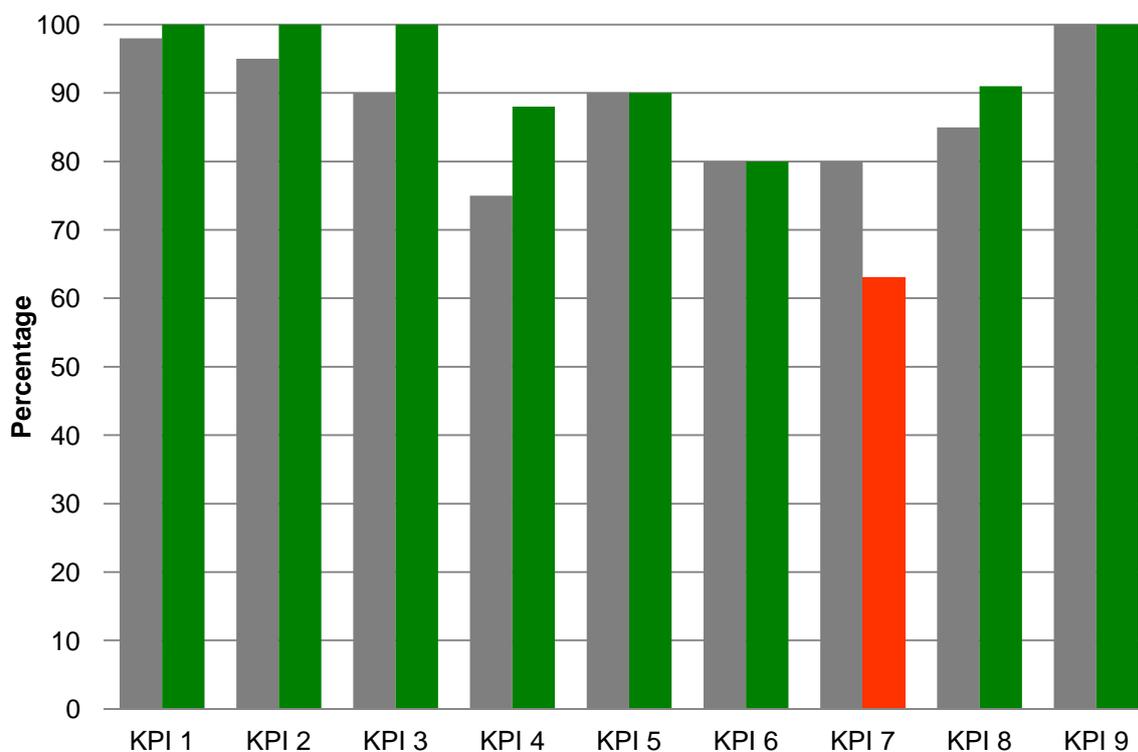
3.5 Other Internal Audit Work in Quarter 3

- 3.5.1 We continue to undertake a quarterly approach to IA planning to ensure emerging risks and new areas of concern are captured, particularly within the fast changing environment the Council operates in. Over the last month we have undertaken our risk based planning meetings, alongside operational and corporate risk discussions due to the synergies between these two functions. Further to this, we have produced the detailed operational IA plan for Quarter 4 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, the **Quality Assurance and Improvement Programme (QAIP)** exercise has progressed slowly 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. A comprehensive QAIP exercise is planned for Quarter 4 and will focus on IA management review points and closure of IA files.

4. Analysis of Internal Audit Performance

- 4.1 The IA KPIs measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. We believe that these KPIs, detailed at **Appendix D**, are meaningful and provide sufficient challenge to the service. They measure the quality, efficiency and effectiveness of the IA service and thus assist us in providing an added value assurance and consulting service to our range of stakeholders.
- 4.2 Cumulative performance against the nine KPIs in the 1st April to 31st December 2018 period is summarised within the **Bar Chart** below:



Key:

- Target Performance
- Above target
- Within 5% tolerance of target
- Greater than 5% tolerance of target

- 4.3 Whilst we have seen a slight improvement on the Quarter 2 position KPI 7 continues to be one IA KPI that is not achieved and is reported as **RED** for all three quarters of 2018/19. This is primarily due to 3 of the 8 IA Assurance reports finalised experiencing delays in receipt of management response. Whilst we facilitate this process, **we are heavily reliant on timely management responses** within the set timeframe to achieve this indicator.
- 4.4 The time taken to finalise final reports from draft stage is on average 11 working days and thus within tolerances. However, we continue to provide oversight of compliance against these KPIs to Corporate Directors and are actively looking at our own process to aid the facilitation of management responses. We are currently exceeding several of our KPI targets, including achieving the ambitious KPI 8, 85% Client Satisfaction Rating which we are hopeful will continue throughout the remainder of the year as the volume of CFQ feedback increases.

5. Forward Look

- 5.1 As has already been highlighted earlier in this report, progress has been steady this quarter. Whilst our two new staff members are settling in at the Council we have begun our second phase of recruitment and are in the process of appointing a new Internal Auditor and recruiting an Internal Audit Apprentice. Once these posts have been recruited to the team we will once again be at full complement.
- 5.2 In line with our risk-based approach to IA, the team has continued to successfully meet almost all of its KPIs, with 8 out of 9 KPIs meeting or exceeding target performance. The team has delivered highly regarded, good quality, work across the Council with professionalism and skill and will continue with this approach as it completes the final quarter of 2018/19. Quarter 4 will be a challenge, as we hope to complete our recruitment campaign, introduce two new members to the team whilst working through a complex IA Plan. Nevertheless, we are confident that this will be achieved with the continued support from our stakeholders.
- 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 DDEBA needs to bring to the attention of the Council's CMT or Audit Committee at this time.

Muir Laurie FCCA CMIIA
Deputy Director of Exchequer & Business Assurance Services (Acting)
(& Head of Internal Audit)

14th January 2019

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

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

2018/19 IA Assurance Reviews:

| IA Ref. | IA Review Area | Status as at 14 th January 2019 | Assurance Level | Risk Rating | | | | CFQ Received? |
|--|--|---|-----------------|-------------|------------|------------|----------|---------------|
| | | | | H | M | L | NP | |
| 18-A8 | Early Years Centres | Final report issued on 10 th July 2018 | No | 3 | 5 | 2 | 0 | ✓ |
| 18-A13 | Emergency Duty Team | Final report issued on 3 rd Dec 2018 | No | 4 | 3 | 1 | 0 | ✓ |
| 18-A1 | Cyber Security | Final report issued on 13 th Dec 2018 | Limited | 2 | 3 | 2 | 0 | ✓ |
| 18-A6 | Positive Behaviour Support Team | Final report issued on 7 th Jan 2019 | Limited | 0 | 4 | 4 | 0 | Not yet due |
| 18-A3 (17-A33) | Corporate Payments | Final report issued on 29 th June 2018 | Reasonable | 0 | 2 | 4 | 0 | ✓ |
| 18-A5 | Complaints | Final report issued on 27 th July 2018 | Reasonable | 0 | 4 | 6 | 0 | ✓ |
| 18-A4 | Symology Data Quality | Final report issued on 4 th Sept 2018 | Reasonable | 0 | 2 | 2 | 0 | ✓ |
| 18-A2 | Declarations of Interests | Final report issued on 12 th Sept 2018 | Reasonable | 0 | 3 | 2 | 0 | ✓ |
| 18-A12 | Youth Offending Service | Final report issued on 12 th Nov 2018 | Reasonable | 0 | 3 | 5 | 0 | ✓ |
| 18-A17 | Mortuary | Testing in progress | | | | | | |
| 18-A18 | Gifts and Hospitality | Testing in progress | | | | | | |
| 18-A19 | General Data Protection Regulation | Testing in progress | | | | | | |
| 18-A21 | Financial Resilience and Appetites for Public Sector Contracts | Testing in progress | | | | | | |
| 18-A20 | Merchiston House | Planning | | | | | | |
| Total Number of IA Recommendations Raised | | | | 9 | 29 | 28 | - | |
| Total % of IA Recommendations Raised | | | | 14% | 44% | 42% | - | |

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 14 th January 2019 | Recommendations | | | | CFQ Received? |
|---------------------|--|--|------------------|--------------------|-----------------|-----------|---------------|
| | | | Implemented | Partly Implemented | Not Implemented | Total | |
| 18-A14 | Follow-up of implemented recommendations | Verification testing in progress | 19 | 0 | 0 | 19 | N/A |
| 18-A9 | Physical Access Controls | Memo issued on 31 st July 2018 | 8 | 0 | 0 | 8 | ✓ |
| 18-A10 | Extra Care | Memo issued on 9 th August 2018 | 2 | 4 | 1 | 7 | ✓ |
| 18-A15 | Houses in Multiple Occupation | Memo issued on 20 th Dec 2018 | 0 | 6 | 0 | 6 | ✓ |
| 18-A23 | Housing Planned Maintenance & Repairs | Memo issued on 9 th Jan 2019 | 3 | 4 | 0 | 7 | Not yet due |
| Total Number | | | 32 68% | 14 30% | 1 2% | 47 | |

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2018/19 IA Consultancy Reviews:

| IA Ref. | IA Review Area | Status as at 14 th January 2019 | CFQ Received? |
|---------|---|---|---------------|
| 18-C3 | CYPS Thematic Review - Ofsted Preparations | Memo issued on 9 th May 2018 | ✓ |
| 18-C4 | Recruitment and Retention of Foster Carers | Memo issued on 4 th July 2018 | ✓ |
| 18-C5 | Financial Assessments | Memo issued on 12 th July 2018 | ✓ |
| 18-C6 | Adult and Community Learning | Memo issued on 17 th July 2018 | ✓ |
| 18-C2 | Client Financial Affairs | Memo issued on 3 rd October 2018 | ✓ |
| 18-C9 | Mayor of Hillingdon's Charitable Trust Accounts 2017/18 | Memo issued on 10 th December 2018 | N/A |
| 18-C1 | Introduction of Universal Credit | Memo issued on 20 th December 2018 | ✓ |
| 18-C8 | Parking Penalty Charge Notices | Memo issued on 3 rd January 2019 | ✓ |

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

| IA Ref. | IA Review Area | Status as at 14 th January 2019 |
|---------|-------------------------------------|--|
| 18-GC1 | Troubled Families Grant - Quarter 1 | Certified and memos issued on 25 th April 2018, 17 th May 2018 and 12 th June 2018 |
| 18-GC3 | Troubled Families Grant - Quarter 2 | Certified and memos issued on 26 th July 2018, 30 th August 2018 and 26 th September 2018 |
| 18-GC4 | Disabled Facilities Grant | Certified and memo issued on 28 th August 2018 |
| 18-GC2 | Housing Benefit Subsidy Grant | Certified and memo issued on 3 rd September 2018 |
| 18-GC6 | Pothole Action Fund | Certified and memo issued on 13 th September 2018 |
| 18-GC5 | Bus Subsidy Grant | Certified and memo issued on 18 th September 2018 |
| 18-GC7 | Troubled Families Grant - Quarter 3 | Certified and memos issued on 30 th October 2018, 30 th November 2018 and 21 st December 2018 |

APPENDIX B**REVISIONS TO THE 2018/19 INTERNAL AUDIT PLAN ~ QUARTER 3****Amendments to the 2018/19 Operational IA Plan for Quarter 3:**

| IA Ref. | Planned IA Review Area | Review Type | IA Risk Rating | Review Sponsor | Scope / Rationale |
|---------------------------------|------------------------|-------------|----------------|----------------|-------------------|
| No amendments to the Q3 IA Plan | | | | | |

IA work DEFERRED from the 2018/19 Operational IA Plan for Quarter 3:

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

IA work ADDED to the 2018/19 Operational IA Plan for Quarter 3:

| IA Ref. | Planned IA Review Area | Review Type | IA Risk Rating | Review Sponsor | Scope / Rationale |
|---------|---|-------------|----------------|---|--|
| 18-C8 | Parking Penalty Charge Notices | Consultancy | MEDIUM | Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services | This review was requested by senior management, over the Penalty Charge process and the risks associated with policies and procedures, cancelling Notices and Declarations of Interest. |
| 18-C9 | Mayor of Hillingdon's Charitable Trust Accounts 2017/18 | Consultancy | LOW | Paul Whaymand Corporate Director of Finance | This review was requested by senior management in Finance. The Mayor's Charity has been registered as a charitable trust in November 2015 and therefore is required to comply and operate within Charity Commission guidelines. The Council is currently preparing the accounts for the Mayor's Charity and IA has been asked to assist as part of this process. |

APPENDIX C**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 4****IA work scheduled to commence in the 1st January to 31st March 2019 period:**

| IA Ref. | Planned Audit Area | Audit Type | Risk Assessment | Review Sponsor | Rationale |
|---------|---|------------|-----------------|---|--|
| 18-A26 | Special Education Needs (SEN) Specialist Resource Provision | Assurance | HIGH | Tony Zaman Corporate Director of Social Care | This is a value for money audit which will focus on the Specialist Resource Provision (SRP) offered to schools which provide SEN services to children and young people. There are currently 13 SRPs in place, costing £1.2m, which are operating across maintained and academy schools in the borough. This IA review will seek to provide assurance over the financial management, governance and application of the SRP provision. |
| 18-A27 | Traffic Management - Order Making Process | Assurance | MEDIUM | Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services | The order making process refers to proposals received by the Council from residents and members of the public in relation to parking management schemes, loading and waiting schemes and traffic regulation orders. The process is highly regulated and all Council decisions are made public within a restricted timeframe. Management would like independent assurance that the current process is working efficiently and effectively as they move from a paper oriented process to an automated one. |
| 18-A28 | Estates Management - Selling Assets | Assurance | MEDIUM | Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services | This review will look at the practice and justification for selling Council-owned assets (of estates). We will check that these are recorded consistently and the process is working efficiently and economically. We will also verify that asset registers are up to date and comply with the Local Government Transparency Code 2015. Further, following the 2016/17 IA assurance review of Estates Management - Leases which received a LIMITED assurance opinion we will check that the 3 MEDIUM risk recommendations that have been marked as Implemented by management have been verified. |

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 4 (cont'd)****IA work scheduled to commence in the 1st January to 31st March 2019 period:**

| IA Ref. | Planned Audit Area | Audit Type | Risk Assessment | Review Sponsor | Rationale |
|---------|--|------------|-----------------|--|---|
| 18-A29 | Olympic House | Assurance | MEDIUM | Tony Zaman Corporate Director of Social Care | Olympic House is a 30 bed, semi-independent Unit for males aged between 16-17 years who are claiming asylum and which the Council has a duty of care. The management of the House has recently transferred to the Director, Provider & Commissioned Care and as such they have requested IA provide independent assurance over safeguarding, health and safety and general management of the facility. |
| 18-A30 | Review of the Effectiveness of the Audit Committee | Assurance | MEDIUM | Fran Beasley Chief Executive | An effective and independent AC is a key element in the Council's corporate governance and risk management framework. An effective AC leads to improved internal control, risk management and financial reporting. It provides a forum for discussing key issues raised by IA and External Audit, working independently to provide assurance to the Council. |
| 18-A31 | Equifax Arrangements | Assurance | MEDIUM | Paul Whaymand Corporate Director of Finance | Equifax is a consumer credit reporting agency which is used to check the financial health of residents (who seek assistance from the Council) and private companies (who are tendering for business from the Authority). As a service, Equifax is used across the Council by teams including Finance, Procurement and Revenues and Benefits. All applications for an Equifax check must follow a specific process to protect the rights of the individual and/or business. IA will check that this is being applied consistently. |
| 18-A32 | Debtors | Assurance | MEDIUM | Paul Whaymand Corporate Director of Finance | This review will seek to provide assurance that there is a sound system of internal control operating over the Debtors process. This is a key financial system audit which was requested by management. This review was last undertaken as part of the 2016/17 IA Plan. |

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 4 (cont'd)****IA work scheduled to commence in the 1st January to 31st March 2019 period:**

| IA Ref. | Planned Audit Area | Audit Type | Risk Assessment | Review Sponsor | Rationale |
|---------|--|-----------------------|-----------------|---|--|
| 18-A14 | Follow-Up of implemented recommendations | Assurance (Follow-Up) | MEDIUM | Paul Whaymand Corporate Director of Finance | In preparation for the Annual Head of Internal Audit Opinion we will seek to undertake follow-up verification on the IA recommendations (from 2015/16 onwards) where management have self certified that the recommendation has been implemented via the Team Central System. |
| 18-A33 | Missing Children Follow-Up | Assurance (Follow-Up) | MEDIUM | Tony Zaman Corporate Director of Social Care | Following the 2017/18 IA assurance review of Missing Children (from Education, Home & Placement) which received a LIMITED assurance opinion we will check that the 10 MEDIUM risk recommendations marked as Implemented by management have been verified. |
| 18-A34 | Semi-Independent Living Follow-Up | Assurance (Follow-Up) | MEDIUM | Tony Zaman Corporate Director of Social Care | Following the 2016/17 IA assurance review of Semi-Independent Living (incl. Contract Management) which received a LIMITED assurance opinion we will check that the 8 MEDIUM risk recommendations marked as Implemented by management have been verified. |
| 18-A35 | Harefield Junior School Follow-Up | Assurance (Follow-Up) | MEDIUM | Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services | Following the 2018/19 IA assurance review of Harefield Junior School which received a LIMITED assurance opinion we will check that the 3 HIGH and 4 MEDIUM risk recommendations marked as Implemented by management have been verified. |
| 18-C10 | ICT Application Support | Consultancy | MEDIUM | Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services | ICT have requested a consultancy review of the Application Support team. The team provides support to services across the Council with IT applications. The level of support across Directorates is inconsistent with some requiring a significant amount of support compared to others. ICT would like IA to look at the volume of support provided and suggest ways of working more efficiently. |
| 18-C11 | HR IT Projects | Working Group | N/A | Fran Beasley Chief Executive | The Head of HR has requested the IT Auditor to assist with the development of the Council's new HR and case management system. The auditor will advise on control and security issues in Quarter 4. |

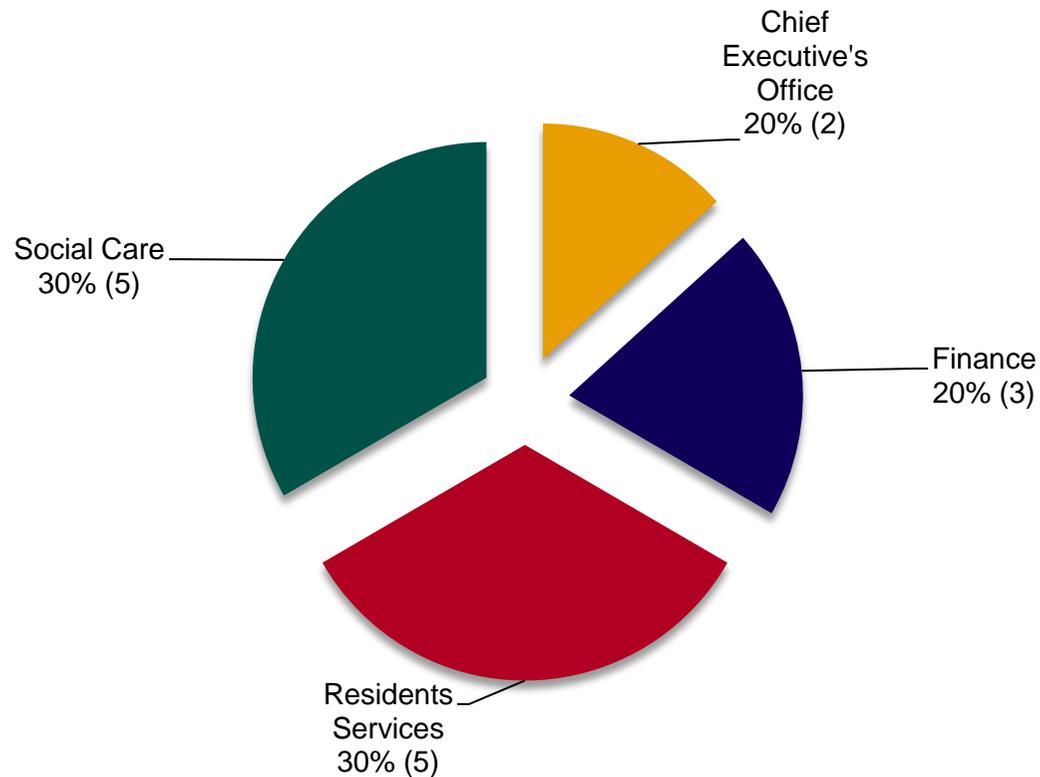
APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 4 (cont'd)****IA work scheduled to commence in the 1st January to 31st March 2019 period:**

| IA Ref. | Planned Audit Area | Audit Type | Risk Assessment | Review Sponsor | Rationale |
|---------|---|-------------|-----------------|---|--|
| 18-C12 | Private Sector Housing | Advisory | N/A | Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services | Following the Houses in Multiple Occupation Follow-Up and a request from the Deputy Director, IA has been asked to assist the Housing Team in January 2019, in preparation for the planned Quarter 1 2019/20 IA assurance review of Private Sector Housing. |
| 18-GC8 | Troubled Families (TF) Grant - Quarter 4 | Grant Claim | N/A | Tony Zaman 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 4 (cont'd)

IA work scheduled to commence in the 1st January to 31st March 2019 period – Analysis by Corporate Director:



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

APPENDIX D**INTERNAL AUDIT KEY PERFORMANCE INDICATORS**

| KPI Ref. | Performance Measure | Target Performance | Actual Performance | RAG Status |
|----------|---|--------------------|--------------------|------------|
| KPI 1 | 2018/19 HIGH risk IA recommendations where positive management action is proposed | 98% | 100% | GREEN |
| KPI 2 | 2018/19 MEDIUM risk IA recommendations where positive management action is proposed | 95% | 100% | GREEN |
| KPI 3 | 2018/19 HIGH risk IA recommendations where management action is taken within agreed timescale | 90% | 100% | GREEN |
| KPI 4 | 2018/19 MEDIUM risk IA recommendations where management action is taken within agreed timescale | 75% | 88% | GREEN |
| KPI 5 | Percentage of annual (Q1 to Q4) IA Plan delivered to draft report stage by 31 st March 2019 | 90% | 91% | GREEN |
| KPI 6 | Percentage of annual (Q1 to Q4) IA Plan delivered to final report stage by 31 st March 2019 | 80% | 81% | GREEN |
| KPI 7 | Percentage of draft reports issued as a final report within 15 working days | 80% | 63% | RED |
| KPI 8 | Client Satisfaction Rating (from CFQs) | 85% | 91% | GREEN |
| KPI 9 | IA work fully compliant with the UK PSIAS and IIA Code of Ethics | 100% | 100% | GREEN |

Key for above:

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

Key for future reporting on actual KPI performance:

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

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

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

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

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

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

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AUDIT COMMITTEE - 2018/19 Quarter 3 Counter Fraud Progress Report

| | |
|---------------------------|--|
| Committee name | Audit Committee |
| Officer reporting | Muir Laurie, Deputy Director of Exchequer & Business Assurance Services (Acting) |
| Papers with report | 2018/19 Quarter 3 Counter Fraud Progress Report |
| Ward | All |

HEADLINES

The attached report presents the Audit Committee with summary information on all Counter Fraud work covered in relation to 2018/19 Quarter 3 and assurance in this respect. It also provides an opportunity for the Deputy Director of Exchequer & Business Assurance Services (Acting) 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 Deputy Director of Exchequer & Business Assurance Services (Acting) 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 3; 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 3

14th January 2019



Contents

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

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| | |
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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 3 period (1st October to 31st December 2018). In addition, it provides an opportunity for the Deputy Director of Exchequer & Business Assurance Services (Acting) [DDEBA] to highlight any significant issues arising from the counter fraud work in Quarter 3.
- 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 DDEBA to be held to account in this respect.

2. Executive Summary

- 2.1 During Quarter 3 the BACFT has achieved **three successful prosecutions** relating to Housing fraud, Council Tax Reduction fraud and Blue Badge misuse. One of these cases was prosecuted jointly with the Department for Work & Pensions and the Home Office Immigration Service, resulting in the defendant receiving a **three and a half years custodial sentence** for benefits and immigration offences. The other two cases received sentences of **40 hours community service for Right to Buy fraud** and an **£800 fine for blue badge misuse**. Both defendants were required to pay considerable costs, **together totalling £4,500**. We are in the process of publicising these outcomes in the local press and via internal council communications to raise awareness and act as a deterrent to others potential fraudsters.
- 2.2 During this quarter the BACFT has focused on the delivery of a wide ranging housing **tenancy fraud project** and successfully delivered a proactive **blue badge** counter fraud exercise. The team has at the same time continued its fraud prevention and detection coverage through its investigations and verifications activities. This includes carrying out further engagement with the Housing department on increasing referrals and working more effectively together. New areas of verifications work have been designed in different aspects of Housing, with further new work streams due to be implemented in Quarter 4.
- 2.3 Significant progress has been made by the team in meeting the objectives of the **KPIs** implemented at the end of Quarter 1. This has been achieved through the BACFT's commitment to ongoing professional training, developing its knowledge and skills, and reviewing and improving internal processes. In this quarter, one Principal Investigations Officer has completed their **BTEC Level 7 in Investigations**, two have commenced their professional studies and **ten officers** from the Intelligence and Verifications sub-teams have completed their professional studies to become **Accredited Counter Fraud Technicians**. We will be seeking to acquire further benchmarking data in the next quarter relating to London Boroughs counter fraud work for reporting and comparison of our full year performance.

- 2.4 In order to meet the demands of additional work-streams in Quarter 4 and beyond, increases in resource requirement have been identified for Quarter 4 relating to external and internal data matching exercises and a sustained increase in verifications work. This is all totally focussed on maximising loss prevention and fraud detection. The recruitment of an additional **two Principal Investigation Officers** has been approved and these posts will help meet the increase in demand for counter fraud services. These roles will work closely with the Intelligence and Verifications sub-teams.
- 2.5 Having a **Home Office Immigration Enforcement Officer** (IEO) as part of the BACFT continues to help the Council 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 carried out in Quarter 3 includes completing the updates to **all of the Council's investigation related policies**; these have been separately circulated to Audit Committee members for their consideration and review. In addition, a new **electronic document collection** process has been introduced for mobile working in collaboration with ICT. This change improves efficiencies and moves the team closer to fully paperless processes. Further detailed analysis of the BACFT's work in Quarter 3 is included in section 3 of this report.

3. Analysis of Counter Fraud Activity in Quarter 3

3.1 Housing Fraud - Work in Quarter 3

- 3.1.1 The main work-stream for the BACFT continues to be in relation to the prevention and detection of housing fraud. The Council is exposed to a number of housing fraud risks, as detailed in the Counter Fraud Strategy for 2018/19, and deploys significant BACFT resource on the prevention and detection of housing fraud.
- 3.1.2 Per **Table 1**, in the 2018/19 financial year to date, the BACFT has successfully recovered **14** Council properties and are actively pursuing a further **2** cases for eviction. A further **29** 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 | 14 | £252k | 43 | £774k | 64 | £1,152k |
| Total number of ongoing cases | 29 | £522k | - | - | - | - |

* as at 31st December 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.

- 3.1.3 The 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 3 the team has achieved **16%** property recovery rate (**19%** for the year to date). The team has commenced **14** new tenancy fraud investigations in Quarter 3, increasing the total number of ongoing investigations in this area to **29**.

- 3.1.4 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 **4** cases of fraudulent RTB applications which have been stopped meaning the prevention of fraud valuing **£415,700** in RTB discount. This includes the **successful prosecution** in Quarter 3 for fraud relating to the RTB scheme. Currently there are **4 ongoing RTB fraud** cases being investigated by the BACFT.
- 3.1.5 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 the Verification Officers carry out confirmation checks, which often includes un-notified visits to 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.
- 3.1.6 Per **Table 2** below, in the 2018/19 year to date, the BACFT has successfully identified **598** 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 | 1,437 | 2,485 |
| Total number verified as accurate | 839 | 1,398 |
| Total number rejected | 598 | 1,087 |
| % identified by BACFT for rejection | 42% | 44% |

* as at 31st December 2018

- 3.1.7 Of the **598** cases that have been rejected, **20** applications have been completely closed down. This was due to 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 may well have been successful and the applicant would then have been housed in a Council property.
- 3.1.8 The BACFT Verification and Intelligence sub-teams now cover a wide range of work streams, providing assurance over expenditure of residents' grants for property purchasing and high value expenditure on temporary accommodation. The areas of verification are:
- **First time buyer scheme** - eligibility based grant 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.
 - **Bed & Breakfast accommodation** - residency check of all Bed & Breakfast accommodation on a rolling 8 week basis to provide assurance over expenditure.
 - **Section 17 Accommodation** - residency check of all Section 17 accommodation on a rolling 8 week basis to provide assurance over expenditure.
 - **Social Housing Allocations** - formal verification of all social housing applicants that are actively seeking accommodation to identify suspected fraud or ineligibility.
 - **Section 17 Verification checks** - Initial checks on applicants who approach social care for assistance with accommodation to ensure eligibility.
- 3.1.9 In Quarter 4 the BACFT intends to introduce further verifications processes to cover mutual exchanges and Succession & Assignment for housing.

3.2 National Fraud Initiative - Quarter 3 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 Initiative, the **London Counter Fraud Hub** (LCFH) is a new initiative that brings together London Boroughs with counter fraud specialists and the latest technologies, to help local authorities tackle fraud and corruption. At the centre of the LCFH is an analytics solution that helps prevent, detect and recover losses from fraud. The council is due to begin 'on-boarding' for the LCFH in Quarter 4 and an update will be provided as part of the Quarter 4 Progress Report.
- 3.2.3 The next NFI exercise for LBH is scheduled to be carried out in January 2019. The BACFT are continuing to work through the data matches identified in the 2016/17 match and will begin work on the 2018/19 matches shortly. In line with the Counter Fraud Strategic Plan, we continue to place greater emphasis on the use of data matching and analytics to help prevent and detect fraud against the Council, and identify loss prevention opportunities.

3.3 Blue Badge Fraud - Work in Quarter 3

- 3.3.1 Blue Badge permits provide parking concessions for people with severe mobility problems. Historically the scheme was restricted to people with physical disabilities so they can park closer to their destination than other drivers, as they are less able to take public transport or walk longer distances. However, in the biggest overhaul to the scheme since the 1970s, the new criteria has extended eligibility to people with less visible conditions i.e. people with autism and mental health conditions now have access to Blue Badges, removing the barriers many face to travel.
- 3.3.2 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.
- 3.3.3 In Quarter 3, two proactive Blue Badge misuse operations were carried out in Hayes Town Centre and Uxbridge High Street. The results are as follows:
- **130 badges checked** by BACFT officers;
 - **4 criminal investigations** commenced following badge seizure; and
 - **7 financial penalties** of £100 with Simple Cautions administered.
- 3.3.4 The results from proactive projects are in addition to the **successful prosecution** achieved this quarter. An investigation, following a referral from a member of the public, found a person to have repeatedly misused a family member's blue badge in order to park and take the train to work in the city. He pleaded guilty in court and received an **£800 fine** and was ordered to pay **£3,500 in costs** to the Council. These outcomes 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 projects in this area are scheduled for Quarter 4.

3.4 Tenancy Fraud Project- Work in Quarter 3

- 3.4.1 This quarter the team started a risk based proactive project conducting residency checks of Council tenancies. The objective of this project is to verify that Council properties are lawfully occupied.

3.4.2 This exercise helps identify fraud being committed through subletting or non-occupation. Our work in this area leads to the recovery of Council properties and the identification of associated loss preventions e.g. Council Tax discounts.

3.4.3 The results of this project to date are as follows:

- 326 properties were visited (over 700 visits in total accounting for multiple visits required to a number of properties);
- 265 properties (81%) were verified as lawfully occupied including 2 tenancies to be downsized and including several cases of unpaid Council Tax (Single Person Discount) and Housing Benefit overpayments;
- 60 properties unable to be verified as yet. These are case where the tenant has not been found at the property despite multiple visits at different times of the day during the week/at weekends. Our intelligence gathering work is well under way and 3 of these cases have already been passed to the Investigations sub for full investigation. As our intelligence gathering work continues on these properties in Quarter 4, it is likely that a significant number of these properties will be identified as illegally sub-let or unoccupied leading us to commence property recovery proceedings; and
- The remaining 1 property is to be returned to housing stock (deceased tenant).

3.5 Immigration Enforcement Officer (IEO) - Work in Quarter 3

3.5.1 Since 16th April 2018, 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 and for assisting in counter fraud work requiring access to home office data.

3.5.2 The IEO has so far provided invaluable assistance in counter fraud work and many other Council service areas, such as Social Care and Housing, by carrying out background checks and carrying out face to face interviews where there is potentially an immigration issue. As a result, the work of the IEO in financial loss prevention across the Council in Quarter 3 is prudently estimated at **£162,432**. Refer to **Table 4** in **Appendix B** for a breakdown of identified loss prevention savings to date.

3.6 Other Counter Fraud Work in Quarter 3

3.6.1 With the drive to improve efficiency and quality of investigations, all BACFT referrals are now robustly risk assessed and intelligence checked before being considered for escalation to formal investigation stage. **In Quarter 3 there were 104 referrals for investigation** from internal and external sources. At 31st December 2018, there were **66** ongoing investigations and **71%** of these (**49**) relate to different aspects of housing and tenancy fraud.

3.6.2 A **Data Protection Privacy Notice** covering **internal data matching** has now been approved. Data Protection Impact Assessments are also required by the Data Protection Act 2018 and will be produced for each new data matching exercise. This means that the BACFT will now be able to fully commence data matching work in Quarter 4, the results of which will be reported to CMT and the Audit Committee.

3.6.3 All of the Council's investigation related policies have now been updated and circulated to Audit Committee members for their consideration, including:

- Prosecution & Sanctions Policy;
- Anti-Money Laundering Policy;
- Anti-Bribery Policy;
- Surveillance Policy;
- Fraud Response Plan;
- Corporate Investigations Protocol; and
- Whistleblowing Policy.

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

- 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 DDEBA to be better held to account by CMT and Audit Committee. Attached at **Appendix A** is **Table 3** which sets out the performance by the BACFT against the KPIs as at 31st December 2018. This includes changes to the presentation as requested by the Audit Committee to include both cumulative and quarterly performance metrics.
- 4.2 As can be seen from **Table 3**, performance for all KPIs has significantly improved from Quarter 3. Despite the improvements to date, there is more work that can and will be done to drive further increases in performance. The HBA remains confident that by the end of the 2018/19 financial year, actual performance against the KPIs will have further improved for the BACFT.
- 4.3 **Appendix B** and **Table 4** provides an overview of the financial performance of the team in 2018/19. This is the first time this has been provided as part of a BACFT progress report, and demonstrates one of the metrics by which performance can be measured.

5. Forward Look

- 5.1 Looking ahead to Quarter 4 there are a number of key priorities for the BACFT. These include:
- Complete the **recruitment of two Principal Investigation Officers** to work closely with the Intelligence and Verifications sub-teams;
 - Begin **joint working with the Department for Work and Pensions** on matters involving both Housing Benefit and Council Tax Reduction fraud in order to maximise loss prevention in this area;
 - Lead on the Council joining the **London Counter Fraud Hub** ensuring that the Council is fully prepared to take advantage of all opportunities presented;
 - Carry out **internal data matching processes** to assist in the prevention and detection of fraud and begin work on **external data matching exercises through the NFI**;
 - Continue **engagement with key stakeholders through fraud awareness and risk workshops** to further promote the counter fraud culture within the Council;
 - Review current **counter fraud work-streams** to ensure the effective use of resources, seeking opportunities to **maximise loss prevention opportunities** for the Council through targeting the areas of highest fraud risk.
- 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 3. There are no other counter fraud matters that the DDEBA needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie FCCA CMIIA
Deputy Director of Exchequer & Business Assurance Services (Acting)

14th January 2019

APPENDIX A**Table 3 ~ BACFT Quarter 3 KPIs and Actual Performance**

| BACFT KPIs | Target | Q3 | YTD |
|--|--------|------|-----|
| 1. Percentage of fraud referrals risk assessed within 3 working days | 95% | 89% | 59% |
| 2. Verification work timescales for completion: | | | |
| a. Housing Allocations completion within 3 working days | 95% | 92% | 90% |
| b. First Time Buyer completion within 5 working days | 95% | 100% | 86% |
| c. Right to Buy completion within 28 working days | 95% | 58% | 58% |
| 3. Housing Bed and Breakfast clients verified every 40 working days | 95% | 97% | 97% |
| 4. Investigation plan completion within 5 working days of case allocation | 95% | 87% | 56% |
| 5. Tenancy fraud referrals received resulting in property recovery | 20% | 16% | 19% |
| 6. Investigations resulting in sanction (<i>prosecution/penalty/caution</i>) | 10% | 14% | 7% |
| 7. Investigations resulting in loss prevention/financial saving outcome | 25% | 33% | 22% |

APPENDIX B**Table 4 ~ BACFT Quarter 3 & Year To Date Financial Performance**

| Work area | Description | Q3 | YTD |
|----------------------------|--------------------------------------|-----------------|-----------------|
| Housing | Right to Buy discounts* | £0 | £415,700 |
| | Property Recovery (notional savings) | £72,000 | £252,000 |
| | Other savings/loss prevention | £2,547 | £18,908 |
| | Prosecution costs | £1,000 | £11,353 |
| Social Services | Loss Prevention | £0 | £37,917 |
| Revenues | Council Tax Reduction | £14,000 | £18,267 |
| | Single Person Discount | £6,712 | £12,695 |
| | Council Tax Arrears | £3,793 | £10,588 |
| | Housing Benefit Overpayments | £0 | £8,244 |
| Blue Badge | Simple Caution & Financial Penalty | £700 | £800 |
| | Prosecution Costs Received | £3,500 | £3,500 |
| Immigration Officer | Housing First Time Buyer scheme | £0 | £35,646 |
| | Housing Homelessness Applications** | £47,978 | £47,978 |
| | Asylum Seeking Children Expense*** | £30,604 | £40,537 |
| | Social Services Section 17 Expense** | £0 | £38,271 |
| | IEO Sub Total | £78,582 | £162,432 |
| Totals | Loss Prevention | £78,582 | £616,049 |
| | Notional Savings | £72,000 | £260,244 |
| | Cashable Savings | £27,052 | £60,458 |
| | Costs awarded and penalties | £5,200 | £15,653 |
| | Total | £182,834 | £952,404 |

* First time buyers - Average grant given per person based on 2016/17.

** Average weekly cost against average length of support. This figure fluctuates but has been provided by the Council's business performance team.

*** Cost of accommodation and subsistence per week for one year. This figure is a prudent estimate as the Council can and does often support asylum seeking children until they are 25 years old.

AUDIT COMMITTEE FORWARD PROGRAMME 2018/19 and 2019/20

| | |
|---------------------------|---------------------------------------|
| Committee name | Audit Committee |
| Officer reporting | Anisha Teji, Chief Executive's Office |
| Papers with report | None |
| Ward | 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

The meeting on 6 February 2019 will start at 5.40pm.

There will be a short training session for Members at 5.00pm and a pre meeting with officers and the Committee at 5.30pm.

| 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 |
| 22 July 2019 | CR 4 |
| 17 October 2019 | CR 5 |
| 3 February 2020 | CR 4 |
| 23 April 2020 | CR 5 |

| Meeting Date | Item | Lead Officer |
|----------------------|---|--|
| 25 April 2019 | Private meeting with the Head of Business Assurance to take place before the meeting | |
| | Audit Committee Annual Report | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Annual Review of the Effectiveness of Internal Audit 2018/19 | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Internal Audit Charter 2018/2019 | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Annual Governance Statement 2018/19 – Interim Report | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Draft Internal Audit Plan 2019/20 | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Internal Audit Progress Report 2018/19 Quarter 4 (including the 2019/20 Quarter 1 IA Plan) | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Counter Fraud Progress Report Quarter 4 2018/19 | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Q3 Corporate Risk Register - Part II | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Audit Committee Forward Programme | Democratic Services |

| Meeting Date | Item | Lead Officer |
|------------------------------------|--|--|
| 22 July 2019 (date TBC) | *Private meeting with the Corporate Director of Finance to take place before the meeting | |
| | Approval of the 2017/18 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2018 | Corporate Director of Finance /Ernst & Young |
| | External Audit Report on the Pension Fund Annual Report and Accounts 2017/18 | Ernst & Young |
| | Internal Audit 2019/20 Quarter 1 Progress Report & Quarter 2 Internal Audit Plan | Acting Deputy Director of Exchequer & Business Assurance Services |
| | External Quality Assessment of Internal Audit 2019/20 | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Counter Fraud Progress Report Quarter 1 2019/20 | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Q4 Corporate Risk Register - Part II | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Audit Committee Forward Programme | Democratic Services |

| Meeting Date | Item | Lead Officer |
|---------------------------------------|--|--|
| 17 October 2019 (date TBC) | *Private meeting with External Audit (Ernst & Young) to take place before the meeting | |
| | Internal Audit Progress Report 2019/20 Quarter 2 & Internal Audit Plan Quarter 3 | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Risk Management Annual Report – Part II | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Counter Fraud Progress Report Quarter 2 2019/20 | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Q1 Corporate Risk Register – Part II | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Audit Committee Forward Programme | Democratic Services |

| Meeting Date | Item | Lead Officer |
|---------------------------------------|---|--|
| 3 February 2020 (date TBC) | Private meeting with the Head of Business Assurance to take place before the meeting | |
| | Audit Committee Annual Report | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Annual Review of the Effectiveness of Internal Audit 2019/20 | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Counter Fraud Progress Report Quarter 3 2019/20 | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Q1 Corporate Risk Register – Part II | Acting Deputy Director of Exchequer & Business Assurance Services |
| | Audit Committee Forward Programme | Democratic Services |

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