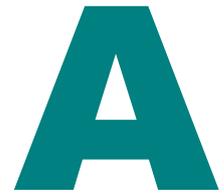




HILLINGDON
LONDON



Virtual Audit Committee

Date: TUESDAY, 20 APRIL 2021

Time: 5.10 PM

Venue: VIRTUAL - LIVE ON THE
COUNCIL'S YOUTUBE
CHANNEL: HILLINGDON
LONDON

**Meeting
Details:** Members of the Public and
Media are able to watch a live
broadcast on the Council's
YouTube channel

This Agenda is available online at:
www.hillingdon.gov.uk or use a smart phone
camera and scan the code below:



Members of the Committee

John Chesshire (Chairman)
Councillor Tony Eginton (Opposition
Lead)
Councillor Duncan Flynn
Councillor Raymond Graham
Councillor Richard Mills

Published: Monday, 12 April 2021

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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

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 4 February 2021 1 - 6
- 5 EY 2020/21 ANNUAL AUDIT PLAN & PENSION FUND AUDIT PLAN 7 - 84
- 6 EY update on the 2019/20 Housing Benefit Assurance Process 85 - 96
- 7 Internal Audit Progress Report Quarter 4 2020/21 (including the Quarter 1 2021/22 Internal Audit Plan) 97 - 124
- 8 Draft Internal Audit Plan 2021/22 125 - 144
- 9 2020/21 Quarter 4 Counter Fraud Progress Report 145 - 158
- 10 Draft Counter Fraud Strategic Plan 2021/22 159 - 174
- 11 Audit Committee Member Skills Matrix 175 - 182
- 12 Audit Committee Forward Programme 2021/22 183 - 186

PART II

That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as amended), in that they contain exempt information and that the public interest in withholding the information outweighs the public interest in disclosing it.

- 13 2020/21 Quarter 3 Corporate Risk Register 187 - 206

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Minutes

Audit Committee

Thursday, 4 February 2021

Meeting held at VIRTUAL - Live on the Council's

YouTube channel: Hillingdon London



Members Present:

John Chesshire (Chairman)
Tony Eginton (Opposition Lead)
Duncan Flynn
Raymond Graham
John Morgan (In place of Richard Mills)

Officers Present:

Sarah Hydrie, Head of Internal Audit & Risk Assurance
James Lake, Chief Accountant
Muir Laurie, Deputy Director of Exchequer Services & Business Assurance
Zac O'Neil, Head of Counter Fraud
Stephanie Rao, Internal Audit Manager
Paul Whaymand, Corporate Director of Finance
Neil Fraser, Democratic Services Officer

Also Present

Suresh Patel, Ernst & Young
Adrian Balmer, Ernst & Young
Larisa Midoni, Ernst & Young
Tomisin Aliu, Ernst & Young

101. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Richard Mills, with Councillor John Morgan present as substitute.

102. ELECTION OF VICE CHAIRMAN

RESOLVED: That Councillor Duncan Flynn be elected as Vice-Chairman of the Audit Committee.

103. DECLARATIONS OF INTEREST

Councillor Tony Eginton declared a non-pecuniary interest in agenda items 6 & 7 arising from the fact that he was a retired member of the Local Government Pension Scheme. He remained for the discussion of all items.

104. 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

It was confirmed that agenda items 1-9 were marked as Part I and would be considered in public, while agenda item 10 was marked Part II and would therefore be considered in private.

105. MINUTES OF THE MEETING HELD ON 24 NOVEMBER 2020

RESOLVED: That the minutes of the meeting held on 24 November 2021 be approved as a correct record.

106. EXTERNAL AUDIT ANNUAL AUDIT LETTER 19/20

James Lake, Chief Accountant, introduced the External Audit Annual Letter, which set out the findings of the external auditors Ernst and Young (EY) from their work over the previous year. Hillingdon was one of only seven London boroughs (of the thirty-three total) who had completed their accounts and audit sign-off by the deadline. EY had issued an unqualified opinion at the previous meeting and confirmed that proper arrangements were in place to secure value for money. In addition, there was reporting consistency within the accounts, and there were no matters which required reporting in terms of public interest or to the Secretary of State. HM Treasury had now fixed the reporting issue within their Whole Government Accounts which meant EY should now be able to finish this part of the audit; the Teacher's Pension certification had been completed on time, the Housing Benefit Assurance Process had been completed and submitted by the deadline, and the Pooling of the Housing Capital Receipts audit had been started.

EY addressed the Committee, highlighting that as a result of the low number of exceptions and the non-material misstatements that had been identified, the unqualified opinions on both the main audit and the pension fund, and the resolution to the Treasury's Whole Government Accounts reporting issue, EY was hopeful that they would conclude on Hillingdon's accounts review by the end of the current week, with the conclusion certificate to follow. Moving forward, work had already begun between EY and Council officers regarding audit work for the year ahead, including planning to overcome challenges regarding COVID-19 and planning deadlines. Regarding fees, agreement had been reached for the payment of the additional audit work carried out by EY. This did not include the proposed PSAA scale fee increase, however where there was an overlap these would be taken into consideration to ensure no double counting.

In response to questions from Members, it was confirmed that the risk relating to the valuation of land and buildings, and the difference in valuation of up to £4.1m, was not considered material in terms of the £12m materiality threshold nor the overall asset valuation of over £1b. 5% of that £12m threshold was the reporting threshold, which would then be reported as part of the 2021/22 balance sheet. Leases were in the process of being identified, as the 2020/21 report would need to reference these in advance of 2021/22.

Members suggested that the Committee should have some involvement in the agreement of the fees to be paid to the auditors, as the Committee's Terms of

Reference included a requirement to ensure value for money. Officers advised that the fees were communicated to the Committee in advance, to enable comments, but agreement was through the PSAA (who consulted on any fee increases) and in line with the rules on what was appropriate for an authority to pay. Regarding potentially amending the Committee's Terms of Reference to make this clearer, it was agreed that the Chairman would discuss this with Cllr Eginton following the meeting.

RESOLVED: That the Annual Audit Letter, and the Certifications audit update, be noted.

107. INTERNAL AUDIT PROGRESS REPORT QUARTER 3 2020/21 (INCL. THE QUARTER 4 INTERNAL AUDIT PLAN)

Sarah Hydrie – Head of Internal Audit and Risk Assurance, introduced the report detailing the Internal Audit Progress Report for 2020/21 Quarter 3, which included the Quarter 4 Internal Audit Plan.

The Committee was advised that, since the last internal audit progress report, activity had started to gain momentum. Four assurance reviews, including one follow-up, had been concluded and a further four assurance reviews were at draft report stage. Ten assurance reviews were in progress, with two grant claims certified. The tree inspections report assurance review that had been carried out had received no assurance, but positive management had been proposed to address this.

Performance indicators showed that targets had not been reached for KPIs 5 and 6, mainly as a result of the lack of work carried out in Quarter 1 due to the COVID-19 pandemic. It was accepted that these KPIs could be missed again due to ongoing difficulties resulting from the pandemic, but officers were pleased at the progress made by the team in what were very challenging circumstances. It was highlighted that if the Q4 plan was approved, and if there were no deferred or cancelled audits, the team was on track to complete everything by the end of May 2021. This would mean that the team had carried out more audits this year than the previous year, or the year before that; nearly 30 pieces of work.

Regarding the Quarter 4 internal audit plan, this was confirmed to have been designed in conjunction with senior managers and corporate directors, to focus on the highest areas of risk, which included housing and social care.

Recruitment and restructuring had gone well, with appointments made to all posts. One new starter had begun work, while two more were due to begin in the coming weeks.

In response to Member questions, officers confirmed that the Council's website had been in the process of being updated, in an effort to address difficulties navigating the site or sourcing information, when ICT had been required to transition to supporting remote working in light of the pandemic. It was agreed that officers would liaise with ICT to see if the work on the website could be restarted.

With regards to the tree inspection review, recommendations raised were around strategy and risk/resource management together with staffing and management of

inspection reports. The recommendations had been received positively, and work was underway to address them.

Regarding Queen's Walk, there remained an opportunity to use resources to help residents and service users more, and so audit officers were involved with analysing strategy to look at value for money for the service users, at how the cohort was changing, and at how the Council could best meet user needs.

With respect to the building control audit, legislative changes were influencing the audit, hence why it had been listed as a high-risk area and one that the service had requested internal audit to assist with. Cladding and changes to legislation would form part of the team's scope for the audit, and the Council's proactivity in addressing cladding on its buildings meant that officers would be able to provide assurance over the cladding areas. Members requested that details of building control at Packet Boat Lane be brought to a future Committee meeting.

The Ofsted readiness review was confirmed to be in respect of children's social care provision rather than the education provision, and therefore wouldn't focus on children entering/exiting schools during the pandemic.

In relation to questions regarding New Years Green Lane, an update would be brought to a future Committee meeting.

It was confirmed that the Audit Committee would be reviewed annually, and it was hoped that officers could engage with several Members of the Committee throughout the process.

RESOLVED:

- 1. That the IA Progress Report for 2020/21 Quarter 3 be noted; and**
- 2. That the Quarter 4 IA Plan be approved.**

108. COUNTER FRAUD PROGRESS REPORT - QUARTER 3 2020/21

Zac O'Neil, Head of Counter Fraud, introduced the 2020/21 Quarter 3 Counter Fraud Progress Report. Officers highlighted that the team had achieved savings similar to that seen prior to the COVID-19 pandemic, at £413k for the quarter, and £741k overall to date. The team had achieved the recovery of five housing properties this quarter, bringing the total properties recovered to eleven for the year. Regarding recovery due to housing fraud, performance was improving, and the team had been working on a 'beds and sheds' project which had resulted in twenty identified for the year, and twelve for the quarter.

The restructuring of the team had been completed and was fully embedded, with the three distinct teams providing specialist areas of counter fraud coverage for the Council. Significant improvements in the area of social care finance had been made, with £130k of savings in that area. In the run-up to Christmas, a blue badge operation had been carried out, with twenty badges seized and cases still being processed. In terms of sanctions, these would likely be financial penalties. Support was still being given to the COVID-19 grant scheme to businesses, which was taking some resource from the team and which had been reflected in the performance KPIs.

The team was still facing significant difficulties in terms of property recovery and being effective in counter fraud work, due to the court processes, but the team was looking to address this by taking different measures and getting properties back through negotiation with residents.

KPI performance showed five green KPIs, and while there was the aforementioned dip in performance relating to verifications, there had been good performance overall.

The Q4 report to the Committee would detail the Council strategy and operational work plan for 2021/22, including an updated fraud risk profile for the organization. The team remained confident that the £1m savings target would be reached.

In response to questions from Members, officers advised that details of blue badge offenders (and other fraud offenders) were shared with partners where appropriate, though further work was being undertaken to strengthen relationships and information sharing between partner agencies. Further information could be brought to a future Committee meeting.

Regarding advertising the Council's successes regarding addressing beds and sheds, this was highlighted through the Council's social media channels. Talks were ongoing with the Communications team on how best to further develop this, including potentially issuing press releases.

In relation to the lack of referrals from the Council's immigration officer, it was accepted that this was likely a result of the pandemic, though officers were actively working on addressing this.

RESOLVED: That the Counter Fraud Progress Report for 2020/21 Quarter 3 be noted.

109. AUDIT COMMITTEE FORWARD PROGRAMME 2017/18

Consideration was given to the Forward Work Programme for the Committee.

It was agreed that a report detailing the annual work of the Committee be added to the Programme for approval at a future meeting, ahead of its submission to Council.

It was agreed that officers would review the Committee Member's skills matrix and provide training where necessary.

RESOLVED:

- 1. That a report detailing the annual work of the Committee be added to the Programme for approval at a future meeting; and**
- 2. That officers review the Committee Member's skills matrix and provide training where necessary.**

110. 2019/20 Q2 CORPORATE RISK REGISTER

This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).

The Corporate Risk Register for Quarter 2 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.

RESOLVED: That the Committee reviewed the Corporate Risk Register for Quarter 2 as part of the Committee's role to independently assure the Council's corporate risk management arrangements.

EY 2020/21 ANNUAL AUDIT PLAN & PENSION FUND AUDIT PLAN

Committee name	Audit Committee
Officer reporting	James Lake, Finance
Papers with report	EY Hillingdon Audit Plan 2020/21 EY Pension Fund Audit Plan 2020/21
Ward	All

HEADLINES

The attached documents set out the initial plans for the 2020/21 audit by the Council's external auditors EY. The plans set out the approach to the audit of the Council's Accounts and the Pension Fund Accounts, including a broad timetable which should enable the whole process to be completed by the end of September 2021. 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 Audit Committee note the contents of this report.

SUPPORTING INFORMATION

Council Financial Statements Audit Plan

Materiality: The materiality level for 2020/21 is £14.80m based on 1.8% of forecast gross expenditure (2019/20, 1.8%, £12.97m). EY plan to report on all uncorrected audit misstatements greater than £0.70m (2019/20 £0.65m).

Key Financial Statement Risks: The plan highlights the key audit risks, these being the main areas on which specific audit work will focus. Three new risks have been added for 2020/21 and are indicated below. One risk has been removed regarding the 'Dedicated Schools Grant Disclosure' The key risks for 2020/21 are as follows:

- Risk of management override
- Risk of inappropriate capitalisation of revenue expenditure
- Accounting adjustments made in the Movement of Reserves (*New*)
- New central government grants and other COVID funding (*New*)
- Valuation of Schools

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)
- Disclosures on Going Concern

- Non-domestic rate appeals provision (*New*)
- Valuations land and buildings (PPE)
- Pension Liabilities and the IAS19 valuations

In addition, the auditors' have a statutory duty to provide a value for money conclusion, however the requirement for 20/21 has changed. It now must consider a broader set of criteria including financial stability and governance, as well improving economy, efficiency, and effectiveness in how it uses information about its costs and performance to improve the management of service delivery. Furthermore, instead of an inclusion in the audit opinion there is now a requirement to produce a separate Auditors Annual Report on VFM. The timeline for this will be updated by EY at the Committee meeting.

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 fee for the 2020/21 audit for the main accounts is £121,096. There are additional costs for specialist work estimated at between £12,000 and £26,000 plus proposed scale fee increase of £82,728. (Final fee for 2019/20 = £152.313 + proposed increase £82,728)

Proposed scale fee increases are still in consultation and yet to be agreed.

Pension Fund Audit Plan

Materiality: Materiality remains unchanged on a basis of 1.0% of the prior year's net assets of the fund, which for 2020/21 is estimated as £9.9m (2019/20 £9.9m). Based on this amount, EY would expect to report on all unadjusted misstatements greater than £0.5m (2019/20 £0.5m).

Key Financial Statement Risks: The plan highlights the key audit risks, these being the main areas on which specific audit work will focus. There is one new risk for 20/21 shown below. For 2020/21 the audit risk areas include:

- Misstatement due to fraud or error
- Misstatement of investment amounts through fraudulent journal entries
- Risk of incorrect valuation of Unquoted Investments
- Disclosure on Going Concern
- IAS26 Disclosure Actuarial Present Value of Promised Retirement Benefits. (*New*)

There are no specific listed areas of audit focus classified as not having significant risk.

Fees

EY remain in consultation with the PSAA regarding the proposed increase in scale fees. The basic scale fee for the 2020/21 audit is £16,170, with additional fees estimated at between £9,000 and £12,500 to cover areas of risk and specialists. The proposed increase in scale fees yet to be

agreed is a further £28,290 (Fees for 2019/20 £33,306 excluding proposed increase of £28,290).

Timetable

The timetable for both audits accommodates the deadline for completed draft accounts by 30 June 2021 and the audit opinion by 30 September 2021.

Financial Implications

Included within the body of this report.

Legal Implications

None.

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London Borough of Hillingdon Outline Audit Planning Report

Year ended 31 March 2021
31 March 2021



Audit Committee
London Borough of Hillingdon
Uxbridge
UB8 1UW

31 March 2021

Dear Audit Committee Members

Outline audit planning report

We are pleased to attach our Outline Audit Planning Report, 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 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 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. We are currently completing our detailed planning procedures and will update the Committee if we identify any further risks or change our audit strategy.

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 20 April 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

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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Overview of our 2020/21 audit strategy



Overview of our 2020/21 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	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	No change in risk	For 2020/21, we have identified that there is a risk of inappropriate capitalisation of revenue spending.
Accounting adjustments made in the 'Movement in Reserves Statement'	Fraud Risk	New fraud risk	Linking to our risk due to fraud and error above we have considered the accounting adjustments made in the Movement in Reserves Statement as a separate specific risk, given the financial pressure the Council is under to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets. This risk has been exacerbated by Covid-19, thus it is recognised as a separate fraud risk in our 2020/21 audit plan.
New central government grants and other Covid-19 funding streams	Significant risk	New significant risk	The Authority received a series of grants from the UK government during 202/21 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an area of focus due to factors discussed in Section 02.
Valuations of schools' land and buildings	Significant risk	No change in risk	As at 31 March 2020 the Council's schools were valued at £589m. Based on the work of our valuation specialists, we concluded in the 2019/20 audit that the value of secondary schools was understated by £4.2m in the financial statements of the Council. This audit difference was triggered by a disagreement in the valuation approach between EY's specialists and management's external specialists, which determined our assessment of the misstatement risk on schools' valuation as significant.

Overview of our 2020/21 audit strategy

Audit risks and areas of focus (continued)			
Risks	Risk identified	Change from PY	Details
Pension liabilities and the 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 Hillingdon Local Government Pension Scheme.
Consideration of Group Boundary	Inherent risk	No change in focus	During 2018/19, Hillingdon created a housing company, Hillingdon First Limited. Depending on the qualitative and quantitative size of the company, the finance team will need to consider the need to prepare Group Accounts. No such requirement arose in the 2018/19 and 2019/20 accounts. We will re-assess the interpretation of the preparation of Group Accounts as part of the 2020/21 audit.
Disclosures on Going Concern	Inherent risk	No change in focus	The unpredictability of the current environment gives rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by a management assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance for the going concern period of 12 months after the auditor's report date.
Valuations of Property, Plant and Equipment (PPE)	Inherent risk	No change in focus	The carrying amount of PPE represents a significant balance in the Council's accounts and is subject to impairment reviews, depreciation charges and valuation changes. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. In addition, Covid-19 has brought general uncertainties with regards to valuations in 2020 and we will continue assessing the level of risk as more information becomes available to us during our planning procedures.
Non-domestic rates appeals provision	Inherent risk	New area of focus	There is a higher level of uncertainty involved in the estimation of the non-domestic rates appeals provision due to Covid-19. Businesses have faced a significant level of change and uncertainty during 2020/21, which might drive a change in their rateable value appeals behaviour. We consider this to be a new area of focus for our audit due to the new uncertainties.

Overview of our 2020/21 audit strategy

Materiality

Planning materiality

£14.8m

Consistent with our prior year's approach, we calculated our planning materiality as 1.8% of the forecast gross expenditure (based on the PY outturn) of the Council. As a result, our planning materiality for the audit planning purposes is consistent with the prior year's final materiality.

Performance materiality

£11.1m

Performance materiality represents 75% of planning materiality, consistent year on year.

Audit differences

£0.7m

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 £0.7m. We will communicate other misstatements identified to the extent that they merit the attention of the Audit Committee.

Auditing accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required.

Overview of our 2021 audit strategy

Audit scope

This Audit Planning Report 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 2021 and of the income and expenditure for the year then ended; and
- Our commentary against specified reporting criteria (see Section 03) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

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.

Value for money conclusion

One of the main changes in the NAO's 2020 Code is in relation to the value for money conclusion. We include details in Section 03 but in summary:

- ▶ We are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- ▶ Planning on VFM and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- ▶ We will be required to provide a commentary on the Council's arrangements against three reporting criteria:
 - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
 - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
 - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- ▶ Within the audit opinion we will still only report by exception where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- ▶ The commentary on arrangements will be included in a new Auditor's Annual Report which we will be required to issue at a date to be determined by the NAO.

Overview of our 2021 audit strategy

Timeline

MHCLG have recently announced that the target date for the Council to publish its draft accounts is 1 August 2021 and the target date for publishing audited accounts is 30 September 2021. Whilst we have expressed to MHCLG that this timetable is unrealistic in Section 07 we have included a provisional timeline for the audit which enables the Council to meet its target date for publishing the audited accounts.

Fees

We remain in discussion with PSAA about our proposed increase to the scale fee which we consider to be appropriate to deliver an audit to the expected audit quality requirements. We include in Section 08, our current view of the fees required to carry out the 2020/21 audit. We will update the Committee on any determinations by PSAA on fees.



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02

Audit risks



Our response to significant risks

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

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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.
- ▶ Inquire of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consider the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determine an appropriate strategy to address those identified risks of fraud.
- ▶ 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

(*Fraud Risk*)

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.

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What is the risk?

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services.

The Council's Constitution requires the Corporate Director of Finance to prepare a Capital Strategy which;

- a. Sets out the principles the Council will follow in its capital planning.
- b. Outlines the methodology for inclusion of schemes within the Capital Programme.
- c. Sets out the arrangement for management of capital schemes.
- d. Identifies the capital schemes to be undertaken over the following four financial years and how those schemes will be funded.

Achievement of budget is critical to minimizing the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the council and management, and therefore this desire to achieve the budget increases the risk that the financial statements may be materially misstated.

Whilst there is no more than normal pressure on the Council to meet the outturn position, due to the historically large size of the capital programme, there is a risk of inappropriate capitalization of revenue expenditure.

What will we do?

We will:

- ▶ Review of the capital programme to assess what schemes are included and identify anything unusual or unexpected;
- ▶ Review capital expenditure incurred by the Council to ensure that it has been correctly classified as capital rather than revenue; and
- ▶ We will specifically test PPE additions with a specific focus on incorrect capitalisation of revenue expenditure.

Our response to significant risks (continued)

Misstatements due to fraud or error - accounting adjustments made in the 'Movement in Reserves Statement'

(Fraud Risk)

Financial statement impact

We have identified a specific risk of misstatement due to fraud or error that applies to accounting adjustments made in the Movement in Reserves Statement and it could result in a misstatement of 'Cost of Services' reported in the Comprehensive Income and Expenditure Statement.

This risk has been exacerbated by Covid-19, thus it is recognised as a separate fraud risk in our 2020/21 audit plan.

What is the risk?

The Council is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to accounting adjustments made in the movement in reserves statement.

The adjustments between accounting basis and funding basis under Regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management could misstate accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning:

- Revenue Expenditure Funded from Capital Under Statute (REFCUS);
- Capital grants;
- Depreciation, impairments and revaluation losses;
- Capital expenditure funded by revenue; and
- Minimum Revenue Provision.

What will we do?

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

- ▶ Sample testing REFCUS to ensure the expenditure meets the definition of allowable expenditure, or is incurred under direction from the secretary of state;
- ▶ Reconciling entries for consistency to other audited accounts within the financial statements, for example our work on property, plant and equipment to support adjustments made for depreciation, impairments, revaluation losses, and application of capital grants;
- ▶ Reviewing the Council's policy and application of the 'Minimum Revenue Provision'; and
- ▶ Using our data analytics tool to identify and test journal entry adjustments made in the movement in reserves statement.

Our response to significant risks

New central government grants and other Covid-19 funding streams

Financial statement impact

We have identified a risk of Government grant income misstatement that could affect the Income and Expenditure accounts.

Page 24

We consider the risk applies to the classification of Government grant income and could result in a misstatement of 'Cost of Services' reported in the 'Comprehensive Income and Expenditure' statement and Balance Sheet.

What is the risk?

Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.

The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

In addition, the Government announced further financial support to Councils in July 2020 to partially reimburse Councils for lost income (eligible lost sales, fees and charges income) resulting from Covid-19.

Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment within the 2020/21 statements.

What will we do?

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

- ▶ Sample testing Government Grant income to ensure that they have been correctly classified as specific or non-specific in nature;
- ▶ Reviewing the Council's decision for new grant or funding arrangements whether it is acting as principal or agent;
- ▶ Sample testing Government Grant income to ensure that they have been correctly classified in the financial statements based on any restrictions imposed by the funding body;
- ▶ Checking the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements;
- ▶ Review a sample of claims made under the local government income compensation scheme for their overall accuracy and compliance with the requirements of the scheme; and
- ▶ Seek to understand the assurance MHCLG have over claims under the scheme. If no assurance, we will consider extending our own procedures.

We will encourage the finance team to provide its assessment of grant accounting before it prepares the statements so that we can provide an early view on its proposed accounting treatment.

Our response to significant risks (continued)

Risk of error in the valuation of schools' land and buildings

Financial statement impact

Misstatements that occur in relation to valuation could affect the year end carrying value of schools' land and buildings (31 March 2020: £589m).

What is the risk?

The value of schools' land and buildings represents a significant balance in the Authority's accounts and it is subject to revaluation changes and impairment reviews.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Schools' land and buildings balances are subject to regular review by the external valuers - Wilkes Head and Eve (WHE).

We concluded during our 2019/20 audit that the value of secondary schools was overstated by approximately £4m in the financial statements as of 31 March 2020, which remained uncorrected by management. This audit difference was triggered by a difference in the valuation approach between EY's specialists and management's external specialists, which triggered the identification of a significant risk around valuation.

What will we do?

- ▶ Understand the Council's approach to schools assets and the valuation methodology to be adopted in 2020/21.
- ▶ Determine the impact of any upwards/downwards valuations and based on our materiality levels consider the impact on the 2020/21 financial statements;
- ▶ We will consider using our internal valuation specialists to challenge management's assumptions and assertions.
- ▶ 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. 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 2020/21 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 that accounting entries have been correctly processed in the financial statements.

Audit risks

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.

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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 2020 this totalled £518 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuaries to the relevant Pension Funds. Accounting for this scheme involves significant estimation and judgement and therefore management engages a actuaries 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 main Pension Fund's actuary (i.e. Hymans Robertson acting as actuary for London Borough of Hillingdon Pension Fund), including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- ▶ Consider any updated information in respect of the impact of national issues, when relevant;
- ▶ 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?

Consideration of Group Boundary

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

Going concern disclosure

There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure its going concern assessment is thorough and appropriately comprehensive.

The Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

What will we do?

We will re-assess the Council's assessment of the need to prepare Group Accounts as a result of transactions occurring within the subsidiary within the financial year.

We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- Challenging management's identification of events or conditions impacting going concern.
- Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.

We will discuss the detailed implications of the revised auditing standard with finance staff shortly and seek to agree with management to receive an early draft of the Council's going concern assessment in advance of the 2020/21 year-end audit in order to provide management with feedback on the adequacy and sufficiency of the proposed disclosures in relation to going concern.



Audit risks

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?

Valuation of Land and Buildings

The carrying amount of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to impairment reviews, depreciation charges and revaluation changes. 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?

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- ▶ Consider 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 2020/21 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 whether accounting entries were correctly processed in the financial statements.

Non-domestic rates appeals provision

There is a higher level of uncertainty involved in the estimation of the non-domestic rates appeals provision due to Covid-19. Businesses have faced a significant level of change and uncertainty during 2020/21, which might drive a change in their rateable value appeals behaviour.

- ▶ Review the Council's methodology for calculating the provision and the considerations for the uncertain environment as at the reporting date;
- ▶ Assess the soundness of the assumptions used in the calculation of the provision in light of Covid-19 uncertainties.

Other areas of audit focus (Continued)

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.



03

Value for Money Risks





Value for Money

The Authority's responsibilities for value for money (VFM)

The Authority is required to maintain an effective system of internal controls that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor's responsibilities under the new Code

Under the 2020 Code of Audit Practice we are still required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead, the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- ▶ Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- ▶ Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- ▶ Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.



Value for Money

Planning and identifying VFM risks (continued)

In considering the Authority's arrangements, we are required to consider:

- ▶ The Authority's governance statement
- ▶ Evidence that the Authority's arrangements were in place during the reporting period;
- ▶ Evidence obtained from our work on the accounts;
- ▶ The work of inspectorates and other bodies and
- ▶ Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement.

Page 32 However, the NAO states that a weakness may be said to be significant if it:

- ▶ Exposes - or could reasonably be expected to expose - the Authority to significant financial loss or risk;
- ▶ Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Authority's reputation;
- ▶ Leads to - or could reasonably be expected to lead to - unlawful actions; or
- ▶ Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- ▶ The magnitude of the issue in relation to the size of the Authority;
- ▶ Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- ▶ The impact of the weakness on the Authority's reported performance;
- ▶ Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- ▶ Whether any legal judgements have been made including judicial review;
- ▶ Whether there has been any intervention by a regulator or Secretary of State;
- ▶ Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- ▶ The impact on delivery of services to local taxpayers; and
- ▶ The length of time the Authority has had to respond to the issue.



Value for Money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the audit committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements. However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to fully finalise our detailed VFM planning. However, one area of focus will be on the arrangements that the Authority has in place in relation to financial sustainability in light of the impact of Covid-19. Similar to other local government bodies, the Authority continues to have a challenging financial outlook. To balance the budget over the medium term i.e. the next three years it was planning to deliver cumulative agreed savings of £43 million. Approximately £11 million of savings have already been identified, £3 million will be released from the general balance, and after an assumed £16 million additional income from council tax uplifts, it leaves a residual savings target of approximately £13 million to be bridged across 2022/23 and 2023/24.

In addition, the Authority, in common with many other London councils, continues to overspend against its Dedicated Schools Grant (DSG) budget, which was also the case in 2018/19 and 2019/20.

Our VFM planning is still in progress and we will continue to update the Audit Committee on the outcome of our VFM planning, however, we note that we are aware of the DSG overspend, which will be considered in our VFM procedures.



04

Audit materiality



Audit materiality

Materiality

For planning purposes, we have set materiality for 2020/21 at £14.8m. This represents 1.8% of the Council's prior year gross expenditure on provision of services, consistent year on year. When setting the materiality threshold, we took into account 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.



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 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 the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period, 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 to secure value for money through economic, efficient and effective use of resources

We are required to consider whether the Council has put in place arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantively testing transactions and amounts.

For 2020/21 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 Deputy Director of Exchequer Services & Business Assurance, 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.



06

Audit team



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 Real Estates; 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

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.

Audit team changes

Key change to our team.



Larisa Midoni is the new engagement manager starting with the audit of 2020/21 accounts of the Authority. She is familiar to the Council having managed the Pension Fund audit for 2019/20. Larisa is an experienced audit manager with over nine years of external audit experience at EY across a number of sectors and countries.



07

Audit timeline





Audit timeline

Indicative timetable of communication and deliverables

Timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

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.	March - April 2021	Audit Committee	Audit Planning Report
Walkthrough of key systems and processes	March - April 2021		
Interim audit testing	March - April 2021		
Year end audit	July - August		
Audit Completion procedures	September	Audit Committee	Audit Results Report Audit Opinions
	September - November (TBC)	Audit Committee	Auditor's Annual Report and Completion Certificates



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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 December 2019, 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>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between 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 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;</p> <p>▶ Details of non-audit/additional services provided and the fees charged in relation thereto;</p> <p>▶ 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;</p> <p>▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</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 all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

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 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 those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. Currently, the ratio is below 1:1.

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 self interest threats identified 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.

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 2020

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 2020 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020>



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 2020/21 reflects the year 3 of the new 5 year contract awarded by PSAA.

	Planned fee 2020/21	Final Fee 2019/20
	£	£
Scale Fee [Note 1]	121,096	121,096
Additional fees: [Note 2]		
Property valuations	5,000-10,000	8,005
Pension changes	-	5,825
- VFMC significant risk	3,000-8,000	5,075
- Going concern assessment and disclosure	2,500-5,000	4,754
- EY consultation on auditor's report involving EY professional practice directorate	1,500-3,000	2,968
- Business rates appeal, Covid-19 grants and the revised auditing standard for accounting estimates	TBC	-
Covid-19 related inefficiencies	TBC	4,590
Total current scale and additional fees	TBC	152,313
Proposed increase to the scale fee (Note 1)	82,728	82,728
Non-audit services (Housing Benefits)	TBC	28,290
Non-audit services (Housing Capital Receipts)	TBC	8,000*
Non-audit services (Teacher's Pensions)	TBC	12,500
Total other non-audit services	TBC*	39,600

All fees exclude VAT

* - 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.

Notes:

1. We are currently in discussion with PSAA nationally about an increase to the scale fee. For Hillingdon we proposed an increase of £82,728. This is yet to be determined by PSAA.
2. 2019/20 additional fees agreed with management. This remains subject to approval by PSAA. Ranges for 2020/21 additional fees based on prior year experience where appropriate.

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?	 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
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
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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
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

Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  Where
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
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
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 	Audit Planning Report Audit Results Report
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

Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 Where	
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	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
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	
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 Audit results report	

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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Hillingdon Pension Fund Outline audit planning report

Year ended 31 March 2021

31 March 2021



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

31 March 2021

Dear Audit Committee Members

Outline audit planning report

We are pleased to attach our outline audit planning report for the forthcoming meeting of the Audit Committee. The purpose of this report is to provide the Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Audit Committee's service expectations.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for Hillingdon Pension Fund. We have aligned our audit approach and scope with these. We held a planning meeting with management and are currently completing our planning procedures. We will update the Audit Committee if we identify any further risks.

This report is intended solely for the information and use of the Audit Committee, Pensions 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 20 April 2021, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully,

Suresh Patel
Associate Partner
For and on behalf of Ernst & Young LLP
Enc

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued the "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, the Pensions 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, the Pensions 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, the Pensions Committees and management of Hillingdon Pension Fund for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.



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01

Overview of our 2020/21 audit strategy



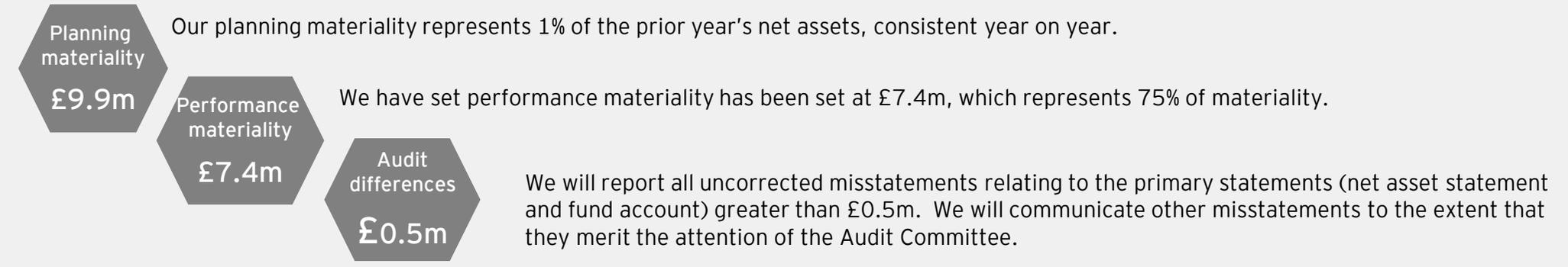
Overview of our 2020/21 audit strategy

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.

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Misstatement of investment amounts through fraudulent journal entries	Fraud risk	No change in risk or focus	There is a risk that, due to fraud or error, investment journals posted into the general ledger are incorrect.
Risk of Incorrect Valuation of Unquoted 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 unquoted investments, including Private Equity and Pooled Property funds. By their nature, these investments are more difficult to value because their valuation includes an element of judgement, which increases the risk of misstatement. This is even more uncertain in the context of Covid-19.
Disclosures on Going Concern	Inherent risk	No change in risk or focus	The unpredictability of the current environment gives rise to a risk that the Pension Fund would not appropriately disclose the key factors relating to going concern, underpinned by a management assessment with particular reference to Covid-19 and the Pension Fund's actual year end financial position and performance for the going concern period of 12 months after the auditor's report date.
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits	Inherent risk	No change in risk or focus	<p>An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the previous triennial valuation in 2019/20, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability.</p> <p>There is a risk that the valuation uses inappropriate assumptions to value the liability as at the 31 March 2021.</p>

Overview of our 2020/21 audit strategy

Materiality



Audit scope

This Outline Audit Plan covers the work that we plan to perform to provide you with 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 2021 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 in relation to the IAS 19 report for London Borough of Hillingdon. Our work specifically focuses on gaining assurance that the data submitted to the actuary agrees to the Pension Fund's systems.

Overview of our 2020/21 audit strategy

Timeline

MHCLG have recently confirmed that the target date for the Fund to publish its draft accounts is by 1 August 2021 and the Fund should publish its approved and audited accounts by 30 September where it can. Whilst we have responded to the MHCLG's consultation on these dates to express our view that they are unrealistic for the local government sector, in Section 06 we have included a provisional timeline for the audit that will enable the Fund to meet the target date for publishing its audited accounts.

Fees

We remain in discussion with PSAA about our proposed increase to the scale fee which we consider to be appropriate to deliver an audit compliant with audit quality requirements. We include in Section 08, our current view of the fees required to carry out the 2020/21 audit. We will update the Committee on any determinations by PSAA on fees.



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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.

Misstatements due to fraud or error*

What is the risk?

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.

As a result, there is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error.

What will we do?

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

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Misstatement of investment amounts through fraudulent journal entries

What is the risk?

We identified a specific risk that, due to fraud or error, investment journals posted into the general ledger are incorrect, which could result in a misstatement of year-end investment value and/or investment income.

What will we do?

- Our approach will focus on testing the appropriateness of manual journal entries recorded in the general ledger related to investments and ensuring that:
- ▶ The amounts are consistent with the fund manager/custodian report;
 - ▶ Appropriate authorisations are obtained for posting the journals; and
 - ▶ The transactions are in the normal course of business or, if they are outside of the normal course, the business rationale will be requested and assessed for reasonableness.

Our response to significant risks (continued)

Risk of Incorrect Valuation of Unquoted 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 2020: £275m (31 March 2019: £116 million).

What is the risk?

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

The fund makes judgements using information provided by investment managers to value those investments whose prices are not publically available. The material nature of these investments means that any error in judgement could result in a material valuation error.

Market volatility and uncertainties brought by Covid-19 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.

These investment types made up 28% of the fund's total net assets in 2019/20 (2018/19: 11%), and as these investments are more complex to value, we have assessed the valuation of these investments as higher risk, as even a small movement in the assumptions could have a material 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, assessing the appropriateness of the valuation methods used;
- ▶ Where available, review the latest audited accounts for the relevant investment managers and ensuring there are no matters arising that highlight weaknesses in the Fund's valuation; and
- ▶ Perform analytical procedures by checking the valuation output for reasonableness against our own expectations.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Going concern disclosure

There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on its admitted and scheduled bodies and the continuing volatility in capital markets, there is a need for the Fund to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Fund is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

What will we do?

We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Fund's going concern assessment and its disclosure in the accounts by:

- Challenging management's identification of events or conditions impacting going concern.
- Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewing the Fund's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.

We will discuss the detailed implications of the revised auditing standard with finance staff shortly and seek to agree with management to receive an early draft of the Fund's going concern assessment in advance of the 2020/21 year-end audit in order to provide management with feedback on the adequacy and sufficiency of the proposed disclosures in relation to going concern.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits

The Fund's IAS 26 calculation shows that the present value of promised retirement benefits amount to £1,569 million as at 31 March 2020.

The figure is material and subject to complex estimation techniques and judgements by the Actuary, Hymans Robertson. The estimate is based on a roll-forward of data from the previous triennial valuation in 2019/20, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability.

There is a risk that the valuation uses inappropriate assumptions to value the liability as at the 31 March 2021.

What will we do?

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

- ▶ Assessing the competence of management experts, Hymans Robertson;
- ▶ Engaging with the NAO's consulting actuary and our EY Pensions team to review whether the IAS26 approach applied by the actuary is reasonable and compliant with IAS26; and
- ▶ Ensuring that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary.



03

Audit materiality



Materiality

Materiality

For planning purposes, we have set planning materiality for 2020/21 at £9.9m. 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 C.



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 75% of planning materiality, consistent year on year.

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. This was calculated as 5% of planning materiality, which is consistent year on year.

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 2020/21 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 the Audit Committee, the Pensions Committee and management.

Internal audit:

We will meet regularly with the Deputy Director of Exchequer Services & Business Assurance, and review internal audit plans and the results of the team's work. We will reflect any findings in our audit plan, where they raise issues that could have an impact on the financial statements.



06 Indicative audit timeline





Indicative audit timeline

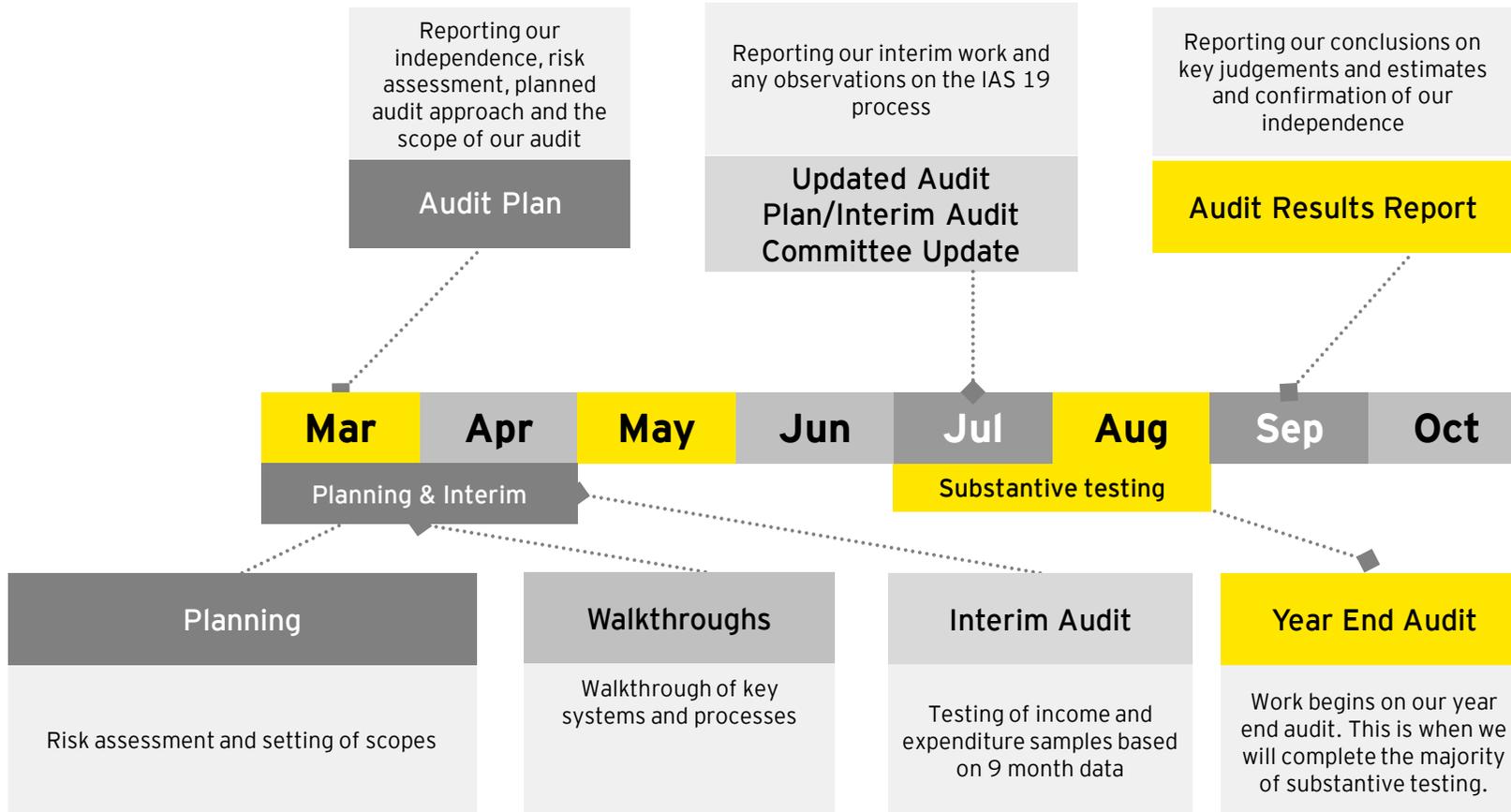
Indicative timetable of communication and deliverables

Indicative timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables to provide to you through the audit cycle in 2020/21. The timeline will be agreed with the officers at the earliest convenience.

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.

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07

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 December 2019, 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>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between 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 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;</p> <p>▶ Details of non-audit/additional services provided and the fees charged in relation thereto;</p> <p>▶ 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;</p> <p>▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</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 all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

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 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 those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

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.

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 2020

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 2020 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020>



08

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 Fund Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2020/21	Final Fee 2019/20
	£	£
Scale Fee - Code work (Note 1)	16,170	16,170
Additional work and associated fees (Note 2)		
Significant risks on investments	1,500-2,500	1,742
Restated membership numbers	-	894
Going concern, property material uncertainty and PBSE assessments and disclosures including EY consultations*	2,500-5,000	5,500
IAS19 assurances (Note 3)	5,000	5,000
Triennial membership data testing	-	4,000
Total fees	TBC	33,306

Notes:

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. In our view the scale fee for the Hillingdon PF audit should be increased by £28,290.
2. The 2019/20 additional fees have been agreed with management but are subject to PSAA approval.
3. IAS19 work is annual to provide assurance to the auditor of the LB Hillingdon. These additional fees are not subject to approval from PSAA and for 2019/20 (where there was additional work on the triennial data) we have agreed fees with management.

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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.

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. 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	Outline audit planning report - March 2021
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 ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	Audit results report - September 2021 (TBC)

Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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 - September 2021 (TBC)
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 ▶ Material misstatements corrected by management 	Audit results report - September 2021 (TBC)
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements 	Audit results report - September 2021 (TBC)
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 ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility 	Audit results report - September 2021 (TBC)

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
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 - September 2021 (TBC)
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>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees 	<p>Outline audit planning report - March 2021</p> <p>Audit results report - September 2021 (TBC)</p>

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> ▶ 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 ▶ 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 	
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 - September 2021 (TBC)
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ 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 - September 2021 (TBC)
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report - September 2021 (TBC)
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - September 2021 (TBC)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - September 2021 (TBC)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report	Audit results report - September 2021 (TBC)

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

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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

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

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EXTERNAL AUDIT GRANT CERTIFICATION 2019/20

Committee name	Audit Committee
Officer reporting	James Lake, Finance
Papers with report	EY Housing Benefit Subsidy Report
Ward	All

HEADLINES

This report provides a summary of the key findings of the Housing Benefit Assurance Process and gives an update on other grant work undertaken by EY for the year ended 31 March 2020.

RECOMMENDATIONS:

That the Audit Committee note the contents of the report.

SUPPORTING INFORMATION

EY were appointed to certify the Housing Benefit Subsidy claim through the standardised engagement terms in module 1 of the DWP's Housing Benefit Assurance Process (HBAP).

Given the nature of benefits processing, the high volume of transactions and complicated benefits subsidy system, there will always be a certain element of error - the total value of the return is over £118m. In 19/20 there was an improvement on previous years with one incorrect claim being identified resulting in an overpayment of £18.

In addition, EY were responsible for certifying two further returns relating to the Teachers' Pension Contributions and Pooling of Capital receipts. No adjustments were noted in the Teacher's Pension Return and an immaterial adjustment of £5k was noted in the Pooling of Capital Receipts. This will be adjusted through the 20/21 return.

FINANCIAL IMPLICATIONS

Fees for the grant certification work undertaken by EY are as follows:

HBAP - £28,500 (18/19 - £28,290)

Teachers' Pension - £13,000 (18/19 -£12,500)

Pooling of Capital Receipts - £7,500 (18/19 -£7,000)

LEGAL IMPLICATIONS

Legal implications are included in the body of the report.

Classification: Public

Audit Committee – 20 April 2021

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Reporting Accountants' report for the Housing Benefit Subsidy claim form MPF720A, year ended 31 March 2019-20

To: Housing Benefit Subsidy Team, Housing Delivery Division, DWP Business Finance & Housing Delivery Directorate, Room B120D, Warbreck House, Blackpool, Lancashire FY2 0UZ.

And: The Section 151 Officer of London Borough of Hillingdon, Section 151 Officer.

This report is produced in accordance with the terms of our engagement letter with the London Borough of Hillingdon dated 27 August 2020 and the Standardised Engagement Terms in Appendix 2 of HBAP Module 1 2019-20 issued by the Department for Work and Pensions (DWP) for the purpose of reporting to the Section 151 Officer of London Borough of Hillingdon (the 'local authority') and the DWP.

Our report is prepared solely for the confidential use of the London Borough of Hillingdon and the DWP and solely for the purpose of facilitating the claim for Housing Benefit subsidy on form MPF720A dated 30 April 2020.

This report should not be copied, referred to or disclosed, in whole (save as otherwise permitted by the Standardised Engagement Terms) or in part, without our prior written consent. Without assuming or accepting any responsibility or liability in respect of this report to any party other than the local authority and DWP, we acknowledge that the local authority and/or DWP may be required to disclose this report to parties demonstrating a statutory right to see it.

This report is designed to meet the agreed requirements of local authority and DWP as described in the DWP HBAP reporting framework instruction 2019-20.

This report should not therefore be regarded as suitable to be used or relied by any other party for any purpose or in any context. Any party other than the London Borough of Hillingdon and DWP which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so entirely at its own risk. To the fullest extent permitted by law, we accept no responsibility or liability in respect of our work or this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by the reliance of anyone other than the addressees on our work or this report.

Respective responsibilities of the local authority and the Reporting Accountant

We conducted our engagement in accordance with HBAP Modules 1 and 6 2019-20 issued by the DWP, which highlight the terms under which DWP has agreed to engage with Reporting Accountants.

The Section 151 Officer of the local authority has responsibilities under the Income-related Benefits (Subsidy to Authorities) Order 1998. They are also responsible for ensuring that the local authority maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the local authority. It is also the Section 151 Officer's responsibility to extract relevant financial information from the local authority's accounting records, obtain relevant information held by any officer of the local authority and complete the attached form MPF720A in accordance with the relevant framework set out by DWP.

Our approach

For the purpose of the HBAP engagement we have been provided with a signed copy of form MPF720A 2019/20 dated 30 April 2020 by the Section 151 Officer. The Section 151 Officer remains solely responsible for the completion of the MPF720A and is the signatory on the local authority's certificate on claim form MPF720A.

Our engagement was carried out in accordance with the DWP reporting framework instruction which has been prepared in accordance with the **International Standard on Related (ISRS) 4400, Engagement to perform agreed-upon-procedures regarding financial information**. The purpose of the engagement is to perform the specific test requirements determined by DWP on the defined sample basis as set out in HBAP Modules of the HBAP reporting framework instruction on the local authority's form MPF720A dated 30 April 2020, and to report the results of those procedures to the Local Authority and the DWP.

The results of these are reported on in appendices a, b, c, & d.

Inherent limitations

The procedures specified in DWP's HBAP Reporting framework instruction does not constitute an examination made in accordance with generally accepted auditing standards, the objective of which would be the expression of assurance on the contents of the Local Authority's claim for Housing Benefit subsidy on form MPF720A. Accordingly, we do not express such assurance. Had we performed additional procedures or had we performed an audit or review of the Local Authority's claim for Housing Benefit subsidy on form MPF720A in accordance with generally accepted auditing or review standards, other matters might have come to our attention that would have been reported to you. This report relates only to the Local Authority's form MPF720A and does not extend to any financial statements of the Local Authority, taken as a whole.

This engagement will not be treated as having any effect on our separate duties and responsibilities as the external auditor of the Local Authority's financial statements. Our audit work

on the financial statements of the Local Authority is carried out in accordance with our statutory obligations and is subject to separate terms and conditions. Our audit report on the Local Authority's financial statements is made solely to the Local Authority's members, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work was undertaken so that we might state to the Local Authority's members those matters we are required to state to them in an auditor's 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 Local Authority and the Local Authority's members, as a body, for our audit work, for our audit reports, or for the opinions we have formed in respect of that audit.

Summary of HBAP report

Summary of Initial Testing

Cell 011 Non HRA Rent Rebate - Initial testing of Cell 011 identified that 1 claim (value £4,678) was incorrectly mis-classified due to the incorrect LHA rate being applied. This resulted in an overstatement of £18.

It was determined that this issue was isolated to a particular assessor and a small population of claims and so we tested an extended sample of all such claims by the assessor. (See Appendix C).

Cell 055 HRA rent rebate - Initial Testing of Cell 055 did not identify any errors.

Cell 094 Rent Allowance - Initial Testing of Cell 094 identified 2 claims (value £11,406) that had incorrect calculation of earnings, this has been covered in CAKE 40+ testing on Cell 94 earnings, therefore no new additional testing required. (See Appendix A)

Testing also identified 1 claim (value £3,351) that failed due to the incorrect rent liability being recorded. The error resulted in an underpayment of benefit but could equally have also resulted in an overpayment of benefit and so we selected an additional 40 items for testing. (See Appendix B).

Completion of Modules

Completion of Module 2 -Testing of the module 2 did not identify any errors arising from the incorrect application of system parameters.

Completion of module 5 - We have completed the questionnaire for the appropriate software supplier and no issues were identified.

Summary of testing arising from Cumulative Assurance Knowledge and Experience

In line with the requirements of HBAP Modules we have undertaken Cumulative Assurance Knowledge and Experience (CAKE) testing based upon the preceding HBAP report for 2018-19. Where appropriate the Authority has completed testing of the sub populations for:

- Non-HRA Cell 11 – overpaid Benefit due to incorrect calculation of earned income. (See Appendix A)
- Rent allowances Cell 094 - overpaid Benefit due to incorrect calculation of earned income. (See Appendix A)

We have re-performed a sample of the Authority's testing and confirm the tests we have carried out concur with the Authority's results. These results are outlined in Appendix A.

Summary paragraph/ending of letter

For the form MPF720A dated 30 April 2020 for the year ended 31 March 2020 we have completed the specific test requirements detailed in the DWP reporting framework instruction HBAP and have identified the following results set out in Appendices A, B, C and D)

Firm of accountants...EY LLP.....

Office...Reading.....

Contact details (person, phone and email) ...Suresh Patel, 020 7951 2340, SPatel22@uk.ey.com

Signature / stamp.....

*Suresh Patel for & on behalf of
EY LLP*

Date...29/01/21.....

Appendix A Exceptions/errors found

Cell 011 Overpaid benefit – Earned Income calculation error

Cell 011 Non HRA Rent rebate

Cell Total: £2,782,911

Cell Total: £1,008,534– sub population

Cell Population: 748 cases

Cell Population: 246 cases – sub population

Headline Cell: £2,782,911

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In 2016/17, 2017/18, and 2018/19 we reported that the Local Authority had incorrectly calculated earned income resulting in an overpayment of benefit. During our initial testing in 2019/20 we identified no errors in respect of the incorrect calculation of earned income.

However, given the nature of the population and the errors found in the previous claims, we tested an additional sample of 40 cases where an assessment in the subsidy period was based upon earned income.

This additional testing identified 3 claims where the Local Authority had incorrectly calculated earned income.

2 claims (total value £8,008) were discovered to have calculated earnings incorrectly resulting in an overpayment of £130.03. 1 claim (total value £11,222) had incorrect earnings calculated but this resulted in an understatement of £0.77. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment (or nil impact) identified does not affect and has not, therefore, been classified as errors for subsidy extrapolation purposes.

The following table is based on these findings:

Sample	Movement / brief note of error:	Original cell total: sub population (claims with earning)	Sample error:	Sample value:	Percentage error rate (to two decimal places):	Cell adjustment:
		[CT]	[SE]	SV]	[SE/SV]	[SE/SV times CT]
Initial sample – 0 cases with earnings fails from 20 cases	Incorrect Calculation of Earnings – Cell 011	£1,008,534	£0	£35,662		
Additional testing sample – 40 cases (CAKE)	Incorrect Calculation of Earnings – Cell 011	£1,008,534	£130.03	£167,542		
Combined sample – 60 cases	Incorrect Calculation of Earnings – Cell 011	£1,008,534	£130.03	£203,204	0.07%	£706
Corresponding adjustment:	Cell 026 is understated	£1,008,534	£130.03	£167,542	0.07%	£706
	Cell 014 is overstated	£1,008,534	£130.03	£167,542	0.07%	(£706)
Total corresponding adjustment	Total amendment of Cells 14 and 26					£706

Appendix A Exceptions/errors found

Cell 094 Overpaid benefit – Earned Income calculation error

Cell 094: Rent Allowances total expenditure

Cell Total: £90,685,611

Cell Total £49,250,587 – sub population

Cell Population: 12,269 cases

Cell Population: 5,616 cases – sub population

Headline Cell: £90,685,611

In 2016/17, 2017/18 and 2018/19 we reported that the Local Authority had incorrectly calculated earned income resulting in an overpayment of benefit. During our initial testing, 2 claims (total value £11,406) were found to have incorrectly calculated earned income.

However, given the nature of the population and the errors found in the current year and also, in previous claims, an additional sample of 40 cases where an assessment in the subsidy period was based upon earned income was tested.

This additional testing identified 3 claims where the Local Authority had incorrectly calculated earned income.

3 claims (total value £5,105) were discovered to have calculated earnings incorrectly resulting in an overpayment of £0.32. 1 claim (total value £7,423) had incorrect earnings calculated but this resulted in an understatement of £411.92. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment (or nil impact) identified does not affect and has not, therefore, been classified as errors for subsidy extrapolation purposes.

The following table is based on these findings:

Sample	Movement / brief note of error:	Original cell total: sub population (claims with earnings)	Sample error:	Sample value:	Percentage error rate (to two decimal places):	Cell adjustment:
		[CT]	[SE]	SV]	[SE/SV]	[SE/SV times CT]
Initial sample – 0 case	Incorrect Calculation of Earnings – Cell 094	£49,250,587	£0.36	£94,611		
Additional testing sample – 40 cases (CAKE)	Incorrect Calculation of Earnings – Cell 094	£49,250,587	£0.32	£364,099	0.00%	
Combined sample – 60 cases	Incorrect Calculation of Earnings – Cell 094	£49,250,587	£0.68	£458,710	0..%	£0
Corresponding adjustment:	Cell 113 is understated	£49,250,587	£0.68	£458,710	0.00%	£0
	Cell 103 is overstated	£49,250,587	£0.68	£458,710	0.00%	£0
Total corresponding adjustment	Total amendment of Cells 103 and 113					£0

Appendix B Observations

Error Type 3 – underpaid benefit.

Where benefit has been underpaid, there is no impact on the amount of subsidy to be claimed because subsidy cannot be claimed on benefit that has not been awarded. Underpaid benefit must, therefore, be excluded from the calculation of a cell amendment or extrapolation in a qualification letter.

Cell 094 Overpaid benefit – Incorrect rent liability

Cell 094: Rent Allowances total expenditure

Cell Total: £90,685,611

Cell Total £24,053,836 – sub population

Cell Population: 12,269 cases

Cell Population: 4,161 cases – sub population

Headline Cell: £90,685,611

During our initial testing, 1 error was identified on incorrect rent liability. 1 claim (value £3,351) failed due to the incorrect rent liability being recorded. The error resulted in an underpayment of benefit of £0.08 but could equally have also resulted in an overpayment of benefit and so an additional 40 items were selected for additional testing.

However, given the nature of the population and the errors found in the current year an additional sample of 40 cases where an assessment in the subsidy period was based upon rent liability was tested. This additional testing identified:

0 cases which resulted in an overpayment of housing benefit due to miscalculating the rent liability. In line with the HBAP approach the error identified has been excluded from the calculation of a cell amendment or extrapolation.

Appendix C Amendments

There are no amendments to the claim to report. Our initial testing of cell 11 identified 1 isolated error on LHA rent cap. As a small population of LHA rent cap assessed by a particular assessor was reviewed and all additional 7 tests were satisfied it is not proposed that an amendment be made to the claim in year but will be settled in the subsequent year.

Appendix D Other matters

There are no other matters to report.

AUDIT COMMITTEE - Internal Audit Progress Report for 2020/21 Quarter 4 (Including the 2021/22 Quarter 1 IA Plan)

Committee name	Audit Committee
Officer reporting	Sarah Hydrie, Head of Internal Audit & Risk Assurance
Papers with report	Internal Audit Progress Report for 2020/21 Quarter 4 (including the Internal Audit Plan for 2021/22 Quarter 1)
Ward	All

HEADLINES

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in 2020/21 Quarter 4, and assurance in this respect. It also provides an opportunity for the Head of Internal Audit & Risk Assurance 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 Head of Internal Audit & Risk Assurance 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 2021/22 Quarter 1 which has been produced in consultation with senior managers and outlines the planned programme of IA work due to commence in the April to June period.

RECOMMENDATIONS:

That the Audit Committee:

- 1. Note the IA Progress Report for 2020/21 Quarter 4, consider the 2021/22 Quarter 1 IA Plan and, subject to any further minor amendments, approves it; and**
- 2. Ensure that the coverage, performance and results of the Business Assurance IA activity in quarters 1 to 4 are considered and any additional assurance requirements are communicated to the Head of Internal Audit & Risk Assurance.**

SUPPORTING INFORMATION

IA provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon.

BACKGROUND PAPERS

The Business Assurance service holds various background research documents in relation to the 2021/22 Quarter 1 IA Plan.

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BUSINESS ASSURANCE

Internal Audit Progress Report to Audit Committee:

2020/21 Quarter 4

(including the 2021/22 Quarter 1 Internal Audit Plan)

1st April 2021



HILLINGDON
LONDON

www.hillingdon.gov.uk

Contents

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1. Introduction

1.1 The Role of Internal Audit (IA)

- 1.1.1 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 (Amendment) Regulations 2021 that the Authority undertakes an effective IA to evaluate the effectiveness of its risk management, internal control and corporate governance processes, taking into account the 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.

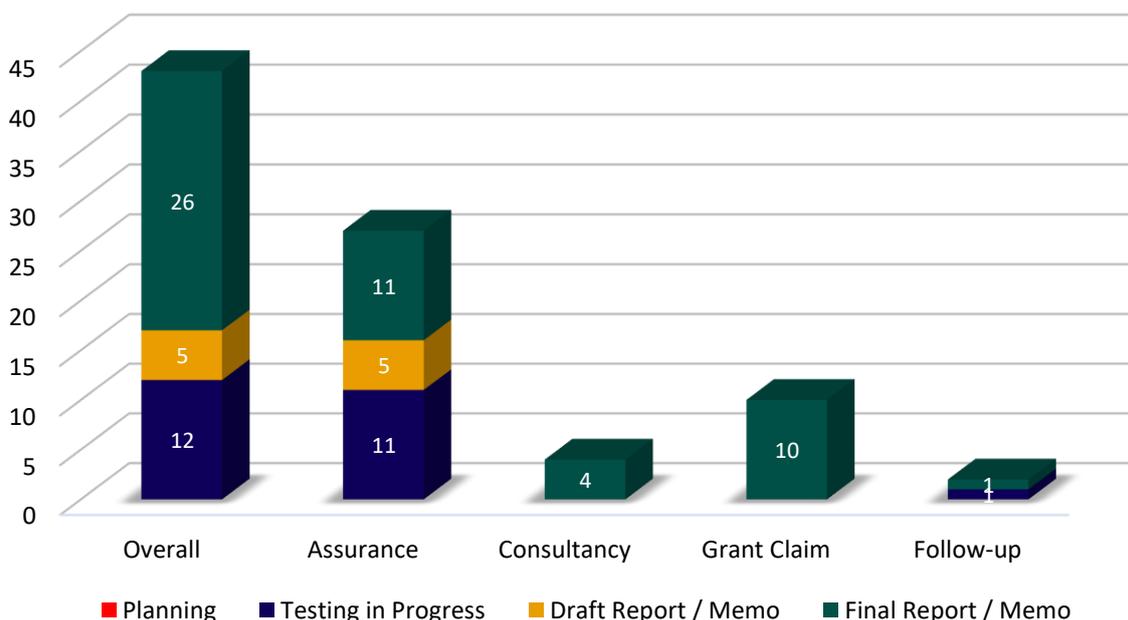
1.2 The Purpose of the Internal Audit Progress Report to Audit Committee

- 1.2.1 This progress report presents the Council’s Corporate Management Team (CMT) and Audit Committee with summary information on all IA work for Quarter 4 (1st January to 31st March 2021). In addition, it provides an opportunity for the Council’s Head of Internal Audit & Risk Assurance (HIA), to highlight any significant issues which have arisen from IA work in Quarter 4. It also highlights to CMT, the Audit Committee and other IA stakeholders the revisions to the Quarter 4 (Q4) IA plan since its approval (refer to **Appendix B**).
- 1.2.2 A key feature of this report is the inclusion of the Q1 2021/22 IA plan (refer to **Appendix C**). This has been produced over the last few weeks following our assessment of the key risks in consultation with senior managers. It sets out the planned programme of IA coverage due to commence in the Q1 period (1st April to 30th June 2021).

2. Executive Summary

- 2.1 Since the last IA Progress Report to CMT and the Audit Committee dated 4th January 2021, **8 assurance reviews** have concluded, **1 consultancy review** has been completed and **5 grant claims** have been certified. The teams progress against this year’s programme of IA work for 2020/21, is depicted in Chart 1 below:

Chart 1 ~ 2020/21 IA Work Undertaken to Date

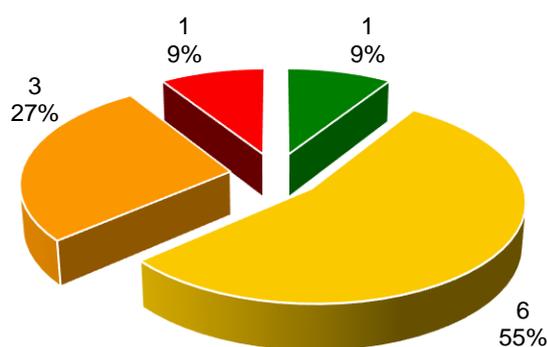


- 2.2 Following an announcement from central government that another lockdown was being imposed, in late December 2020 the Council instructed all non-critical staff (including the IA team) to work from home for the foreseeable future. This was a preventative measure designed to keep staff and residents safe but was a significant operational change for new and existing IA staff. With new IT equipment, flexible working arrangements and with the cooperation of colleagues across the Council, we are pleased to report that work is now underway on all Q4 work (refer to **Appendix A**). Further, the IA team have been working hard to maintain business as usual whilst adapting to new ways of working following the major operational disruption caused by the pandemic.
- 2.3 Key assurance reviews finalised in this period include:
- **Estates - Lease Management;**
 - **Cemeteries - Bereavement Service and Ground Maintenance;** and
 - **Education, Health & Care Plans and Local Offer.**
- All three of these reviews received **LIMITED** assurance opinions respectively over the management of key risks and **positive action has been proposed by management** to address all the **HIGH** and **MEDIUM** risk recommendations raised.
- 2.4 These results are in line with our expectations and the risk-based approach which we deploy. When deciding to undertake risk-based internal auditing (RBIA), it is important to understand the level of risk maturity within the organisation, and tailor the IA strategy to mirror and support the stages of the organisation. Specifically, IA resource has been targeted in the areas of the highest risk as part of an efficient IA assurance programme.
- 2.5 The way in which follow-up work is carried out by the IA team was updated in Q2 and approved by the Audit Committee at its meeting on 24th November 2020. Since November 2020, the IA team has spent an increased amount of time establishing the status of outstanding **HIGH** and **MEDIUM** risk recommendations.
- 2.6 Due to the amount of work that this exercise entails because of the backlog created by the pandemic, it has been agreed that IA will employ a dedicated officer (on a fixed-term basis, starting in April 2021). Their priority will be to support management to reduce the volume of outstanding IA recommendations, thereby reducing the Council's risk exposure. Further details of the work undertaken in this area from 1st April 2020 to 31st March 2021 can be found in section 3.4 and **Appendix D** of this report.
- 2.7 In terms of the Q4 IA operational plan, there were four amendments and two deferrals to the plan (refer to **Appendix B**). Further details of all IA work carried out in this period are summarised at section 3 of this report below.

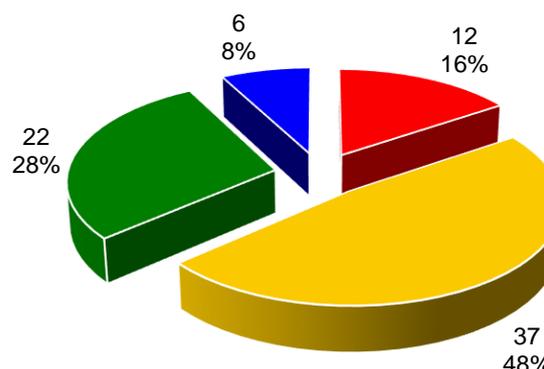
3. Analysis of Internal Audit Activity

3.1 Assurance Work in Quarter 4

- 3.1.1 During this quarter, **8** assurance reviews have been completed to final report stage with an additional **1** assurance review at draft report stage. A further **5** assurance reviews are approaching draft report stage and the remaining **11** 2020/21 assurance reviews are all at the testing stage.
- 3.1.2 All IA assurance reviews carried out in the financial year to date are individually listed at **Appendix A**, detailing the assurance levels achieved as well as providing an analysis of recommendations made (in accordance with the assurance level definitions and recommendation risk categories outlined at **Appendix E**). Assurance opinions provided and the associated IA recommendations raised are further summarised in **Chart 2** and **Chart 3** overleaf:

Chart 2 ~ IA Assurance Opinions

■ Substantial ■ Reasonable ■ Limited ■ No

Chart 3 ~ IA Recommendation Ratings

■ High ■ Medium ■ Low ■ Notable Practice

- 3.1.3 In Q4 the **Estates - Lease Management** review was awarded a **LIMITED** assurance opinion where **1 HIGH** and **2 MEDIUM** risk recommendations were raised (refer to **Appendix A**). The IA team found that the current system for recording leases required streamlining and more efficient data quality checks. The Service is looking at storing this information on an electronic database which will better manage these risks. They are also preparing an Asset Management Strategy which will allow a more consistent approach to the management of different types of leased properties.
- 3.1.4 Also this quarter, the **Cemeteries - Bereavement Service and Ground Maintenance** review was awarded a **LIMITED** assurance opinion where **3 HIGH** and **7 MEDIUM** risk recommendations were raised (refer to **Appendix A**). Due to the Covid-19 pandemic this service has experienced an increase in their work and an IA review was requested by senior management to identify improvements to their back-office functions. The IA team raised recommendations to support the service's upgrade to a new IT system, improve record keeping and compliance with government legislation.
- 3.1.5 The **Education, Health & Care Plans and Local Offer** review was awarded a **LIMITED** assurance opinion this quarter, where **4 HIGH** and **5 MEDIUM** risk recommendations were raised (refer to **Appendix A**). This was a strategic review which looked at the Team's objective setting and achievements, governance, and service delivery. The IA team did not identify any concerns over the care provided to service users from the sample testing. The recommendations raised were focused on improving record keeping of decisions, the recruitment and retention of staff, as well as caseload management.
- 3.1.6 It should be noted that for all three of the above IA reviews where a **LIMITED** assurance opinion was awarded, positive action has been proposed by management to address all the **HIGH** and **MEDIUM** risk recommendations raised.

3.2 Consultancy Work in Quarter 4

- 3.2.1 During Q4 the IA team performed its annual review of the **Mayor of Hillingdon's Charitable Trust Accounts 2020/21** (refer to **Appendix A**). 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 as part of that process 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 4

3.3.1 During this quarter, IA has also assisted the Council in certifying **5** grant claims. As detailed at **Appendix A**, IA continues to carry out verification work on the Troubled Families (TFs) Grant as well as completing work on the Emergency Active Travel Fund Capital Grant 2020/21, the Local Authority Covid-19 Test and Trace Service Support Grant 2020/21 and the Covid-19 Local Authority Enforcement and Compliance Grant.

3.3.2 **Appendix A** also details the planned quarterly verifications work on the TFs Grant progressed this quarter. IA tested a sample of TFs that have been identified as being 'turned around' by the Council's TFs Team. At the conclusion of our work we issued three IA memos, covering the January to March period. The total number of families confirmed as 'turned around' by the Council in Quarter 4 was **62**.

3.4 Follow-Up of Previous Internal Audit Recommendations

3.4.1 Following the Audit Committee's request in November 2020 for greater assurance in this area of IA activity, it was agreed that IA will actively follow-up on all **HIGH** risk recommendations **within 2 weeks** after their implementation date and **MEDIUM** risks **within 4 weeks** after their implementation date. Further to this, IA has removed the functionality for risk owners to revise implementation dates and instead any requests for implementation date extensions will go to the HIA for consideration. The HIA will then, in consultation with the relevant CMT Director, agree the most appropriate course of action.

3.4.2 **Table 1** below shows **the number of IA recommendations that have not been actioned within the agreed timescales** (where an extension has not been agreed) and lists the numbers of **HIGH** and **MEDIUM** risk IA recommendations that have passed their implementation date and details their current status.

Table 1 ~ 2020/21 Follow-Up Work Undertaken to Date

	HIGH risk IA recommendations	MEDIUM risk IA recommendations
1. No. of recommendations that have passed their implementation date	13	47
2. No. of implemented recommendations	3	24
3. *No. of recommendations with new implementation date agreed by HIA and CMT	11	9
4. **No. of recommendations whose status IA are currently verifying	1	7
Total number of recommendations	28	87

* Refer to **Appendix D**

** These recommendations have passed their implementation date and IA have been liaising with the Action Owner and relevant Corporate Director to verify/ confirm their status

3.4.3 **Table 1** shows **13 HIGH** and **47 MEDIUM** risk recommendations have passed their implementation date (as at 31st March 2021). Out of those, **11 HIGH** and **9 MEDIUM** risk recommendations have a revised implementation date which has been agreed by the HIA and the respective CMT Corporate Director (refer to **Appendix D** for further details on the status of each recommendation).

3.4.4 It should be noted that **12** of the **13 HIGH** risk recommendations and **40** of **47 MEDIUM** risk recommendations were due to be implemented between 31st January 2020 and 31st January 2021. This highlights the negative impact the Covid-19 pandemic has had on the implementation of IA recommendations and the management of the related risks. During this period, it was agreed that IA would temporarily suspend TeamCentral so that reminder emails on outstanding IA recommendations were not sent to Action Owners. This was whilst they concentrated their efforts on delivering critical services to residents during the pandemic.

3.4.5 Further, there are **1 HIGH** and **7 MEDIUM** risk recommendations which IA is currently verifying the status of in liaison with the relevant Action Owner/Corporate Director. Updates on the progress of all outstanding IA recommendations will be reported quarterly.

3.5 Other Internal Audit Work in Quarter 4

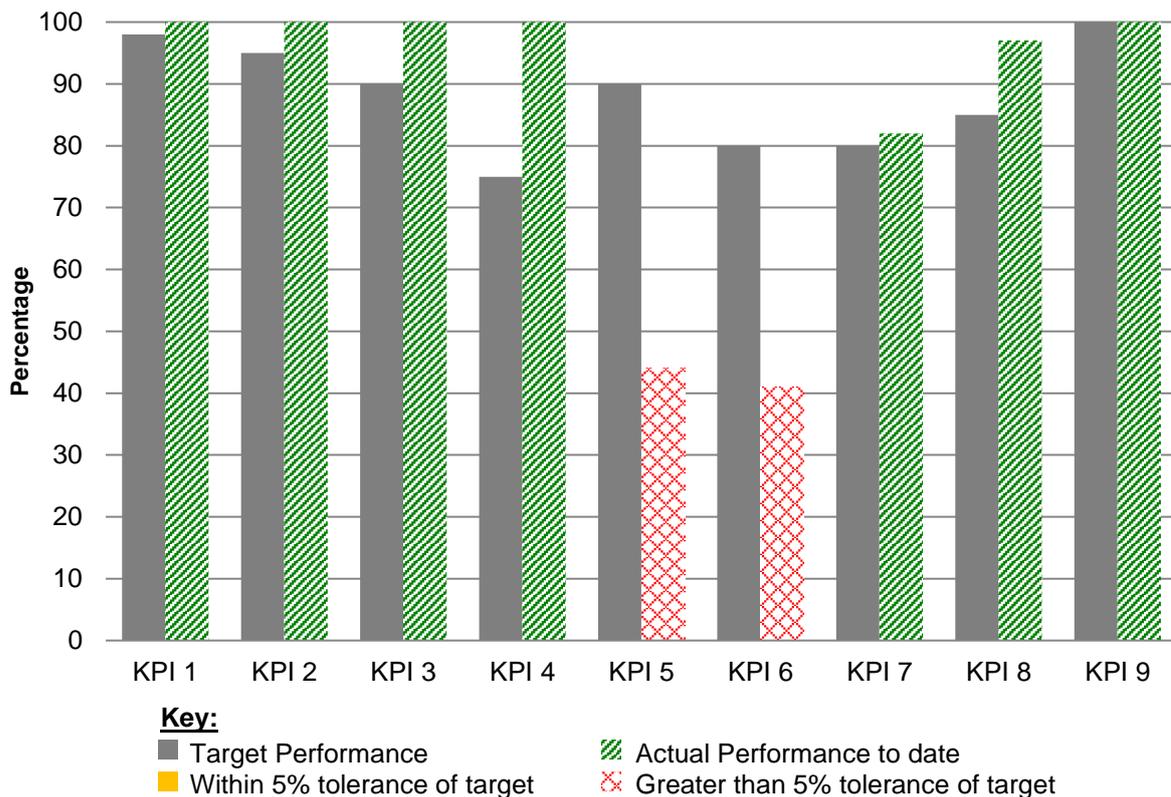
3.5.1 We continue to undertake a quarterly approach to IA planning to ensure emerging risks and new areas of concern are captured, particularly following the global pandemic and the risk this still places on the Authority. During Q4 we continued to undertake risk-based planning meetings alongside risk register reviews due to the synergies between these two functions. The detailed operational IA plan for Q1 of 2021/22 (refer to **Appendix C**) has been produced in consultation with management. The quarterly planning cycle helps ensure that IA resources are directed in a flexible, risk-based and targeted manner.

4. Analysis of Internal Audit Performance

4.1 IA Key Performance Indicators

4.1.1 The KPIs measure the quality, efficiency and effectiveness of the IA service and 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 (as detailed at **Appendix E**) are meaningful and provide challenge to the service. The rationale for KPI 7 has been revised slightly to provide more clarity over the area that is being measured and reported on. Cumulative performance for 2020/21 to date period is summarised below:

Chart 4 ~ 2020/21 IA Key Performance Indicators



4.1.2 The following KPIs are below our performance target. They are:

- **KPI 5** shows that 12 assurance reviews (out of 27) have reached draft report stage as at 31st March 2021 which accounts for **44%** of work undertaken in Q1 to Q4 compared to the **90% target**. This is a **slight improvement from Q3**, which reported **41%** actual performance as at 31st December 2020; and
- **KPI 6** shows that 11 assurance reviews (out of 27) have reached final report stage at 31st March 2021 which accounts for **41%** of work undertaken in Q1 to Q4 compared to the **80% target**. This is a **23% improvement from Q3**, which reported **18%** actual performance as at 31st December 2020.

4.1.3 The reported drop in IA performance is primarily due to the lack of IA work that was undertaken in Q1 due to the pandemic and the redeployment of IA staff to support crucial services. However, this drop in performance against these two KPIs was anticipated and the HIA is confident that the IA KPIs performance will improve now that IA has returned to focussing on delivery of the IA Plan and IA assurance resource has increased.

5. Forward Look

- 5.1 Looking ahead to Q1, **the pandemic continues to have a major impact** globally and locally. As a result, Council services have had to adapt or in some cases radically change the way they operate. The consequences of this are significant changes to the Council's control environment including working to new processes and policies that are no longer practical or relevant and working remotely. It is against this backdrop that IA continues to revisit its **Audit Needs Analysis** which informed the Q1 IA Plan attached at **Appendix C**.
- 5.2 Additional IA resource is being temporarily hired to assist with the **revised IA recommendation follow-up process** and the backlog of outstanding recommendations created during the height of the pandemic. This will support the HIA with the monitoring, tracking and reporting of recommendations to CMT and the Audit Committee.
- 5.3 The **IA Strategy** is due to updated and presented to CMT and Audit Committee this summer. As a result, the HIA will commence consultation with key stakeholders during Q1 to ensure their input to the draft strategy. This will reflect the key strategic objectives faced by the Council including of course the pandemic and will consider the views of the new Leader and his Cabinet.
- 5.4 The **Effectiveness of IA Review** is due to start in Q1 and this review will be conducted by our newest appointed Senior Internal Auditor. She will bring a fresh pair of eyes to this audit and be able to compare LBH IA to the private sector Audit Partnership where she was previously employed, as well as benchmarking against best practice guidance. The review will give assurance to CMT and the Audit Committee of IA work and the findings will assist the HIA and the IA team as we prepare for the External Quality Assessment which is due to take place in 2022.
- 5.5 IA would like to take this opportunity to formally thank all staff throughout the Council with whom it had contact during Q4, particularly during these challenging times. There are no other matters that the HIA needs to bring to the attention of the Council's CMT or Audit Committee at this time.

Sarah Hydrie CMIIA, CIA
Head of Internal Audit & Risk Assurance

1st April 2021

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2020/21**

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

2020/21 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 31 st March 2021	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
20-A2	Tree Inspections	Final report issued on 23 rd Oct 2020	No	4	3	1	0	✓
20-A6	Estates - Lease Management	Final report issued on 22 nd Feb 2021	Limited	1	2	3	0	✓
20-A3	Cemeteries - Bereavement Service and Ground Maintenance	Final report issued on 3 rd Mar 2021	Limited	3	7	2	1	✓
20-A12	Education, Health & Care Plans and Local Offer	Final report issued on 30 th Mar 2021	Limited	4	5	1	0	Not yet due
20-A1	Starting and Terminating a Tenancy	Final report issued on 5 th Oct 2020	Reasonable	0	3	2	2	✓
20-A5	Property Acquisitions - Payment Process	Final report issued on 23 rd Nov 2020	Reasonable	0	1	2	0	✓
20-A21	Children and Young People's Service Pathway Plans	Final report issued on 6 th Jan 2021	Reasonable	0	4	1	2	✓
20-A13	Reunification	Final report issued on 6 th Jan 2021	Reasonable	0	2	2	0	✓
20-A7	Remote Working	Final report issued on 18 th Mar 2021	Reasonable	0	5	0	0	Not yet due
20-A4	Homelessness	Final report issued on 23 rd Mar 2021	Reasonable	0	4	5	1	Not yet due
20-A16	Treasury Management	Final report issued on 11 th Feb 2021	Substantial	0	1	3	0	✓
20-A10	CYPS Multi Agency Response to Risk	Draft report issued on 18 th Mar 2021						
20-A8	Covid-19 Emergency Assistance Grant	Draft report in progress						
20-A11	Music Service - Invoicing and Debt Collection	Draft report in progress						

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2020/21****2020/21 IA Assurance Reviews:**

IA Ref.	IA Review Area	Status as at 31 st March 2021	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
20-A15	*Thematic Review of Purchasing and Payments in Schools	Draft report in progress						
20-A22	Former Tenant Arrears	Draft report in progress						
20-A14	Flooding - Lessons Learned	Testing in progress						
20-A23	Information Sharing - Adult Social Care	Testing in progress						
20-A24	Housing Applications	Testing in progress						
20-A25	ASBET - Case Management	Testing in progress						
20-A26	Building Control	Testing in progress						
20-A27	Ofsted Readiness	Testing in progress						
20-A28	**Thematic Review of Governance and Financial Management in Schools	Testing in progress						
20-A29	Planning	Testing in progress						
20-A30	Review of the Effectiveness of Audit Committee	Testing in progress						
20-A31	Exclusions and Education Cases for Vulnerable Young People	Testing in progress						
20-A32	Queens Walk Resource Centre	Testing in progress						
Total Number of IA Recommendations Raised				12	37	22	6	
Total % of IA Recommendations Raised				16%	48%	28%	8%	

*Total number of schools in IA sample is 6

**Total number of schools in IA sample is 4

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2020/21****2020/21 IA Follow-Up Reviews:**

IA Ref.	IA Follow-Up Review Area	Status as at 31 st March 2021	Recommendations					CFQ Received?
			Implemented	Partly Implemented	Not Implemented	+N/A	Total	
20-A19	Payment Process in NYGL	Memo issued on 10 th Dec 2020	7	3	1		11	✓
20-A20	Cyber Incident Management	Testing in progress						

** IA follow-up work has concluded this recommendation is no longer applicable*

2020/21 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 31 st March 2021	CFQ Received?
20-C2	Business Energy and Industrial Strategy – Fraud Risk Assessment	Advisory work concluded in Q1	N/A
20-C1	Xychro Solutions Limited	Memo issued on 19 th August 2020	✓
20-C3	Benefits Performance Indicators	Memo issued on 23 rd September 2020	✓
20-C4	Mayor's Charity Accounts 2020/21	Memo issued on 15 th February 2021	N/A

2020/21 IA Grant Claim Verification Reviews:

IA Ref.	IA Review Area	Status as at 31 st March 2021
20-GC2	Troubled Families Grant - Quarter 2	Certified, memos issued on 29 th Jul, 26 th Aug and 24 th Sep 2020
20-GC1	2019/20 Housing Benefit Subsidy Grant	Certified and memo issued on 21 st August 2020
20-GC3	Bus Service Operators Grant	Certified and memo issued on 1 st October 2020
20-GC5	2019/20 Disabled Facilities Capital Grant	Certified and memo issued on 30 th October 2020
20-GC4	Troubled Families Grant - Quarter 3	Certified, memos issued on 13 th Nov, 25 th Nov 20, 15 th Jan 2021
20-GC6	Troubled Families Grant - Quarter 4	Certified, memos issued on 4 th Feb, 4 th Mar and 25 th Mar 2021
20-GC8	Emergency Active Travel Fund Capital Grant 2020/21	Certified and memo issued on 23 rd March 2021
20-GC9	Local Authority Covid-19 Test and Trace Service Support Grant 2020/21	Certified and memo issued on 30 th March 2021

APPENDIX B**REVISIONS TO THE 2020/21 INTERNAL AUDIT PLAN ~ QUARTER 4****AMENDMENTS to the 2020/21 Operational IA Plan for Quarter 4:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
20-A18	Early Years Centres	Follow-Up	N/A	Tony Zaman Corporate Director, Social Care	This work has been captured in the follow-up exercise that is referred to para 2.5 and section 3.4. Refer to Appendix D for a status update of each recommendation.
20-GC7	Public Health England Capital Funding for Alcohol Treatment 2020/21	Grant Claim	N/A	Tony Zaman Corporate Director, Social Care	The IA team have confirmed with Finance that no spend has been incurred this financial year towards this grant, therefore this grant claim is not required .
20-GC10	S31 Community Testing Funding Grant 2020/21	Grant Claim	N/A	Paul Whaymand Corporate Director of Finance	In January 2021, councils were requested (by the Dept of Health and Social Care) to certify their spend in relation to community testing for Coronavirus. The CEO and HIA certified our compliance with this grant on 28 th January 2021.
20-GC11	Covid-19 Local Authority Enforcement and Compliance Grant	Grant Claim	N/A	Paul Whaymand Corporate Director of Finance	LBH received a £163,500 grant from MHCLG to support councils with expenditure incurred in relation to Covid-19 related enforcement and compliance. The CEO and HIA certified our compliance with this grant on 31 st March 2021.

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IA work DEFERRED from the 2020/21 Operational IA Plan for Quarter 4:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
20-A9	IT Governance	Assurance	HIGH	Perry Scott Director of Infrastructure, Procurement, Business Improvement, Communications, Waste Services & ICT	The Leader of the Council has instructed ICT to prepare an IT Strategy which also revise the IT governance process. Through discussions with the Head of ICT and the relevant Corporate Director it was agreed that IA would add more value if this review was conducted in Quarter 4 2021/22, when the new Strategy has been implemented and embedded.
20-C5	Stores Stock Check 2020/21	Consultancy	LOW	Mike Talbot Director Corporate Resources & Services	This year's Stores Stock Check is being undertaken by Finance and Tech Admin at Harlington Road Depot (HRD). IA is unable to physically assist without contravening Covid-19 social distancing rules. Due to this work being low risk and the welfare of staff being a priority, IA has agreed to carry out this exercise in 2021/22 (if Covid-19 restrictions are lifted).

APPENDIX C**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2021/22 ~ QUARTER 1****IA work scheduled to commence in the 1st April to 30th June 2021 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
21-A1	Disabled Facilities Grant (DFG)	Assurance	HIGH	Perry Scott Director of Infrastructure, Procurement, Business Improvement, Communications, Waste Services & ICT	Under the Housing Grants, Construction and Regeneration Act 1996 and the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002, a DFG can be used towards the cost of providing adaptations and facilities to enable a disabled person to continue to live in their property. This review will look at the efficiency, economy and effectiveness of the DFG service and the timeliness of works.
21-A2	Planned Works and Contract Management	Assurance	HIGH	Perry Scott Director of Infrastructure, Procurement, Business Improvement, Communications, Waste Services & ICT	The Decent Home Standard requires local authorities to have a programme of works for tackling non-decent housing and preventing housing from deterioration. Authorities should consider the views of tenants and future demand for homes. This review will provide assurance that the Council has adequate arrangements and controls in place to ensure compliance with the statutory guidance and will include contract management from tender through to delivery and the timeliness of works.
21-A3	ICT Service Desk	Assurance	HIGH	Perry Scott Director of Infrastructure, Procurement, Business Improvement, Communications, Waste Services & ICT	The ICT Service Desk is the first point of contact for staff and members who are experiencing IT issues at work. Following Covid-19, the introduction of remote working and a new IT rollout, the Service Desk has come under increased pressure to deliver a service under extraordinary circumstances. This review will provide assurance that the Service Desk has the resource, training and equipment they need to provide a crucial service to the Council, are organised, effective with the user at the heart of the service they provide.
21-A4	Information Security (IS)	Assurance	HIGH	Perry Scott Director of Infrastructure, Procurement, Business Improvement, Communications, Waste Services & ICT	Following the Remote Working audit in Quarter 2 2020/21 which included some aspects of IT security, it was agreed by the Corporate Directors and senior management that it would be more beneficial to stakeholders across the Council to complete a dedicated review of IS. This gives IA the opportunity to focus solely on IS, which is a high-risk area, broaden our scope and testing programme.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2021/22 ~ QUARTER 1****IA work scheduled to commence in the 1st April to 30th June 2021 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
21-A5	Expenditure Approval Process	Assurance	MEDIUM	Paul Whaymand Corporate Director of Finance	The Council's Expenditure Approval Process (EAP), which is managed by the Tech admin team, is currently under review. The existing process involves several authorisation levels, is reliant on manual processes and vulnerable to error. IA will test and identify the risks involved in EAP and make recommendations to improve current ways of working.
21-A6	Transport Contract Management	Assurance	MEDIUM	Tony Zaman Corporate Director, Social Care	The Care Act 2014 and associated Regulations and statutory guidance provide the legal framework for the assessment of social care and support needs this includes transport needs based on the national eligibility criteria for adults and carers. Hillingdon Community Transport Ltd (HCT) is a voluntary organisation and registered charity, part funded by the Council. This review will provide assurance over transport management arrangements and that the transport provided to service users is appropriate for their care needs and in the most cost-effective way.
21-A7	Fostering Service	Assurance	MEDIUM	Tony Zaman Corporate Director, Social Care	The Fostering Service forms part of the Ofsted inspection framework. The national minimum standards, together with regulations on the placement of children in foster care, such as the Fostering Services (England) Regulations 2011, form the basis of the regulatory framework under the Care Standards Act 2000 for the conduct of fostering services. This review will provide assurance over the controls in place to support the robust management of the fostering service and compliance with good practice and relevant legislation.
21-A8	Review of the Effectiveness of Internal Audit	Assurance	MEDIUM	Paul Whaymand Corporate Director of Finance	The effectiveness of IA is a key cornerstone of corporate governance. The Accounts and Audit (England) Regulations 2015 requires relevant bodies 'to conduct an annual review of the effectiveness of its IA' and that IA should conform to 'proper practices'. The efficiency and effectiveness of the IA team will be assessed against the UK Public Sector IA Standards.

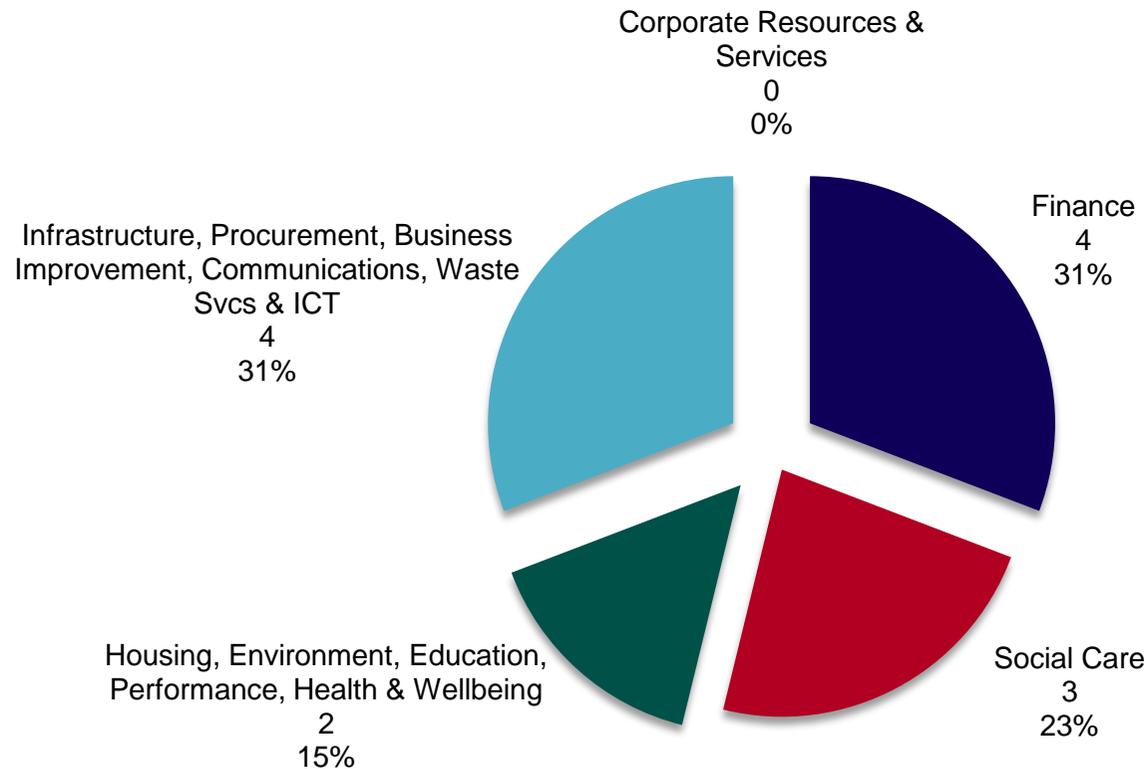
APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2021/22 ~ QUARTER 1****IA work scheduled to commence in the 1st April to 30th June 2021 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
21-A9	Follow-Up of Implemented Recommendations	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 for HIGH and MEDIUM recommendations whose implementation date has elapsed and where management have self-certified that the recommendation has been implemented via the Team Central System.
21-C1	Civica Casework - Enforcement	Consultancy	MEDIUM	Dan Kennedy Director, Planning, Environment, Education and Community Services	This review aims to support the Enforcement team with the development of their Civica upgrade. IA will review the current system including casework record keeping and the control framework and assess what enhancements can be made. The suggested improvements will be incorporated into the design specification which be used in the development of the upgrade.
21-C2	General Ledger	Consultancy	MEDIUM	Paul Whaymand Corporate Director of Finance	This review will support the Finance team as they look to upgrade their current IT system for managing the General Ledger. IA will assess if accurate, timely and complete financial information is captured, maintained, reported, compliant with accounting standards, statutory requirements and facilitates effective decision making. Suggested improvements will support the design specification for a new/ upgraded system.
21-GC1	Supporting Families Grant - Quarter 1	Grant Claim	N/A	Tony Zaman Corporate Director, Social Care	The TF programme is being replaced with the Supporting Families Grant 2021/22. It continues to be a Central Government scheme under the MHCLG, with the stated objective of helping vulnerable families turn their lives around. The Council receives a payment by results from the MHCLG for each family they support under the scheme. As per the grant conditions, IA will undertake verification work to confirm compliance.
21-GC2	Safety at Ports Grant	Grant Claim	N/A	Dan Kennedy Director, Planning, Environment, Education and Community Services	Administered by the Office for Product Safety and Standards (OPSS), this grant looks at the Council's frontline enforcement capability to detect and prevent unsafe and non-compliant non-food goods from entering the UK market. IA will provide independent assurance that the OPSS grant conditions have been complied with.

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2021/22 ~ QUARTER 1 (cont'd)

IA work scheduled to commence in the 1st April to 30th June 2021 period – Analysis by Corporate Director:



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- The relevant Audit Sponsor (Corporate Directors, Directors, Deputy Directors, Assistant 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 Directorate (Group).

APPENDIX D**OUTSTANDING RECOMMENDATIONS WITH REVISED IMPLEMENTATION DATES****2016/17 Lease Agreements****Action Owner: Iain Watters****Corporate Director: Paul Whaymand**

Original Impl. Date	Revised Impl. Date	Risk and Risk Rating	Reason for Extension and Current Status
28/02/2017 (1 extension)	30/09/2021	If robust systems are not in place to ensure a record of all leases is maintained and monitored, enabling effective and timely calculation of leased assets and associated liabilities, there is an increased risk that that the Council will be unable to comply with International Financial Reporting Standard (IFRS) 16 without sufficient resources and manual intervention. HIGH	IFRS 16 (for Leases) was due to be introduced, by CIPFA, in 2017 but was eventually published in 2019. We waited until IFRS 16 was officially released before redesigning the Council's lease process. We have made significant progress in getting the authority ready for the implementation of IFRS 16 with the initial collation of lease information being completed during Quarter 1 2020/21 alongside the closedown of the 2019/20 accounts. We are in the process of collating information for the on-going maintenance of a lease register, with a view to going live with the register following completion of the 2020/21 accounts.
28/02/2017 (1 extension)	30/09/2021	Without documented procedures and, guidelines there is a lack of clarity which may result in inconsistent practice. Failure to monitor the approval system in place for lease agreements could result in unauthorised expenditure occurring resulting in financial loss to the Council. Furthermore, failure to manage existing lease contracts may result in leases being extended without proper cost analysis or end of contract terms not being complied with which may lead to financial consequences for the Council. MEDIUM	Reason for extension as above. We waited until IFRS 16 was officially introduced before documenting the revised lease process for the Council. Our present approach of identifying new leases through the usual Corporate Finance involvement in the preparation of Cabinet Member/ Cabinet reports and provision of Corporate Finance Comments enables us to secure the information we require on new/ amended leases.

APPENDIX D (cont'd)**2017/18 Food and Safety Regulation****Action Owner: Stephanie Waterford****Corporate Director: Dan Kennedy**

Original Impl. Date	Revised Impl. Date	Risk and Risk Rating	Reason for Extension and Current Status
30/11/2018 (1 extension)	01/10/2021	Where there is an insufficient IT system or solution in place to document and manage the Imported Food Service, including storage of all documentation relating to inspections conducted; there is an increased likelihood of poor data quality, impacting the backup and retention of key information and accuracy of returns. HIGH	The time taken to develop a Brexit roadmap has impacted system development as the scope has had to be adjusted to meet legislative requirements. When we had clarity over changes post Brexit, we were then affected by the Covid-19 pandemic as resources were moved elsewhere to support the Council and residents with other priorities. RHE have been contracted to provide a bespoke Consignment Tracking System which is currently being built. In the meantime, the use the shared document and white boards to manage the consignment tracking process. These systems are used to complete our annual statutory returns which have been accepted by the Food Standards Agency (FSA).
31/01/2019 (1 extension)	01/07/2021	If resources are not used efficiently and effectively there is an increased likelihood that EU requirements regarding staffing levels are breached leading to unacceptable delays during the importation of food process, resulting in reputational damage and increased likelihood for compensation claims. MEDIUM	Reason for extension as previous recommendation. Implementation of a new staffing plan and shift rotas is underway which will negate the need for reliance on contractual and additional overtime. In the interim we have managed service hours by using cyclical agency staff for evenings and have 2 Officers in the Food H&S Team who are trained to cover Port Health work and can be called in to cover additional hours when needed.
31/01/2019 (1 extension)	01/07/2021	If statutory requirements regarding food and safety inspections are not complied with, there is a risk of contamination with potential health implications to local residents. This may result in severe reputational damage to the Council and potential legal action with financial loss incurred. MEDIUM	Reason for extension as first recommendation. Procedures in place for monthly monitoring between Officers, Team Manager and Service Manager, which forms part of staff 1:1's. A new Civica system is being procured which will automate many of the reports. We have introduced more supervision roles into the new structure which will aid monitoring of inspection workloads and allocation. Full monthly monitoring of the Food Programme and allocation of Inspections are currently in place.
30/09/2018 (1 extension)	01/07/2021	If there is no clear performance management structure in place there is a risk that employees work may not be aligned to organisational and service objectives. Further, if employee performance is not monitored, high performance and/or development needs of individuals and the services will not be identified, commended or remedied. MEDIUM	Reason for extension as first recommendation. New KPI's are in place and will be built into the RHE consignment tracking system, which will monitor the output of each officer. New job descriptions are being developed following a restructure. Consignment clearances are being monitored so management can carry out quality control checks and monitor volumes per officer. Inspections for the Food H&S Team are reviewed monthly.

APPENDIX D (cont'd)

2018/19 Early Years Centres

Action Owner: Claire Fry

Corporate Director: Tony Zaman

Original Impl. Date	Revised Impl. Date	Risk and Risk Rating	Reason for Extension and Current Status
31/10/2018 (5 extensions)	30/06/2021	If key info is not obtained or retained in accordance with regulations, this impacts the Council's ability to be sufficiently safeguarded for the provision of services. The absence of a clear and consistent approach to charging registration fees increases the likelihood of financial loss and reputational damage to the Council. HIGH	The agreed direction of travel for this business area has been on hold for some years. Due to this delay no recruitment could take place which would support the implementation of the recommendations. Upon reflection, we should not have revised the implementation dates until a plan for the business had been agreed. A Service Manager was appointed in December 2020 and improvements are being made based on the issues identified in the original IA review. These include: <ul style="list-style-type: none"> • Document retention schedules are in place; • Internal review carried out on all children's files; • Outstanding fees and debt management meetings happening on a regular basis; and • The contract is being worked on and will go to Legal for review at the end of March 2021. Once the contract has been agreed we plan relaunch the brand and promote the EYC service in the community.
31/10/2018 (5 extensions)	31/03/2021	If policies and procedures for financial administration are not in place or adhered to, practices arise that impact the reliability, accuracy and completeness of records, increasing exposure for inconsistent and inaccurate transactions, impacting upon the ability of the Council to recover monies owed, with financial loss and reputational damage incurred. HIGH	Reason for extension as previous recommendation. The Action Owner has confirmed these two actions have been implemented. From January 2021, Corporate Debtors have assumed full responsibility for the invoicing and collection of nursery fees. Procedural guidance documents have been rewritten and will be updated as necessary to reflect any amendments to the invoicing and payment systems.
31/10/2018 (5 extensions)	31/03/2021	If there is inefficient or ineffective administration over contracted sessions, there is an increased likelihood that income due is not invoiced in full, resulting in a direct financial loss and impairing the future provision of the service to residents. There is a likelihood of loss of resources where additional work is undertaken by staff involved in the process, despite specialist teams and systems already existing within the Council. HIGH	Document retention schedules are stated as now in place. IA to promptly carry out verification checks to establish implementation and to report findings to CMT, Audit Committee and Leader of the Council accordingly.

APPENDIX D (cont'd)

2018/19 Emergency Duty Team

Action Owner: Antony Madden

Corporate Director: Tony Zaman

Original Impl. Date	Revised Impl. Date	Risk and Risk Rating	Reason for Extension and Current Status
01/04/2019 (1 extension)	31/04/2021	Where key processes are not documented, there is a risk inconsistent practices are adopted, which could negatively impact vulnerable people and service delivery resulting in reputational loss to the Council. In more severe cases, this may also result in regulatory inspections and scrutiny. HIGH	When the original IA review had concluded, the business case for the revised EDT service had been agreed and the HR consultation had begun. In view of the proposed and pending changes the recommendations coming out of the IA review were on hold until the new Service had been established. Further, the recommendations would help inform the new and improved Service. EDT has changed significantly and includes the Stronger Families Hub. It still provides a 24-hour Triage Service, which provides Early Help and Preventative service. Revised policies and procedures have been captured on the Council's documents database Tri-X, and further process maps, workflows and diagrams are in the process of being updated.
01/04/2019 (1 extension)	31/05/2021	Where there is no system in place for monitoring output or service delivery of EDT, there is a risk of not identifying poor performance or taking remedial action in a timely manner, which can lead to failure to achieve EDT's service objectives. HIGH	Reason for extension as previous recommendation. At present a very detailed spreadsheet is being used to track the time and reason for referrals. The Social Care Service has hired a consultant business performance team who are producing dashboards and designing a performance management system which aims to supply meaningful data about team performance. We are working closely with this firm to ensure the data is robust and contains everything we need to make decisions and manage performance effectively.

APPENDIX D (cont'd)

2018/19 Positive Behaviour Support Team

Action Owner: Jan Major

Corporate Director: Tony Zaman

Original Impl. Date	Revised Impl. Date	Risk and Risk Rating	Reason for Extension and Current Status
31/01/2019 (1 extension)	30/06/2021	If measurable targets are not embedded, monitored or reported upon, there is a risk that a decline in performance may not be identified in a timely manner, meaning objectives are not achieved and the Council suffers financial loss through inefficient use of resources. MEDIUM	The performance management tool for the PBS team was part of a workflow for the Liquid Logic upgrade. This software was being upgraded for the whole of Social Care (Children’s and Adults) but had been delayed as other workflows took priority and overran. The PBS tool was due to go live in November 2020. However, due to the PBS team being redeployed to support frontline services during the Covid-19 pandemic the implementation date was extended again. Management information and reports are still to be finalised and implemented. In the meantime, a spreadsheet is being used to monitor team performance until the PBS module is live.

APPENDIX D (cont'd)

2019/20 Imported Food Office

Action Owner: Stephanie Waterford

Corporate Director: Dan Kennedy

Original Impl. Date	Revised Impl. Date	Risk and Risk Rating	Reason for Extension and Current Status
31/01/2020 (1 extension)	01/07/2021	If the Imported Food Office's processes are heavily reliant on a paper-based system, there is a risk that files could be vulnerable to damage and officers are not working efficiently, effectively or economically, impacting their ability to promptly and accurately verify imports, resulting in non-compliance with statute and incurring financial costs to the Council. MEDIUM	The time taken to develop a Brexit roadmap has impacted system development as the scope has had to be adjusted to meet legislative requirements. When we had clarity over changes post Brexit, we were then affected by the Covid-19 pandemic as resources were moved elsewhere to support the Council and residents with other priorities. All consignments are logged on a shared spreadsheet on the Team's shared drive. The RHE consignment tracking system will come online later this year and will ensure that all data and documents are fully backed up to the Cloud. We are in between legislative changes due to Brexit. In the meantime, the use the shared document and white boards to manage the consignment tracking process. These systems are used to complete our annual statutory returns which have been accepted by the FSA.
31/01/2020 (1 extension)	01/10/2021	If KPIs and relevant management information are not in place and regularly reviewed, there is a risk that performance issues are not identified, leading to a negative effect on decision-making and impacting the achievement of the service and Council objectives. MEDIUM	Reason for extension as previous recommendation. KPI's are in place and will be built into the RHE consignment tracking system and will be able to monitor the output of each officer. Consignment clearances are being monitored so management can carry out quality control checks and monitor volumes per officer. Inspections for the Food H&S Team are monitored monthly and new job descriptions are being developed.
31/01/2020 (1 extension)	01/07/2021	If roles and responsibilities have not been clearly defined or communicated, there is an increased likelihood that duties may be unfulfilled or duplicated, resulting in practices undertaken that conflict with service objectives, impacting the accurate recording and processing of imported foods and resulting in hazardous materials going undetected causing risks to the public and the environment. MEDIUM	Reason for extension as first recommendation. The restructure will refresh and realign roles and responsibilities for staff at all levels. New Job Descriptions (JD) are being developed and will be consulted on in the coming weeks. PADA's will be carried out in line with the new JD's. Consignment clearances can currently be monitored by the sign-off process within the Imported Food system and the shared spreadsheet so management can carry out quality control checks and monitor volumes per officer. Inspections for the FHS team are divided by area and are monitored every month.

APPENDIX D (cont'd)**2019/20 Playground Inspections****Action Owner: Paul Richards****Corporate Director: Dan Kennedy**

Original Impl. Date	Revised Impl. Date	Risk and Risk Rating	Reason for Extension and Current Status
31/01/2021 (1 extension)	30/04/2021	If a playground risk management policy is not in place, there is a risk that the Council may have inadequate H&S for play and outdoor leisure equipment leading to serious harm and financial, legal and reputational damage to the Council. HIGH	The Playground Risk Management Policy has been drafted and is in the process of being formally approved following a review by the Royal Society for the Prevention of Accidents (RoSPA). The Covid-19 pandemic has diverted resources from finalising the Policy and the implementation date has been revised to reflect that.
31/01/2021 (1 extension)	31/03/2021	Without a clear inspection methodology in place, there is a risk that play and fitness equipment may not be properly maintained and remain unsafe, causing serious harm to users leading to financial, legal and reputational consequences to the Council. HIGH	Reason for extension as previous recommendation. The Action Owner has confirmed these four actions have been implemented. An interim system (spreadsheet control) has been put in place recording for each playground scheduled inspection dates and remedial works and maintenance required. This is reviewed monthly by managers and is used to ensure strong management oversight and controls are in place to ensure compliance.
31/01/2021 (1 extension)	31/03/2021	If outdoor play and leisure facilities are not maintained, there is a risk that they may be unsafe and cause serious harm to users, leading to financial, legal and reputational damage to the Council. HIGH	Further work is underway separately to put in place a dedicated ICT solution for this area. IA to promptly carry out verification checks to establish implementation and to report findings to CMT, Audit Committee and Leader of the Council accordingly.
31/01/2021 (1 extension)	31/03/2021	Where there are data errors and insufficient records of inspections and mitigating actions, there is a risk that identified issues are not rectified, standards are not complied with and service objectives are not met, resulting in financial, legal, operational and reputational consequences for the Council. HIGH	
31/01/2021 (1 extension)	31/03/2021	If management oversight is not taking place risks, hazards and mitigating actions could go unidentified causing accidents and harm to playground users leading to financial, operational and legal consequences for the Council. MEDIUM	

APPENDIX E**INTERNAL AUDIT KEY PERFORMANCE INDICATORS**

KPI Ref.	Performance Measure	Target Performance	Actual Performance	RAG Status
KPI 1	2020/21 HIGH risk IA recommendations where positive management action is proposed	98%	100%	GREEN
KPI 2	2020/21 MEDIUM risk IA recommendations where positive management action is proposed	95%	100%	GREEN
KPI 3	2020/21 HIGH risk IA recommendations where management action is taken within agreed timescale	90%	100%	GREEN
KPI 4	2020/21 MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	100%	GREEN
KPI 5	Percentage of annual (Q1 to Q4) IA Plan delivered to draft report stage by 31 st March	90%	*44%	RED
KPI 6	Percentage of annual (Q1 to Q4) IA Plan delivered to final report stage by 31 st March	80%	**41%	RED
KPI 7	Percentage of draft reports issued as a final report within 15 working days of completion of fieldwork (this being the final day of fieldwork, exit meeting and receipt of all outstanding information)	80%	82%	GREEN
KPI 8	Client Satisfaction Rating (from CFQs)	85%	97%	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 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.
- * = Caused by the pandemic but noted **3% improvement** from Quarter 3 actual performance.
- ** = Caused by the pandemic but noted **23% improvement** from Quarter 3 actual performance.

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

RISK	DEFINITION
<p style="text-align: center;">HIGH</p> <p style="text-align: center;">●</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 style="text-align: center;">MEDIUM</p> <p style="text-align: center;">●</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 style="text-align: center;">LOW</p> <p style="text-align: center;">●</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 style="text-align: center;">NOTABLE PRACTICE</p> <p style="text-align: center;">●</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>

AUDIT COMMITTEE - Draft Annual Internal Audit Plan for 2021/22

Committee name	Audit Committee
Officer reporting	Sarah Hydrie, Head of Internal Audit & Risk Assurance
Papers with report	Draft Annual Internal Audit Plan for 2021/22
Ward	All

HEADLINES

The attached report presents the Audit Committee with the planned Internal Audit (IA) approach and activity type for the forthcoming financial year and seeks to:

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

RECOMMENDATIONS:

That the Audit Committee:

- 1. Notes the Draft Annual Internal Audit Plan for 2021/22 and, subject to any further minor amendments, approve it.**

SUPPORTING INFORMATION

The IA Plan is a crucial component of the annual assurance opinion statement provided by the Council's Head of Internal Audit & Risk Assurance, to those charged with governance. In order to deliver this assurance, it is vital for the organisation to have a comprehensive IA Plan which gives sufficient risk-based coverage and support to management. Hillingdon, in common with all other councils, faces a number of challenges including post Covid-19 recovery work and an increased demand for services in a number of key areas. The test for Hillingdon Council is therefore to continue to try to balance the needs of our most vulnerable communities with the continually decreasing financial resources.

To help meet this need, the risk-based IA Plan for 2021/22 has been linked to the organisational objectives and strategic priorities, whilst also taking account of the Council's wider assurance framework. In addition, the IA Plan for 2021/22 has been developed in accordance with the IA Charter, the IA Strategy and also gives consideration to the Counter Fraud Strategic Plan

2021/22.

BACKGROUND PAPERS

The Business Assurance service holds various background research papers in relation to the Annual IA Plan 2021/22.

**Internal Audit Plan 2021/22:
Draft for Audit Committee**

1st April 2021

Contents

The Business Assurance key contacts in connection with this document are:

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1. Introduction

1.1 The Role of Internal Audit

- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Council achieve its corporate objectives and realise its vision for the borough of Hillingdon. It is also a requirement of The Accounts and Audit (Amendment) Regulations 2021 that the Authority undertakes an effective IA to evaluate the effectiveness of its risk management, internal control, and corporate governance processes, taking into account UK Public Sector IA Standards (PSIAS).
- 1.1.2 IA provides an objective opinion to the Council on whether the control environment, corporate governance arrangements and risk management framework are operating effectively. In 2021/22 the IA service at Hillingdon will continue to apply a fully risk-based approach to its IA coverage, establishing quarterly risk-based plans to determine the priorities of the IA activity, in accordance with PSIAS 2010 - Planning. This means that IA gives greater assurance to the Council because it is based on the key risks to the organisation's objectives. As a result, we will not just be commenting on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.

1.2 The Purpose of the Internal Audit Plan

- 1.2.1 The IA Plan is a crucial component of the annual assurance opinion statement provided by the Council's Head of Internal Audit & Risk Assurance (HIA), to those charged with governance. In order to deliver this assurance, it is vital for the organisation to have a comprehensive IA Plan which gives sufficient risk-based coverage and support to management. Hillingdon, in common with all other councils, faces a number of challenges including post Covid-19 recovery work and an increased demand for services in a number of key areas. The test for Hillingdon Council is therefore to continue to try to balance the needs of our most vulnerable communities with the continually decreasing financial resources.
- 1.2.2 To help meet this need, the risk-based IA Plan for 2021/22 has been linked to the organisational objectives and strategic priorities, whilst also taking account of the Council's wider assurance framework. In addition, the IA Plan for 2021/22 has been developed in accordance with the IA Charter, the IA Strategy and also gives consideration to the Counter Fraud Strategic Plan 2021/22.

2. The Internal Audit Planning Process

2.1 The Approach to IA Planning in 2021/22

- 2.1.1 The pandemic continues to have a major impact globally and as a result Council services continues to adapt or in some cases radically change the way they operate. The consequences of this are significant changes to the Council's control environment including working to new processes and policies that are no longer practical or relevant. It is against this backdrop that IA continues to apply its revised '**Audit Needs Analysis**' to help formulate its IA plan for 2021/22.
- 2.1.2 Since Quarter 2 2020/21 (during the Covid-19 pandemic), IA has used its '**Risk Universe**' (a long list of areas for potential IA review) to update the Audit Needs Analysis which included:
- Scoring and profiling each service in the Council via a risk assessment;
 - Identifying any service areas that have not been subject to an IA review in the last 4 years; and
 - Highlighting any new functions that have been created, or significant process changes that have occurred within the last 12 months.

- 2.1.3 The Audit Needs Analysis is used to inform the quarterly IA planning process, ensuring a stronger risk based approach (in accordance with PSIAS 2010 - Planning) that provides coverage over the Council's **HIGH** and **MEDIUM** risks. The changed control environment has resulted in **greater assurance coverage** featuring in the 2021/22 IA Plan. Another feature of the plan is **an increased focus on the prompt follow-up of IA recommendations** to provide timely assurance to key stakeholders. In addition, IA has agreed to **work more closely with the Council's Business Improvement Team** moving forward to ensure a more dovetailed approach to transformation of services.
- 2.1.4 The quarterly risk-based approach to IA planning means that IA coverage gives greater assurance to the Council because it is based on the key risks to the organisation's objectives. As a result, IA will not just be commenting on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.

2.2 Skills and Resources

- 2.2.1 In line with the **PSIAS Standard 1210 - Proficiency**, the HIA is professionally qualified and suitably experienced, whilst the IA activity collectively possess the knowledge, skills and other competencies needed to perform its responsibilities. The skills mix within the in-house IA team has once again continued to evolve in the last 12 months, with every team member either **professionally qualified or actively studying** for a relevant professional IA qualification.
- 2.2.2 As per the IA strategy, we continue to invest in the training and development of all our staff, including identifying opportunities for further development in associated areas of assurance. The recent recruitment exercise within the IA service has provided the HIA with an opportune time to reflect on the structure and skills mix across the IA team. This has enabled internal promotion as well as further training and development opportunities. This is in line with our recruitment strategy and model, giving additional responsibility where merited as a result of high performance.
- 2.2.3 Demand for IA assurance and consulting services usually exceeds available IA resources at local authorities. This means choices must be made that will determine the impact IA has upon the organisation and the way key stakeholders perceive the value of IA. The starting point in the IA planning process at Hillingdon is therefore to **determine the total available IA staff resources**.
- 2.2.4 After deducting an appropriate amount of allocated time for IA planning, reporting, staff training, etc, the calculated **total available IA chargeable time for 2021/22** at Hillingdon is **1,100 IA Days**, which is a **29% increase** compared to the 2020/21 IA Plan (850 IA Days). For comparison, this represents a 250 day increase on the 2020/21 IA Plan as detailed at **Appendix B**. This increase in days is primarily due a change in the composition and skills mix of the IA team.
- 2.2.5 Nevertheless, overall available IA resources fulfil the PSIAS requirements in terms of the combination of professionally qualified and appropriately experienced staff. In addition, the level of IA resources at Hillingdon is broadly in line with similar size and types of local authority in England. As a result, we are confident that there will be sufficient IA resources available to meet the skills and resource requirements needed to deliver the 2021/22 risk-based IA Plan.

2.3 Planning Sources

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

- **Team Plans** – We carried out a review of team plans, where these could be traced, to help us confirm the strategic objectives of each service area;
- **Corporate Risk Register** – Review of the Council’s Corporate Risk Register to establish those charged with governance’s view of the main risks facing the Council;
- **Group & Service Risk Registers** – We conducted a review of Group and Service risk registers (where they were in place), to help identify the key risks facing each service;
- **Senior Management** – We have met or spoken with senior managers across the Council including members of Corporate Management Team (CMT), to develop our knowledge of the risks and challenges facing their services;
- **Key Documents** – We have carried out a desktop review of key Council documents including recent Business Improvement Delivery (BID) and Hillingdon Improvement Programme (HIP) reports;
- **Audit Committee** – We will invite comments from all members of the Audit Committee when they consider the draft IA plan at the next Audit Committee meeting planned for 20th April 2021. The IA plan will be subsequently updated to reflect any further comments and observations the Audit Committee members may have, before being formally finalised and circulated to all key stakeholders;
- **Members** – We have consulted with the Leader of the Council and the Lead Cabinet Member for Finance to seek their views on the key risks facing the Council and also offered training at Member development days;
- **External Audit** – We have previously liaised with Ernst and Young (EY) to discuss any matters of concern and to identify those areas where they are likely to consider IA work to inform their own risk assessment;
- **External Inspections** – We have given consideration to any relevant external inspection or peer review reports; and
- **IA Cumulative Knowledge** – We also make reference to the cumulative knowledge of the Business Assurance service of known control weaknesses and risks facing the Council, including the wider strategic issues and regulatory changes emerging elsewhere, effecting local government.

2.4 Risk Assessment

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

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

- 2.4.2 The Council's risk management framework is not sufficiently mature to place full reliance on the corporate, directorate (group) and service risk registers to identify ALL the risks the Council faces. However, the corporate and group risk registers are developed sufficiently enough to inform the IA risk assessment process which includes post Covid-19 risk assessment and audit needs analysis work including calculating the total audit risk.
- 2.4.3 The **total audit risk score** is determined using each of the elements in para 2.4.1, which enables each area in the audit universe to be categorised into one of three '**Overall Risk Assessment**' areas as detailed below:

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

3. The 2021/22 Internal Audit Plan

- 3.1 The results of the **Overall Risk Assessment** process are used to determine IA priorities and produce the allocation of IA resources. This provides a high-level estimation of where we expect to utilise our resources over the year. Attached at **Appendix B** is a Pie Chart which provides the 2021/22 IA Plan high-level '**Estimation Allocation by Audit Type**'. We believe this allocation provides the best value to our key stakeholders, using a risk-based approach to internal control, risk management and corporate governance. Also, at **Appendix B** is a Bar Chart showing the 2021/22 IA Plan analysed by audit type.
- 3.2 Underpinning the high-level annual plan, IA will carry out quarterly planning cycles to ensure that IA coverage has the flexibility to respond to the dynamic environment in which the Council operates. As a result, appended to the quarterly IA progress reports will be the detailed operational IA plan for the following quarter. These will be formally presented and considered at the respective CMT and Audit Committee meetings in line with previous practice. It is our opinion that this approach helps make sure IA resources are directed in a more flexible and targeted manner to maximise the benefit to our stakeholders. This enables a continuous risk-based IA approach in line with the PSIAS. This will also make sure that IA planning will be conducted regularly to help ensure it remains aligned with the Council's objectives and emerging risks impacting their achievement.
- 3.3 Set out at **Appendix C** is the high level '**Allocation of IA Days for 2021/22**' which highlights that the calculated **total available IA chargeable time** for a full audit year will become **1,100 IA Days**, which is a **29% increase** (250 IA Days) compared to the 2020/21 IA Plan (850 IA Days). This increase in IA Days (as detailed at para. 2.2.4) is achievable because of a recent team restructure which saw **an increase in the size of the IA function by 2.0 f.t.e. staff** and strengthened the skills mix of the IA team at the same time (refer to the IA structure chart attached at **Appendix F**).

3.4 Appended to the 2020/21 Quarter 4 IA Progress report presented to the Audit Committee, is the detailed operational IA plan for **2021/22 Quarter 1** as agreed with the relevant senior managers. The quarterly detailed operational IA plans include several **key features** as detailed below:

- **ICT Audit** – The quarterly operational IA plans makes provision for specialised computer audit work to be undertaken by our in-house qualified computer auditor. The scope of this assurance work will be to assess and report upon the adequacy of the key ICT controls present within major Council systems and ICT processes.
- **Grant Claims** - The public sector is funded from a number of sources, including hypothecated and un-hypothecated grants. Hypothecated grants are grants for a specific purpose and un-hypothecated grants are general grants. The IA planning process has identified the number and timing of grant audits required during the year (some of which will be related to Covid-19) to ensure that there is appropriate resource available to audit claims within the required timescales.
- **Counter Fraud** – Whilst the Business Assurance Counter Fraud Team (CFT) is the lead assurance provider for the Council on fraud and corruption, the PSIA's require IA to evaluate the risk of fraud and thus we have a responsibility to give regard to the possibility of fraud and corruption as part of our coverage. IA will review the Council's counter fraud and corruption key controls as part of its 'assurance' coverage. In addition, close working, and liaison between IA and the CFT is in place, which provides critical risk intelligence to help focus IA resources.
- **Core Financial Systems** – The allocation of IA days at **Appendix C** highlights **100 days** which have been allocated for coverage of the core financial systems. This represents a slight increase to the previous year's coverage and reflects the changing risk landscape of the Council as a result of the pandemic. Financial controls are always at risk during periods of operational change and the IA resource has been adjusted to reflect this.
- **Value for Money** – As part of our 'assurance' coverage, IA may, where requested by Management, conduct Value for Money (VfM) reviews on specific areas of expenditure and seek to reach a judgement on whether good VfM has been achieved by the Council. Good VfM is defined as the optimal use of resources to achieve the intended outcomes. Our role is not to question the Council's policy objectives, but to provide independent and rigorous analysis to CMT and to the Audit Committee on the way in which public money has been spent to achieve policy objectives. As well as reaching an overall conclusion on VfM, where applicable we will make recommendations on how to achieve better VfM and to improve the services under examination.
- **Contracts** – With the increasing number of contracts in operation across the Council, there will be an increased focus by IA on contract related 'assurance' audits. This will include reviews of the procurement process, as well as contract management arrangements for the significant / high value contracts.
- **Consultancy** – In line with the PSIA's, IA coverage will include some consultancy work. The allocation of IA days at **Appendix C** highlights that only **81 days** has been allocated for IA consultancy in 2021/22. This reflects the change in risk appetite following the pandemic, with assurance coverage becoming a much greater priority.
- **Contingency** – An allocation for unprogrammed work will be included in each quarterly operational IA Plan. This will be used to respond to urgent requests for unplanned IA work. Where requests for work are not urgent, they will form part of the following quarter's operational IA Plan.

3.5 Our revised risk assessment and Audit Needs Analysis for 2021/22 continues to highlight schools as an increasingly significant risk. Schools will remain a prominent feature in the detailed quarterly operational IA Plans. As a result, **the IA team will continue to provide risk based IA coverage at LBH maintained schools**. When agreeing the quarterly audit programme for schools our cumulative knowledge includes meeting with the Council's Education Lead, Schools Finance team, HR and the relevant CMT Director.

4. Internal Audit Reporting

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

5. The Internal Audit Follow-Up Process

- 5.1 IA evaluates the Council's progress in implementing management agreed IA recommendations against set targets. Although detailed follow-up work will not be carried out by us for any **LOW** risk recommendations, IA continues to monitor all **HIGH** and **MEDIUM** risk recommendations raised. The full definitions of all the **IA Risk Ratings** are included at **Appendix C**. If progress is unsatisfactory or management fail to provide a reasonable response to our follow-up requests, we will implement the escalation procedure agreed with CMT, as clearly set out in the IA Management Protocol.
- 5.2 In addition to this, we will continue to **strengthen our approach to follow-up work in 2021/22** where we will actively follow-up on all **HIGH** risk recommendations **within 2 weeks** after their implementation date and **MEDIUM** risks **within 4 weeks** after their implementation date. This a major positive change, rather than waiting for six months for assurance in this respect as has previously been the case.
- 5.3 TeamCentral was implemented in 2014 and since then IA recommendation owners have been given the authority to revise the implementation date for the recommendation they are responsible for. In the past, when an implementation date was changed on TeamCentral by the risk owner, IA would be made aware via an automated message. Until 2020/21 the process had been working effectively with risk owners accountable for their recommendations and the recommendations generally being actioned in the agreed timescales.
- 5.4 However, in Quarter 3 2020/21 we saw a significant number of IA recommendations where the implementation date has been revised/ extended several times by risk owners and consequently in the meantime these risks remain a threat to Council objectives. As a result, IA is amending this process so that the functionality to revise implementation dates is removed for risk owners and instead all requests for implementation extensions will go to the HIA for consideration. The HIA will then, in consultation with the relevant CMT Director, agree the most appropriate course of action. This discussion will take into consideration the Covid-19 related service pressures on each manager to ensure that IA continues to be balanced and proportional in its collaborative approach with management.

- 5.5 A summary of IA recommendations is included in the quarterly IA progress reports to CMT and the Audit Committee. The IA progress report will include a table listing the numbers of **HIGH** and **MEDIUM** risk IA recommendations that have passed their implementation date and detail their current status. We will also highlight the number of recommendations that have not been actioned in the agreed timescales (where an extension has not been agreed) and provide the management rationale for that and the risk the Council is consequently still exposed to.
- 5.6 This revised approach will provide greater accountability to senior managers to manage their risk in the timescale that they have agreed. It will also provide greater transparency and assurance to CMT and the Audit Committee over the timely implementation of **HIGH** and **MEDIUM** risk IA recommendations.
- 5.7 Linked to this, it is important that all key stakeholders are clear on our role; we do not tell management what to do; we identify internal control, risk management and corporate governance weaknesses along with notable practices for management's attention. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways (**the 4 T's**):
- i) **Transfer** the risk i.e. insure against it;
 - ii) **Terminate** the risk i.e. stop carrying out the activity that creates the potential risk;
 - iii) **Treat** the risk i.e. take mitigating action to reduce the risk; and
 - iv) **Tolerate** the risk i.e. do nothing and accept that this risk could materialise.
- 5.8 IA support and advise managers in formulating a response to the risks identified. As an organisational improvement function, we will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Progress on the implementation of IA recommendations will continue to be formally reported to CMT and the Audit Committee on a quarterly basis.

6. Measuring Internal Audit Performance

6.1 The Public Sector Internal Audit Standards

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

6.2 Internal Audit Measures of Success

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

6.3 Reporting Internal Audit Performance

- 6.3.1 There are a wide range of IA stakeholders to satisfy, but the key stakeholders for the purposes of the IA progress reports are CMT and the Audit Committee. Further to this, attached at **Appendix E** are the agreed **IA KPIs** that will continue to be used in 2021/22. The rationale for KPI 7 has been revised slightly to provide more clarity over the area that is being measured and reported on.

6.3.2 We will continue to use the monitoring data maintained on our dedicated IA software system (TeamMate). A summary of actual IA performance against the targeted performance will continue to be reported to CMT and the Audit Committee as part of the quarterly IA progress reports. These results will allow all stakeholders to measure the performance and robustness of the IA team delivered by the Business Assurance Service at Hillingdon.

6.4 Analysing Internal Audit Performance

6.4.1 All nine of the agreed IA KPIs (as per **Appendix E**) need management co-operation to enable them to be achieved. In fact, IA in isolation is unable to achieve any of these KPIs; they can influence the results, but they cannot completely control them i.e. IA KPI 3 (**HIGH** risk IA recommendations where management action is taken within agreed timescale). IA influences this KPI by raising pragmatic recommendations and agreeing reasonable timescales with management, but ultimately the reliance is on management to strengthen the control environment in the agreed timeframe.

6.4.2 It is therefore important that interpretation of the IA KPIs is not taken in isolation, as other factors should be taken into account i.e. the risk focused IA approach being applied could result in a greater number of **HIGH** risk recommendations and/or a greater number of **LIMITED** assurance reports.

6.4.3 The IA KPI targets remain ambitious, but we believe they are achievable and realistic for a high performing IA service working collaboratively with exceptional managers, which is what we strive to be at Hillingdon. In terms of KPI 8 (Client Satisfaction Rating), this is based on an average score of 3.4 out of 4.0 from the IA Client Feedback Questionnaires completed by management. KPI 9 (IA reviews compliant with the PSIAS and IIA Code of Ethics) is an internal quality check completed, as part of an annual assessment of the service, to verify that all our IA work meets the required standards.

6.5 Individual Internal Audit Staff Performance

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

7. Acknowledgement

7.1 The draft 2021/22 IA Plan has been considered by CMT and is due to be presented to the Audit Committee at its meeting scheduled for 20th April 2021. It will then be finalised and circulated/ made available to key stakeholders.

7.2 The IA team would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the Council's management as part of the risk-based planning process.

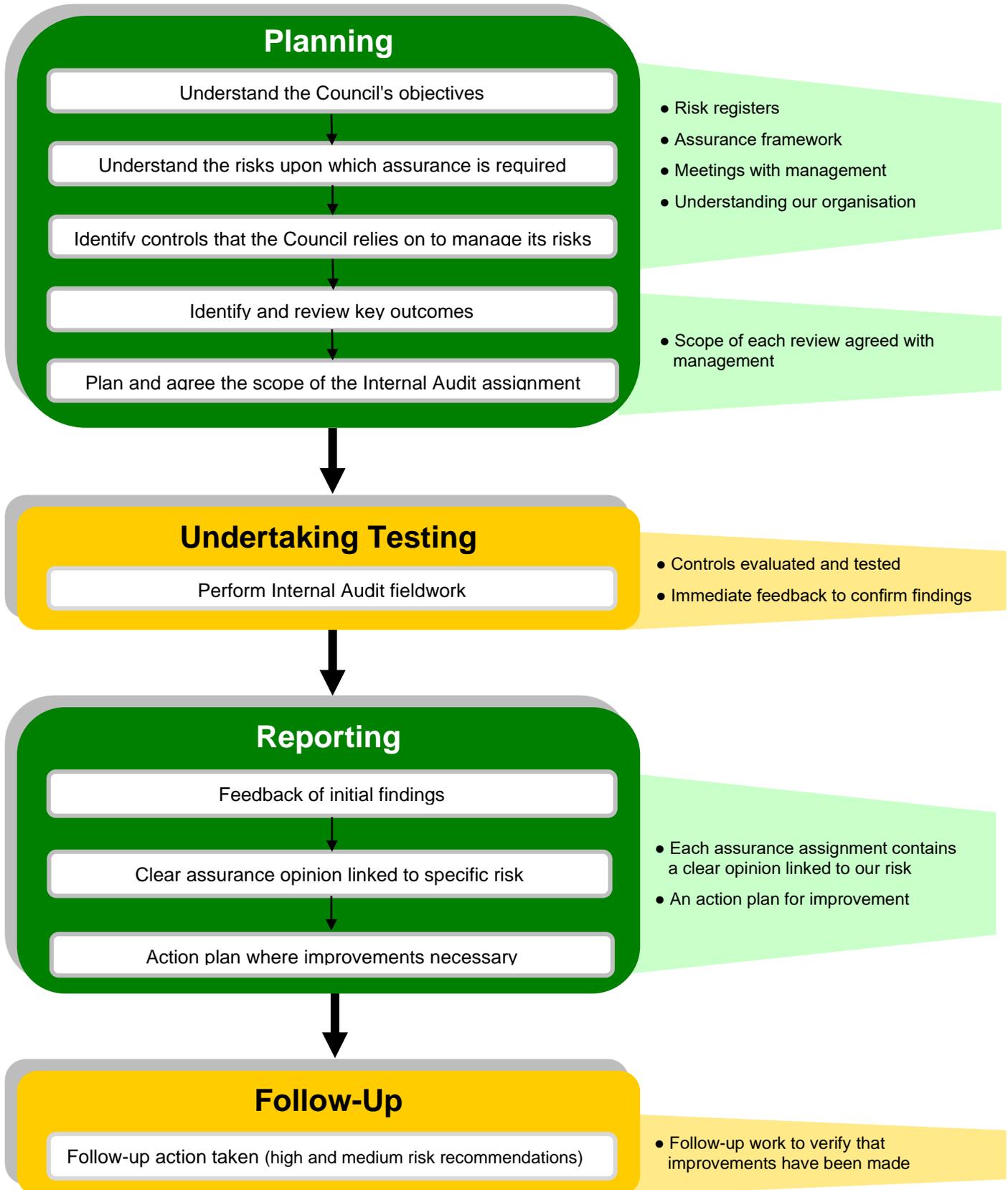
Sarah Hydrie CMIIA CIA
Head of Internal Audit & Risk Assurance

1st April 2021

APPENDIX A

THE INTERNAL AUDIT PROCESS

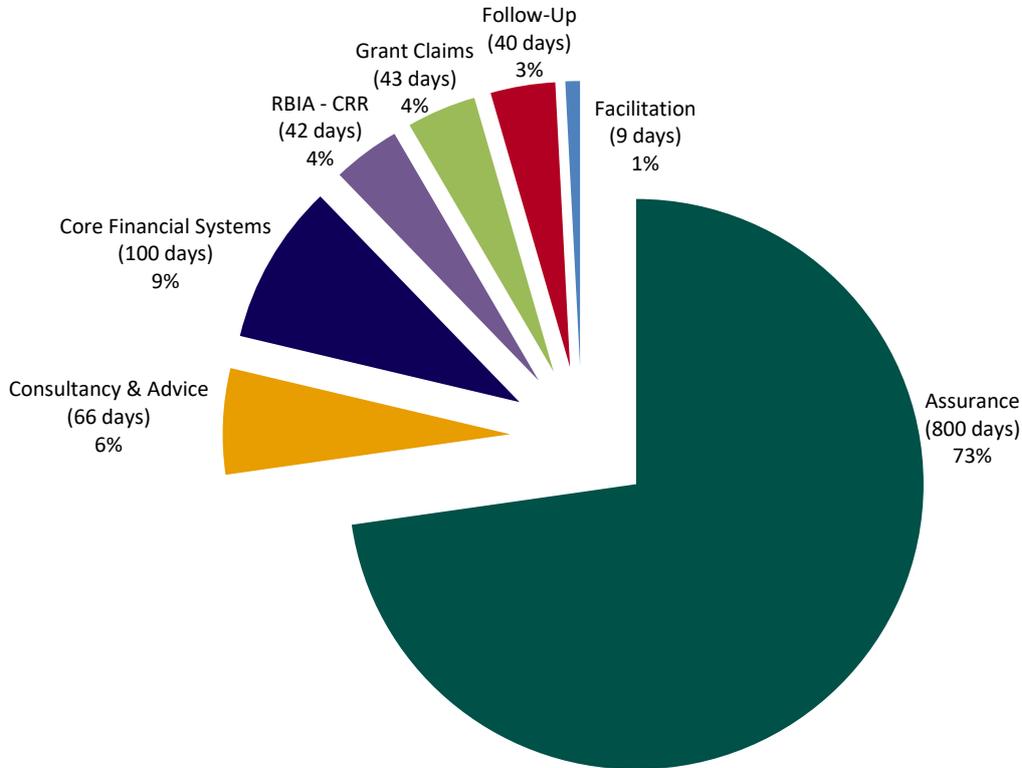
As per para 2.2, after total available IA resources have been determined the overall IA process is summarised below:



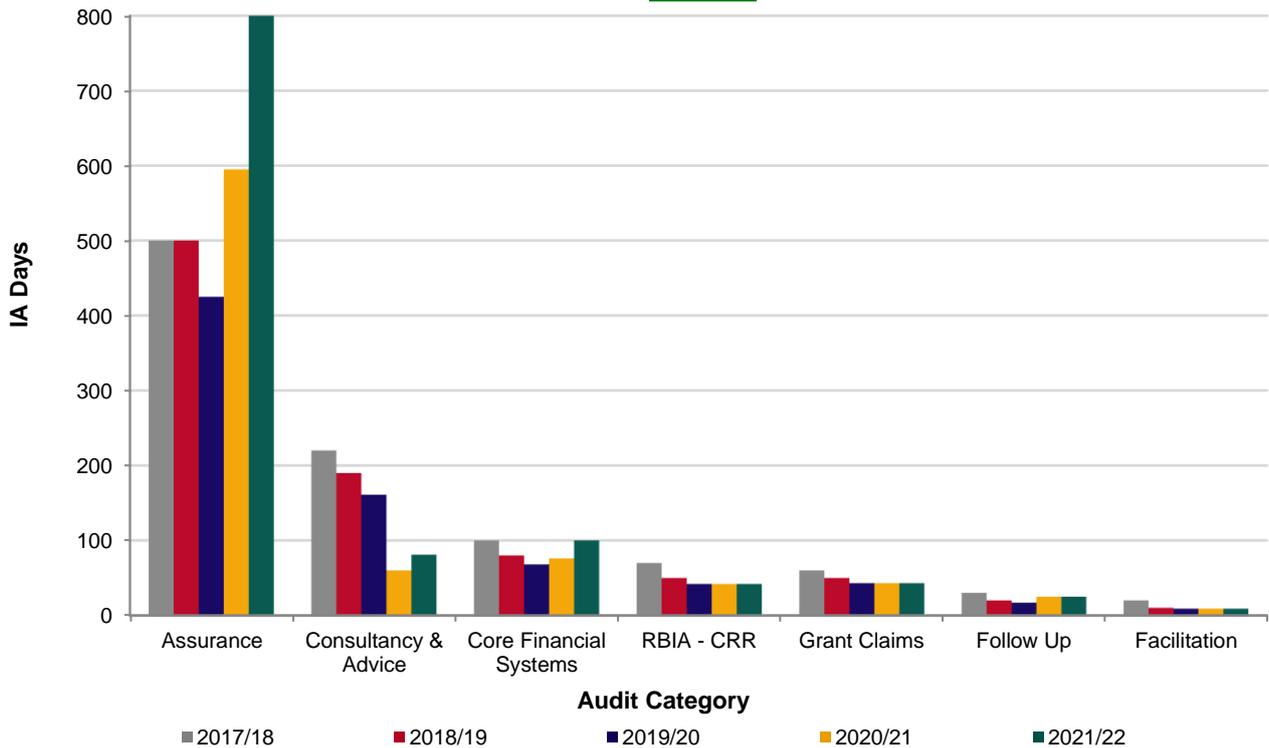
APPENDIX B

THE 2021/22 ANNUAL INTERNAL AUDIT PLAN ~ ESTIMATED ALLOCATION BY AUDIT TYPE

The 2021/22 Annual IA Plan estimated allocation by audit type is as follows:



COMPARISON OF PLANNED IA TIME BETWEEN 2017/18 THROUGH TO 2021/22



APPENDIX C**THE 2021/22 ANNUAL INTERNAL AUDIT PLAN ~ ALLOCATION OF DAYS**

Type of IA Work	Definition	% of IA Plan	2021/22 Days	2020/21 Days	2019/20 Days
Assurance	Work which provides confirmation to CMT and the Audit Committee that key risks to the achievement of objectives (including transformation projects) are being effectively mitigated and arrangements are operating as expected.	73%	800 Days	595 Days	425 Days
Core Financial Systems	Assurance coverage of the core financial processes that have a material impact on the financial position of the Council (including the HRA and DSG).	9%	100 Days	76 Days	68 Days
Consultancy & Advice	Work where the primary purpose is to advise and support management to improve systems and processes, mitigate risk and enable the achievement of objectives.	6%	66 Days	60 Days	161 Days
Grant Claims	Grant work on behalf of the Council including the Housing Subsidy and Troubled Families claims (fixed days).	4%	43 Days	43 Days	43 Days
RBIA - CRR	<u>Risk-based IA</u> (RBIA) reviews that provide assurance on the Council's strategic risks identified in the <u>Corporate Risk Register</u> (fixed days).	4%	42 Days	42 Days	42 Days
Follow-Up	Activity which ascertains the implementation of agreed management actions (fixed days - new approach introduced in 2020/21).	3%	40 Days	25 Days	17 Days
Facilitation	Activity which supports CMT in their management of risk and the production of the Annual Governance Statement (fixed days).	1%	9 Days	9 Days	9 Days
		100%	1,100 Days	850 Days	765 Days

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

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

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

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

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

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

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

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

APPENDIX E**INTERNAL AUDIT KEY PERFORMANCE INDICATORS 2021/22**

The Key Performance Indicators (KPIs) for IA quarterly reporting to CMT and the Audit Committee in 2021/22 are set out below:

KPI Ref.	Performance Measure	Target Performance 2021/22
KPI 1	HIGH risk IA recommendations where positive management action is proposed	98%
KPI 2	MEDIUM risk IA recommendations where positive management action is proposed	95%
KPI 3	HIGH risk IA recommendations where management action is taken within agreed timescale	90%
KPI 4	MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%
KPI 5	Percentage of IA Plan delivered to draft report stage by 31 st March	90%
KPI 6	Percentage of IA Plan delivered to final report stage by 31 st March	80%
KPI 7	Percentage of draft reports issued as a final report within 15 working days of completion of fieldwork (this being the final day of fieldwork, exit meeting and receipt of all outstanding information)	80%
KPI 8	Client Satisfaction Rating (from completed CFQs)	85%
KPI 9	IA work fully compliant with the PSIAS and IIA Code of Ethics	100%

*All IA KPIs Target Performance for 2021/22 have been set at the same thresholds as they were for 2020/21.

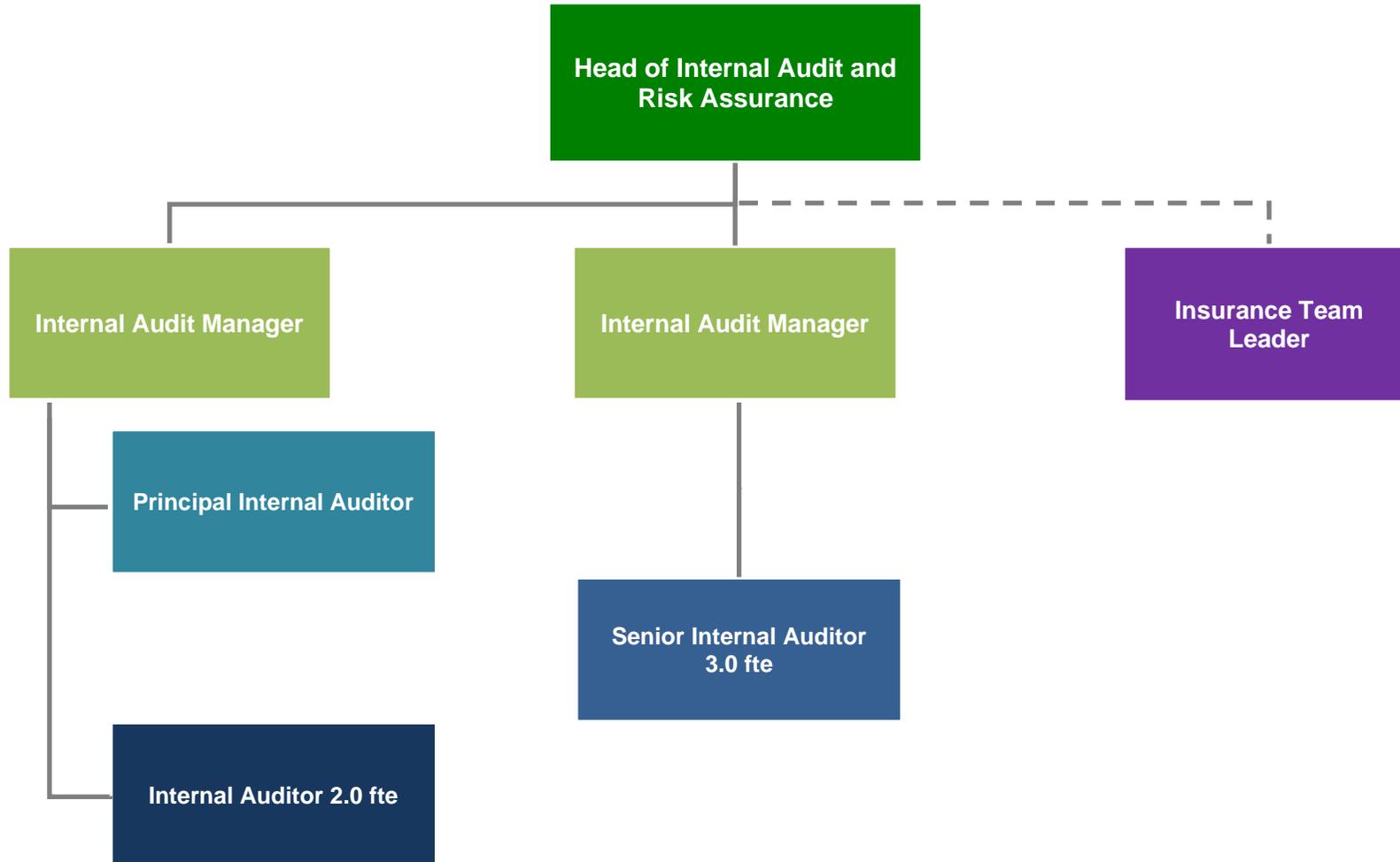
Key for above:

- 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.

INTERNAL AUDIT TEAM STRUCTURE



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AUDIT COMMITTEE - 2020/21 Quarter 4 Counter Fraud Progress Report

Committee name	Audit Committee
Officer reporting	Muir Laurie, Deputy Director of Exchequer Services & Business Assurance
Papers with report	2020/21 Quarter 4 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 2020/21 Quarter 4 and assurance in this respect. It also provides an opportunity for the Deputy Director of Exchequer Services & Business Assurance to highlight to the Audit Committee any significant Counter Fraud issues that have arisen which they need to be aware of. Further, the report enables the Audit Committee to hold the Deputy Director of Exchequer Services & Business Assurance to account on delivery of the Counter Fraud Strategic Plan and facilitates in holding management to account for managing issues identified during the course of the Business Assurance Counter Fraud Team activity.

RECOMMENDATIONS:

That the Audit Committee:

- 1. Notes the Counter Fraud Progress Report for 2020/21 Quarter 4; 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:

2020/21 Quarter 4

1st April 2021



Contents

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1. Introduction

1.1 The Role of the Business Assurance Counter Fraud Team

- 1.1.1 The Business Assurance Counter Fraud Team (BACFT) supports the Council in meeting its statutory responsibility under section 151 of the Local Government Act 1972 for the prevention and detection of fraud and corruption. The work of the BACFT underpins the Council's commitment to a zero-tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.
- 1.1.2 As well as counter fraud activity, there is also a range of preventative work that the team is responsible for carrying out. This includes fraud awareness training and ensuring the Council have up-to-date and appropriate investigation policies and procedures.

1.2 The Purpose of the Counter Fraud Progress Report

- 1.2.1 The Counter Fraud Progress Report provides the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all counter fraud work carried out during the Quarter 4 period (1st January to 31st March 2021). In addition, it provides an opportunity for the Head of Counter Fraud (HCF) and the Deputy Director of Exchequer Services & Business Assurance (DDESBA) to highlight any significant issues arising from the counter fraud work in Quarter 4 (Q4).
- 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 HCF and DDEBA to be held to account in this respect.

2. Executive Summary

- 2.1 During Q4 it was necessary for the **BACFT to alter operations in line with tighter Government Covid-19 restrictions**, creating a situation similar to the previous lockdown in March 2020. Visiting functions and direct engagement with the public was reduced in Q4, but unlike the previous lockdown, after reassessing Covid-19 related operational risks, **the BACFT was able to maintain a higher level of activity than before**. However, the challenge to the delivery of counter fraud services has increased in comparison to Q3.
- 2.2 The DDESBA can report that **in Q4, the BACFT has delivered £262k in loss prevention and financial savings** across Council services. **Total savings delivered for 2020/21 are over £1m**, meaning that the **target for the year has been met**, which is a significant achievement for the BACFT and the Council considering the current government restrictions and the significant impact on counter fraud work caused by the pandemic.
- 2.3 In Q4 the BACFT has continued to assist Exchequer Services in the provision of assurance over the various **Covid-19 Business Support Grants schemes**. Since their introduction the BACFT has assisted in **pre and post assurance checks** for all grants being administered, which will continue so long as grants are in payment and assistance is needed. This provides vital assurance that public funds are being used appropriately and **mitigates the risk of fraud** within these schemes. The BACFT, along with colleagues in Exchequer Services, complete a **monthly report to the Cabinet Office** on the progress of the scheme and assurance over fraud risks provided by counter fraud activity.
- 2.4 In Q4 the BACFT **recovered 11 Council housing properties**. This means that the total number of **properties recovered in 2020/21 is 22**, creating a **notional financial saving of £396k**. The improvement in this area of work this quarter can be partly attributed to the flexible approach the team has taken in negotiating with tenants to surrender tenancies rather than using the courts for possession.

- 2.5 The **recovery of 22 properties** in the current climate is a considerable achievement for the BACFT and we will look to build on this moving into 2021/22 by continuing with planned housing fraud projects using a risk-based approach. **Financial loss prevention for Q4 within Housing is estimated at £207k**, and the **total for 2020/21 within Housing is £649k**.
- 2.6 In the area of Revenues, the BACFT has continued to focus on **Beds in Sheds** as part of a proactive project, bringing a further **8 unregistered dwellings into Council Tax and generating income** of approximately **£22k** for the quarter. Together with work carried out elsewhere in Exchequer Services, the total loss prevention savings and income is approximately **£26k for Q4**, bringing the **total for 2020/21 to £138k**. These figures demonstrate the BACFT's commitment to working with Exchequer Services to prevent and detect fraud and loss and tackling the issue of Beds in Sheds within the borough.
- 2.7 **Total identified loss prevention savings for 2020/21 within Social Care remains £130k** and there is also a lot of other Counter Fraud being carried out in this area. Fraud awareness sessions have continued to be delivered to teams within the areas of Direct Payments and Financial Assessments, leading to increased referrals for investigation. **Positive engagement with Social Care management on identifying and managing fraud risk** has also been carried out and the BACFT currently has **16 ongoing investigations** in this area. The HCF believes this will result in positive outcomes for the Council in Q1 and Q2 of 2021/22.
- 2.8 In Q4 the **HCF has met with key Directors and Heads of Service** as part of the risk-based planned approach to counter fraud work. This has been used to inform the updated 'Fraud Universe' for the Council and BACFT Operational Work Plan for 2021/22. These discussions centred around the key fraud risks faced by each service area and the mitigation actions in place. Agreement has been reached on proactive counter fraud work to be carried out and the delivery of further fraud awareness training.
- 2.9 The team has received **126 new fraud referrals** during Q4, which is a similar volume to that of Q3. This brings the **total number of live investigations to 273**, with 37% of these cases within the area of Housing. For the second quarter running the BACFT has seen a significant increase in Revenues related investigations; these cases now account for 30% of all current investigations.

3. Analysis of Counter Fraud Activity in Quarter 4

3.1 Housing Fraud

- 3.1.1 The BACFT has continued in Q4 to carry out effective counter fraud work within Housing despite the restrictions that have remained in place during the Covid-19 pandemic. The housing provisions within the **Coronavirus Act 2020** are unchanged for the quarter, with all landlords still required to give an extended **notice period for 'Notices of Seeking Possession' of 6 months** (for all but 'serious' cases). Although the courts continue to prioritise serious cases of fraud, including cases of non-occupation and subletting, the demand is high which has caused delays in cases reaching court. **The BACFT has continued to pursue property recovery by other methods**, which in turn saves on legal costs.
- 3.1.2 Per **Table 1** over the page, in Q4 the BACFT has successfully **recovered 11 Council properties**, bringing the **total recovered for 2020/21 to 22**. There are **81** ongoing investigations into suspected housing tenancy fraud and the BACFT is actively pursuing legal action in six of these cases. The increase in property recovery this quarter is undoubtedly related to the **reintroduction of key investigation activities, such as interviewing and site visits**. BACFT staff that had been redeployed during the most recent lockdown period have now returned to investigation duties, with a positive impact on outcomes for Q4.

Table 1 ~ Housing Tenancy Fraud Cases

Housing Tenancy Fraud Cases	2020/21*		2019/20		2018/19	
	Cases	£k/value**	Cases	£k/value	Cases	£k/value
Total number of properties recovered	22	£396k	28	£504k	19	£342k
Total number of ongoing cases	81	£1,458k				

* As at 30th March 2021.

** 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 large 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 In Q4 the BACFT was granted a **possession order for one property** through the courts. However, the government has **extended the ban on all evictions**, impacting on the recovery of properties where possession orders are granted. A further government review of evictions will take place in May 2021.
- 3.1.4 The Key Performance Indicator (KPI) 4 (refer **Table 4** in **Appendix A**) targets an outcome of a Council property to be recovered for 20% of tenancy fraud referrals received. **In Q4 the team achieved 55%**, which is an extremely positive result whilst working within the current government restrictions.
- 3.1.5 During this quarter, the BACFT continued the **proactive tenancy fraud project** involving residency checks for social housing properties in a highlighted hotspot area. This project was part of a **collaborative approach with the Community Safety Team** and is currently in its final stages. To date, the BACFT have conducted **151 visits to 111 properties**. As a result, **four cases are under investigation** for suspected subletting, non-occupation and fraudulent Council Tax exemption.
- 3.1.6 As part of the BACFT's **fraud prevention work** it proactively carries out verifications on existing Council tenancies and other Housing service areas. The BACFT uses the information gathered to conduct necessary checks, including announced (and unannounced) visits. The team also works with a variety of social landlords and statutory agencies to help detect fraud where information sharing protocols are in place. This is to ensure that the people residing in Council properties are genuinely entitled to do so.
- 3.1.7 Per **Table 2** below, in the year to date the BACFT has successfully identified **625** housing register applications that should be rejected for a variety of reasons.

Table 2 ~ Housing Tenancy Verification Cases

Housing Tenancy Verification Cases	2020/21*	2019/20
Total number of cases reviewed	2,010	2,295
Total number verified as accurate	1,385	1,697
Total number rejected	625	598
% identified by BACFT for rejection	31%	26%

* As at 30th March 2021.

- 3.1.8 Of the **625** cases that have been rejected, **14** individuals' applications have been completely closed. Applications are closed due to a range of reasons, such as they do not have 10 years borough residency, they have no immigration status, they own a property elsewhere or they have over £30k in savings or assets. Without the BACFT's enhanced verifications checks, these applicants may have been successful in obtaining a Council property that they were not entitled to.
- 3.1.9 KPI 2a (refer to **Table 4** in **Appendix A**) targets an **outcome of 95%** of Housing allocations verifications to be completed within the target date set by the Housing department. In Q4 the team has successfully achieved **98% of verifications** meeting and exceeding this KPI, which is an improvement on the previous quarter. More staff within the Housing Investigations Unit have been trained to carry out these checks resulting in the improved performance.

3.2 National Fraud Initiative & Internal Data Matching

- 3.2.1 The National Fraud Initiative (NFI) is a data matching exercise co-ordinated by the Cabinet Office and conducted every 2 years. The NFI matches data from over 1,300 organisations, including councils, the Police, hospitals and almost 100 private companies to identify potential fraud and error. The BACFT has continued to work on matches as part of the project in Q4 and is anticipating **loss prevention savings of around £25k to report**, though these are yet to be confirmed and therefore not reported in the figures for this quarter. Delays in reporting are a consequence of colleagues in Exchequer Services being redeployed to assist with the administration of Covid-19 grants. As a result, this loss prevention saving will be reported in Q1 of 2021/22.
- 3.2.2 The NFI data match against DWP data this quarter has contributed to the **recovery of two properties** with a further seven cases under investigation. The results of these investigations will be made reported in future progress reports.

3.3 Revenues Fraud & Inspections

- 3.3.1 The BACFT has been focussing on **Business Rates avoidance** as part of the Q4 work within Exchequer Services. The planned project with Experian has been put on hold due to the demands of the Covid-19 grants assurance work. Instead a **businesses mapping exercise** has been undertaken for many of the high streets in the borough. This has helped to ensure the accuracy of Council records and to identify properties and or businesses that were unregistered for rates. It will also highlight businesses that have failed to comply with government Covid-19 restrictions. This exercise will help to increase the revenues base and the collection of rates of the Council; results will be made available in the Q1 2021/22 progress report.
- 3.3.2 Per **Table 3**, the BACFT has **conducted 6,005 inspections in the year to date**, with 3,519 (59%) completed within the target. Performance in Q4 has significantly improved over previous quarters, with **84% of inspections completed within target**. Whilst this is a much stronger performance, further improvement is still needed for the next financial year in order to meet the KPI 7 of 95% (refer to **Table 4** in **Appendix A**).

Table 3 ~ Revenues Inspections Performance 2020/21

Revenues Inspections	Q1	Q2	Q3	Q4	2020/21*	2019/20
Total number of inspections completed	340	1,461	1,533	2,671	6,005	5,592
Percentage within 10 day target	30%	34%	48%	84%	59%	63%

* As at 30th March 2021.

3.3.3 In Q4, proactive work has continued to identify '**Beds in Sheds**' within the borough. 'Beds in Sheds' is the term used to describe habitable outbuildings, or annexes to private properties, erected without the awareness of the Council or Valuation Office. BACFT staff redeployment and visiting restrictions in Q4 has meant that work in this area was on a smaller scale than originally planned. However, the team successfully identified **8 further unregistered dwellings**, with over **£20k of loss prevention savings also identified** during this quarter. This total is made up of the savings for the 8 new dwellings and the outstanding savings that had not been confirmed in Q3. In total, **21 unregistered dwellings** have been identified during this financial year to date. The identification of Beds in Sheds will continue to be a priority for the BACFT in 2021/22.

3.4 Grants Assurance Work

3.4.1 Officers from the BACFT have continued to assist in the **verification of several business grants schemes** introduced in November 2020. This work is likely to continue until June 2021, as further grants are soon to be introduced. The BACFT have been assisting colleagues in Exchequer Services with the verification of eligibility for payments and the instigation of the grant recovery process. So far, a total of **3,304 verification checks** have been completed. Of those checked, **891 have been verified by BACFT, 14 have not been verified and 60 are under further investigation. Two businesses** are under formal investigation for potential fraudulent grant applications. BACFT officers have also been working closely with colleagues from Environmental Services, to help co-ordinate a project where all the businesses that have made grant applications will be visited. Any business found to be in breach of government Covid-19 guidelines will have to repay their grant money for the period in question.

3.5 Social Services

3.5.1 The team has continued to engage with key stakeholders within Social Services, providing **Fraud Awareness Sessions** to managers, discussing fraud risks and championing counter fraud activity. This has been successful with a significant increase in referrals from Social Care this quarter, bringing the **total number of investigations in this area to 16**. Despite there being no loss prevention outcomes to report in Q4, the BACFT has made good progress that will ensure better fraud awareness and prevention, greater control of fraud risk and provide positive financial outcomes in this area over the coming year.

3.5.2 In Q4 the BACFT and the **Financial Assessments (FA)** team have collaborated on a **new verification process** to be introduced in Q1 of 2021/22. The FA team is responsible for assessing eligibility to receive financial support for care home placements or homecare. There are strict eligibility criteria in place and the assessment takes into consideration savings, income and assets. The new verifications carried out by the BACFT are designed to ensure all applicants accurately meet the eligibility criteria and will identify any applicants attempting to hide income or assets. This will support the work of the FA team and provide a greater level of assurance to managers over the risk of fraud in this area.

3.6 Blue Badge

3.6.1 Investigations into the cases of blue badge misuse identified in Q3 during a proactive Blue Badge project, are still ongoing. The delay is related to current Covid-19 restrictions as the team are unable to deliver simple cautions or fixed penalty notices remotely. Further updates on this work area will be available in the next progress report.

3.7 Immigration Enforcement Officer

3.7.1 The BACFT has had a Home Office Immigration Enforcement Officer (IEO) working as part of the team since April 2018, providing enhanced access to Home Office data for the purpose of assessing cases involving immigration issues and for assisting in a range of counter fraud work.

- 3.7.2 Unlike the first lockdown, **there has been no suspension of IEO services in Q4** despite the Government restrictions. However, Q4 has seen a continued decrease in the number of requests to the IEO which is due to the knock on impact of the pandemic i.e. the IEO has been working remotely as have the majority of staff therefore there is less visibility and awareness of the IEO. **To address the reduction in referrals** efforts were made during this quarter to further promote the availability of the IEO. Information on IEO availability was sent out via the All Staff Email and the value of the information that can be provided by the IEO was discussed during fraud awareness sessions.
- 3.7.3 Despite the drop in referrals, the IEO has contributed **loss prevention savings of £28,379 in Q4** (refer to **Table 5** in **Appendix B**). These savings are related to the prevention of Homelessness Applications where the applicant was identified by the IEO to have no recourse to public funds. It is noted that during current Government restrictions individuals identified by the IEO as having no recourse to public funds must still be offered discretionary emergency accommodation. This is according to Government guidance and is likely to continue until the Government restrictions are lifted.
- 3.8 Other Counter Fraud Activities**
- 3.8.1 As part of the annual Counter Fraud risk-based planning process, the **Fraud Risk register** has been reviewed and refreshed to identify and score current and emerging fraud risks as part of the Council's '**Fraud Universe**'. Meetings have been held with senior managers from over 20 different service areas to review their current fraud risks and discuss the mitigation actions and procedures they currently have in place (refer to the **Counter Fraud Strategic Plan 2021/22** for further details).
- 3.8.2 As part of the team's commitment to loss prevention, the BACFT have established a **Debt Recovery Working Group** to address the difficulties the Council faces in debt recovery aiming to improve debt recovery rates and reduce write-offs. The working group is reviewing and improving debt recovery processes by using the BACFT's expertise in intelligence gathering and tracing individual debtors. This new initiative is still in its infancy and results will be reported in due course.

4. Analysis of the Counter Fraud Team's Performance in Quarter 4

- 4.1 Attached at **Appendix A** is **Table 4** which sets out the performance by the BACFT against the nine KPIs in Q4. Also attached at **Appendix B** is **Table 5** which provides an overview of the financial performance of the team in Q4 within each of the main areas of counter fraud activity.
- 4.2 This quarter has seen an improvement in performance across some of the KPI's; **6 of the 9 KPIs are at or above targeted performance**, whilst **2 are red**. Performance should be considered against the challenges the team has faced in this quarter including the impact of current Government restrictions and redeployment of team members into frontline Covid-19 response activities. As planned out in the Q3 progress report, the **team has delivered an improved performance** against risk assessments, verifications of Housing Allocations and of Revenues Inspections in Q4.

5. Forward Look

- 5.1 As we look forward to Q1 of 2021/22, the BACFT will have to continue to alter operational activities due to the Covid-19 restrictions, although these should begin to have less impact moving forward. Desk-based investigative approaches will continue for vulnerable individuals and/or where the assessed risk is higher. The **BACFT will be able to carry out visiting and interviewing functions for most cases and for project work**. The Covid-19 risk assessment will be kept under review and updated to reflect changes to government restrictions as appropriate.

- 5.2 The BACFT will be taking part in a **Targeted Problem Solving Day** in conjunction with other enforcement teams within the Council. The event is organised by the Community Safety Team and will be run periodically across different wards within the Borough throughout the year. This project brings Counter Fraud, enforcement, and other teams together, with the concept that enforcement related issues are often not found in isolation and enhanced joint working between Council teams in a focussed way allows all enforcement related matters to be dealt with more effectively.
- 5.3 The team will continue to support Exchequer Services on the administration of **Business Grants Schemes**, providing verification checks to ensure eligibility as well as initiating recovery action against those business that have received a grant to which they are not entitled. This work is likely to continue throughout Q1 of 2021/22 and potentially beyond.
- 5.4 April 2021 will see a change in leadership for the BACFT, with the current HCF (Zac O'Neil) due to take up a new job as the Head of Counter Fraud Practice for the Scottish Government. This is a fantastic opportunity and challenge for Zac and has been achieved partly because of the excellent work he and the BACFT have achieved over the last three and a half years since he joined LBH. Given the ongoing uncertainty created by the pandemic it has been decided to put in place interim HCF arrangements for the next few months. As a result, Alex Brown (current Counter Fraud Manager for the Special Investigations Unit), after a rigorous internal recruitment process has been appointed Interim Head of Counter Fraud. A decision on a permanent HCF will be made in Q2.
- 5.5 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 this quarter. There are no other counter fraud matters that the DDESBA needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie FCCA CMIIA

Deputy Director of Exchequer Services & Business Assurance

1st April 2021

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

BACFT KPIs	Target	Q1	Q2	Q3	Q4	20/21†	19/20
1. Percentage of fraud referrals risk assessed within 3 working days	95%	42%	100%	92%	98%	87%	98%
2. Verification work timescales for completion:							
a. Housing Allocations completion within the target date set by Housing.	95%	95%	99%	91%	98%	95%	95%
b. First Time Buyer completion within 5 working days	95%	100%	N/A*	30%	N/A*	33%	100%
c. Right to Buy case completion within 28 working days	95%	N/A*	100%	100%	100%	100%	81%
3. Investigation plan completion within 5 working days of case allocation	95%	46%	86%	100%	95%	90%	94%
4. Tenancy fraud referrals received resulting in property recovery	20%	50%	34%	23%	55%	41%	28%
5. Investigations resulting in sanction (prosecution/penalty/caution)	10%	N/A*	6%	10%	0%	5%	3%
6. Investigations resulting in loss prevention/financial saving outcome	25%	50%	24%	42%	43%	39%	33%
7. Revenues inspections completed within 10 days of raising	95%	34%	30%	48%	84%	59%	63%

* N/A indicates where no work was carried out in the quarter due to no new cases or that the team did not carry out any work due to redeployment.

†As at 30th March 2021.

APPENDIX B**Table 5 ~ BACFT Quarter 4 2020/21 ~ Financial Performance**

Work Area	Description	Quarter 1	Quarter 2	Quarter 3	Quarter 4	2020/21*
Housing	Right to Buy discounts	£103,900	£0	£110,500	£0	£214,400
	Property Recovery (notional savings)	£36,000	£72,000	£90,000	£198,000	£396,000
	Other savings/loss prevention	£0	£5,384	£24,061	£9,972	£39,418
Social Services	Section 17	£0	£0	£27,344	£0	£27,344
	Financial Assessments	£0	£0	£53,791	£0	£53,791
	Disabled Facilities Grants	£0	19,500	£30,000	£0	£49,500
Revenues	Council Tax Reduction	£1,487	£1,425	£0	£0	£2,913
	Single Person Discount	£8,157	£1,900	£7,927	£1,874	£19,857
	Council Tax Arrears	£3,180	£1,185	£5,884	£200	£10,449
	Beds in Sheds	£0	£14,579	£1,314	£20,763	£36,657
	Housing Benefit Overpayments	£2,934	£9,000	£10,640	£0	£22,575
	Small Business Rates Relief (SBBR)	£0	£0	£27,503	£3,718	£31,221
	NNDR	£0	£0	£2,509	£0	£2,509
	Business Directory	£0	£0	£12,118	£0	£12,118
Blue Badge	Simple Caution & Financial Penalty	£0	£100	£200	£0	£300
Immigration Officer	Housing Homelessness Applications**	£0	£47,299	£9,460	£28,379	£85,138
Totals	Loss Prevention Savings	£103,900	£66,799	£282,659	£42,069	£495,427
	Notional Savings	£38,934	£81,000	£100,640	£198,000	£418,574
	Cashable Savings	£12,824	£24,474	£29,752	£22,838	£89,889
	Costs awarded and penalties	£0	£100	£200	£0	£300
	Total	£155,659	£172,373	£413,251	£262,906	£1,004,190

* As at 30th March 2021.

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

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DRAFT COUNTER FRAUD STRATEGIC PLAN 2021/22

Committee name	Audit Committee
Officer reporting	Muir Laurie, Deputy Director of Exchequer Services & Business Assurance
Papers with report	Counter Fraud Strategic Plan 2021/22
Ward	All

REASON FOR ITEM

The attached report presents the Audit Committee with the draft Counter Fraud Strategic Plan for 2021/22 which sets out the planned approach and activity type for the forthcoming financial year and seeks to:

- Define the strategic approach that the Business Assurance Counter Fraud Team (BACFT) will take in effectively managing the various risks of fraud faced by the Council by full implementation of a risk-based Counter Fraud Strategy;
- Set out the updated organisational fraud risk profile (Fraud Universe) within a Covid-19 global pandemic environment;
- Clearly set out the BACFT's Operational Work Plan for 2021/22, commencing 1st April 2021, designed to deliver on counter fraud strategic aims; and
- Demonstrate the Council's commitment to a zero-tolerance approach to fraud.

RECOMMENDATIONS:

That the Committee:

- 1. Notes the Draft Counter Fraud Strategic Plan 2021/22;**
- 2. Notes the Counter Fraud Team Operational Work Plan 2021/22; and**
- 3. Suggests any amendments/comments.**

SUPPORTING INFORMATION

The Council's Fraud Universe forms a large part of the counter fraud strategic approach. The overarching aim of the strategy is to embed a risk-based approach to counter fraud activity and ensure that counter fraud is seen as a key part of the Council's risk management processes.

Implications on related Council policies

None.

How this report benefits our governance arrangements and residents

The Counter Fraud Strategic Plan reinforces the Council's governance arrangements in relation to the prevention of financial loss, fraud, corruption and gives confidence to residents over the administration of public funds.

BACKGROUND PAPERS

The Business Assurance service holds various background statistical management documents in relation to the production of the Draft Counter Fraud Strategic Plan.

**Draft Counter Fraud
Strategic Plan 2021/22:**

1st April 2021



Contents

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1. Introduction

Anti-Fraud and Anti-Corruption – Vision and Priorities

- 1.1 Hillingdon Council is the second largest London Borough and a port authority with the UK's main international travel hub within its boundaries. This means that it is faced with significant challenges in ensuring that public finances are protected from fraud and corruption. Fraud is an ever-evolving pressure on public sector organisations, with those engaged in it always looking for opportunities to exploit system weaknesses to gain access to money, valuable information or benefit. It is the Council's duty to stop this wherever it can, ensuring that fraud risk is understood, actively prevented and appropriate action taken against those who commit it.
- 1.2 The impact of fraud and corruption threatens the prosperity of the London Borough of Hillingdon (LBH) and its residents, with the potential to erode confidence in the Council as an institution. Fraud removes money from essential Council services and reduces the Council's ability to help those most in need. The effects of fraud are often compounded by its link to Organised Criminal Groups (OCGs) and the negative impact on the community with increased levels of related crime. This makes counter fraud work a crucial activity for LBH.
- 1.3 The Council's vision is '*putting our residents first*'. Combating fraud and corruption within its services fully supports this vision. Our priorities are to fully implement a 'zero-tolerance' approach to fraud and a Council where fraud and corruption is unable to thrive due to an organisational environment hostile to fraud and its causes. To ensure that LBH is fully fraud-aware and enabled, preventing fraud through front line defences, advanced and early detection, and appropriate fraud deterrents.

The Purpose of the Counter Fraud Strategic Plan 2021/22

- 1.4 The Counter Fraud Strategic Plan 2021/22 defines the Council's approach to effectively manage both the internal and external risk of fraud and corruption against the Council and the services it provides. LBH has a statutory responsibility under section 151 of the Local Government Act 1972 for the prevention and detection of fraud and corruption. The Counter Fraud Strategic Plan sets out how LBH will meet this requirement and supports the Council's vision by ensuring there are robust safeguards against the unlawful loss of taxpayer funds.

The Role of the Business Assurance Counter Fraud Team

- 1.5 The Business Assurance Counter Fraud Team (BACFT) is responsible for delivering the Counter Fraud Strategic Plan and ensuring that the Council meets its statutory objectives in relation to fraud and corruption. A key feature of the Counter Fraud Strategic Plan is the BACFT's Operational Work Plan for 2021/22 (please refer to **Appendix B**). This has been produced using a risk-based approach to the Council's 'Fraud Universe' and is designed to deliver on the **financial savings target for 2021/22 of £1.5m**.
- 1.6 As well as a range of counter fraud activities, the BACFT has historically conducted a range of other types of investigative work which do not necessarily have a criminal or fraud element to them i.e. revenue inspections, disciplinary investigations, etc. The work that the BACFT carries out is set out within the Counter Fraud Strategic Plan. It includes preventative work such as fraud awareness training, advising management on fraud risks and counter fraud controls, and ensuring the Council has up-to-date and appropriate investigation policies and procedures.

2. Integration of approach with Internal Audit

- 2.1 An element of the overall counter fraud strategy since August 2017 has been to achieve integration between the work of Internal Audit (IA) and the BACFT. This remains an important feature of the counter fraud strategy due to the benefits of an IA service and BACFT that are fully integrated and risk-based, whilst remaining as two distinct functions.

- 2.2 The nature of work of both the IA and BACFT services means a natural alignment can be found in the provision of assurance around risk management. It is intended that through this integration, a counter fraud culture and awareness of fraud will be more easily embedded across the organisation.
- 2.3 The key elements of this approach include:
- A coordinated IA and BACFT annual planning process which is monitored and updated on a quarterly basis;
 - Flexibility of approach on cases of suspected fraud where there are elements falling across both remits;
 - Shared view of fraud risks across the Council and a joined-up approach to risk management where fraud risk exists;
 - IA and BACFT utilisation of each other's work, focussing resource towards the highest risk areas providing a greater level of context for investigations and IA reviews;
 - Shared understanding of the emergence of new fraud risks across the Council and within the public and private sector; and
 - A greater level of assurance to Audit Committee/all Members and Senior Managers that fraud risks are being managed appropriately.
- 2.4 This approach has been proven to be more effective in the management of fraud risks. It also provides an efficient use of resource in dealing with fraud and a greater opportunity to minimise the Council's fraud losses.

3. Defining Fraud & Corruption

- 3.1 The term '**fraud**' commonly includes activities such as theft, deception, bribery, forgery, extortion, conspiracy, and money laundering. These include, but are not limited to, the specific offences in the Fraud Act 2006. Fraud can be an attempted or actual act committed against the Council and/or its partners.
- 3.2 Fraud was defined in law for the first time with the introduction of the Fraud Act 2006. Fraud essentially involves a dishonest misrepresentation, failure to disclose information or abuse of position, with the intent to make a personal gain for oneself and/or create a loss for another.
- 3.3 **Corruption** is 'the offering, giving, soliciting, or acceptance of an inducement or reward, or showing any favour or disfavour, which may influence any person to act improperly'. It is primarily an offence under the Bribery Act 2010, although there are other related offences under the Prevention of Corruption Act 1906.

4. Strategic Aims & Objectives

- 4.1 The fraud and corruption risks faced by the Council are varied and span across all service areas. Fraud risk is highly sensitive to environmental factors with new challenges in preventing and detecting fraud emerging frequently. Increases in the emergence of new fraud risk is well documented during a local or national crisis or emergency, meaning the ongoing global pandemic continues to create new fraud risks for the Council to respond to. An updated assessment of LBH's current key fraud risks is documented within the Council's 'fraud universe' (please refer to **Appendix A**).
- 4.2 The aim of our strategic approach is to embed all elements of good practice in counter fraud into the existing governance arrangements for the Council to help achieve LBH's Counter Fraud Strategic Objectives. This will provide assurance to elected Members and Senior Managers that the Council's exposure to fraud risk is minimised.

- 4.3 The **Counter Fraud Strategic Objectives** for LBH are as follows:
1. Maximise loss prevention within Council services through effective counter fraud activity;
 2. Limit the opportunity for instances of fraud and corruption across the Council through effective prevention measures;
 3. Create a strong deterrent effect to fraud and corruption;
 4. Improve the Council's reputation across all stakeholders through the visibility of effective counter fraud activities;
 5. Improve the Council's overall governance arrangements;
 6. Reinforce an organisational culture of zero-tolerance to fraud;
 7. Embed and maintain an organisation-wide fraud risk awareness;
 8. Achieve the BACFT Operational Work Plan 2021/22; and
 9. Deliver financial savings and loss prevention across Council services of at least £1.5m.
- 4.4 To achieve these desired outcomes/strategic objectives, we consider there to be four key elements to this strategy per **Table 1** below.

Table 1 ~ Strategic Elements



Risk-based Strategic Fraud Overview:

- Developing and maintaining an organisation-wide fraud risk profile (Fraud Universe). Internal and external data and information is used intelligently and effectively to identify and fully define the key areas of fraud risk for the Council. Changes to these risks are continually monitored and the Fraud Universe updated in line with a current analysis of fraud risk.
- Ensuring the implementation and maintenance of appropriate counter fraud policies, processes and practices as part of a corporate framework to underpin all counter fraud measures and the effective use of deterrents.

Partnership & Engagement:

- Building and maintaining strong working relationships with counter fraud stakeholders, obtaining buy-in from residents and colleagues in order to drive a strong counter fraud culture and promote ownership of fraud issues, whilst enhancing the reputation of the BACFT.

- Integration of Counter Fraud and IA functions to inform fraud risk assessment methodology, counter fraud planning and internal control recommendations.
- Collaborating with our enforcement partners, including the police, enforcement officers and agencies to enhance investigation activities, lawfully share intelligence and maximise counter fraud outcomes.
- Work jointly with Council colleagues on the design and implementation of counter fraud projects, investigation activity and counter fraud controls, to embed a collaborative approach and enhance the counter fraud environment within the Council.

Prevent, Detect, Pursue & Deter:

- Embed fraud awareness through an ongoing programme of training and fraud risk control review, championing the implementation and maintenance of effective counter fraud controls.
- Deter fraud through fraud awareness campaigns focussing on key stakeholder groups including, staff, residents and partner organisations.
- Ensure regular communication on fraud referral and whistleblowing processes and fraud issues, both internally and externally, to encourage and maintain levels of fraud and corruption reporting.
- Identifying fraud, corruption and financial loss through a programme of targeted proactive counter fraud projects, targeting the highest fraud risk areas within the Council, as informed by the Fraud Universe.
- Robust and lawful intelligence led investigation of suspected cases of fraud and corruption in line with Council policy and professional good practice, and the application of appropriate sanctions and prosecutions where proportionate and necessary.

Innovation & Modernisation:

- Utilising existing and new technology to enhance and progressively modernise case management, intelligence gathering and investigative capabilities.
- Streamline operational processes to drive efficiencies, identify smarter ways of working and innovative counter fraud practices aimed at delivering enhanced outcomes.
- Implementation of Council-wide data warehousing and data matching, utilising available information sharing and data analysis capabilities, working with internal and external partners, to deliver increased financial savings across all service areas, identify new fraud and error and enhance data management.

5. Corporate Framework

- 5.1 This strategic plan is part of an established corporate framework of interrelated policies and procedures covering the main elements of the Council's approach to countering fraud and corruption. These include:
- Prosecutions & Sanctions Policy;
 - Whistleblowing Policy;
 - Corporate Investigations Protocol;
 - Anti-Bribery Policy;
 - Anti-Money Laundering Policy; and
 - Surveillance Policy.
- 5.2 It is the responsibility of the Deputy Director of Exchequer Services & Business Assurance, together with the Head of Counter Fraud and the Borough Solicitor to ensure this framework is reviewed and updated where necessary for compliance with statutory requirements and best practice in counter fraud and anti-corruption.

- 5.3 Clear information on the Council's approach to combating fraud and error and the related and procedures will be regularly communicated with all council staff. Clear lines of communication are available for staff and residents to ensure there are no barriers to raising concerns about fraud and corruption. These include.
- Dedicated 'report a fraud' telephone hotline;
 - Fraud reporting form available to members of staff and members of the public via the Council's website and internally via Horizon with clear guidance;
 - Anti-Money Laundering reporting form with clear guidance for staff on when to report; and
 - Fraud Awareness e-Learning package - mandatory for all new staff.
- 5.4 Staff responsibilities in relation to fraud, corruption and money laundering reporting are contained within the staff Code of Conduct and relevant policies. All staff are required to report suspected fraud, corruption and/or money laundering under all circumstances. Failure to do so will be considered a breach of the staff Code of Conduct and may lead to action under the Council's Disciplinary Policy and Procedure.

6. The Counter Fraud Team Approach

- 6.1 In August 2017 the BACFT implemented a risk-based approach to all counter fraud work. This methodology is in line with CIPFA's counter fraud and corruption strategy for local government '*Fighting Fraud & Corruption Locally*'. It helps ensure that the BACFT's resources are consistently deployed in an effective manner to help LBH achieve its overall Counter Fraud Strategic Objective of '*Maximising Loss Prevention*'.
- 6.2 The BACFT is structured to effectively respond to the key fraud risks for the Council (refer to **Appendix C**). Each sub-team within the BACFT is aligned by fraud risk as opposed to function, with three distinct investigation units: Housing Investigations, Revenues Investigations and Special Investigations. These three units each have responsibility for their specified area of fraud risk and cases are managed as part of a cradle-to-grave process, proving an efficient and quality counter fraud service.
- 6.3 The BACFT's primary focus is the delivery of the Operational Plan for 2021/22 (refer to **Appendix B**). This plan is designed to provide assurance over the Council's key fraud risks and achieve the Counter Fraud Strategic Objectives (refer to para. 4.3), with the overall aim/desired outcome of maximising fraud prevention and minimising the amount of LBH taxpayers' money lost to fraud.

7. Acknowledgement

- 7.1 The draft Counter Fraud Strategic Plan 2021/22 has been reviewed by Corporate Management Team on 24th March 2021, is due to be considered by Audit Committee at its planned meeting on 20th April and then by Cabinet on 17th June. Once approved, it will then be made available to all key stakeholders.
- 7.2 The BACFT would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the Council's management as part of the risk-based planning process.

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

1st April 2020

APPENDIX A**HILLINGDON FRAUD UNIVERSE 2021/22**

The fraud risks specific to LBH are set in **Table 2** below, which is a summary of the organisational fraud risk assessment (the Fraud Universe) for the Council.

Table 2 ~ Summary Risk Assessment

Fraud Risk Area	Risk Description
Covid-19 Global Pandemic	<ul style="list-style-type: none"> • Pressure on business community with higher levels of unemployment and greater numbers seeking Housing services and tax exemptions creating higher instances of fraud within related services. • Increased financial pressure on individuals and concerns over money and fear of redundancy leading to higher likelihood and pressure to commit fraud against Council services and financial schemes. • Increased urgency of delivery within services leading to reduced due diligence over service delivery and overriding of controls and a greater opportunity for fraud. • Changes to working practice such as working from home, staff shortages stretching resources and higher levels of sickness, affecting the operation of preventative controls, decreased monitoring activity and increasing risk of fraud going undetected. • Decreased face-to-face meeting with service users, less availability of original documentation, more provision of services remotely leading to higher likelihood of fraud not being detected. • Ongoing provision of business grants and financial assistance to businesses together with untested and immature control environment for specific schemes creating new opportunities for fraud. • Higher financial pressure on Council contractors creating increased desire to maximise profit from contracts leading to higher likelihood of misrepresentation and fraud within procurement processes and operation of contracts. • Higher levels of housing need and homelessness claims in the borough linked to Covid-19 pressures leading to increased levels of fraud within housing. • Availability of new business grants linked to Covid-19 and pressure to pay out support to businesses leads to increased risks to misappropriation of funding by organised criminals and companies not eligible for funding.
Procurement of Goods and Services	<ul style="list-style-type: none"> • Pressure to win public sector contracts leading to the risk of manipulation of procurement processes through bribery of Council officers. • Businesses engaging in uncompetitive practices within the contract tendering process leading to higher costs to the Council. • Risk of Council officers failing to follow appropriate contract management practices leading to the risk of fraudulent under-delivery within contract specification and financial loss. • Exploitation of procurement processes through collusion between Council officers to appropriate goods or financially benefit.

cont.

Table 2 ~ Summary Risk Assessment (cont.)

Fraud Risk Area	Risk Description
Social Housing	<ul style="list-style-type: none"> • False homelessness claims lead to wrongful expenditure on temporary accommodation and Section 17 funded accommodations and associated fraud. • Limited availability of low-cost social housing leads to greater competition for Council housing and increased risk of misrepresentation of circumstances within the process. • High value rents within the borough creates the opportunity financial gain and increased risk of sub-letting of Council properties. • Council tenancies are viewed as a potential asset through low cost rents and the Right to Buy scheme, leading to the risk of false succession claims. • High value of properties within Hillingdon and the opportunity for discounted property purchase through the Right to Buy scheme leading to the risk of fraudulent applications under the scheme.
Social Care	<ul style="list-style-type: none"> • High costs of personal care requirements leading to greater pressure to misrepresent circumstances in relation to assets and income in the financial assessment process and a financial loss to the Council. • Inability of vulnerable individuals to properly manage Direct Payments meaning greater involvement of family members and 3rd parties to manage payments, leading to increased risk of opportunistic misappropriation of funding by a 3rd party. • Absence of appropriate financial control or appropriate monitoring, or operation of existing control, leading to the increased risk of inappropriate Direct Payments expenditure and misappropriation of funding. • Access to Council services by individuals subject to immigration status checks leads to risk of misrepresentation of status in order to access services where there is NRPF.
Revenue Collection Authority	<ul style="list-style-type: none"> • High cost of rateable value of business premises leads to the risk of fraudulent misrepresentation of circumstances to take advantage of reliefs. • High cost of rateable value of business premises and the pressure to reduce expenditure leads to the risk of companies not registering business operations to the Council for commencing business rates. • Pressure to reduce individual costs against the cost of Council Tax leads to the wrongful claiming of single person discount, and lost revenue across a large number of residential addresses. • Council Tax costs and Business Rates leads to the risk of deliberate avoidance of completion of new build properties and lost revenues for the Council.
Port Authority	<ul style="list-style-type: none"> • Unaccompanied Asylum-Seeking Children (UASC) misrepresenting their age to access services leading to financial loss. • Approach for services by individuals with No Recourse to Public Funds (NRPF) leading to the risk of misrepresentation to access services.

cont.

Table 2 ~ Summary Risk Assessment (cont.)

Fraud Risk Area	Risk Description
<p>Maintained Schools</p>	<ul style="list-style-type: none"> • Ineffective oversight and scrutiny by school oversight in relation to decisions around pay and financial policy, leading to increased risk of financial loss and absence of proper control environment. • Insistence from school suppliers to continue to receive payment by cheque creating the risk of interception or counterfeiting of cheques and financial loss. • Pressure to secure school places in over-subscribed schools leading to the risk of misrepresentation of circumstances by parents as part of the admissions process and places being wrongly allocated. • Schools being viewed as a lower risk of fraud detection by fraudsters due to the perceived lack of financial controls and an 'easy target', increasing the risk of attack on schools' online accounts and the risk of financial loss.

APPENDIX B**COUNTER FRAUD TEAM - OPERATIONAL WORK PLAN 2021/22**

Set out below is the **Draft** BACFT Operational Work Plan for the key proactive projects and investigative work due to be carried out in 2021/22.

Counter Fraud Activity	Planned Work	Outcomes 20/21
Tenancy Fraud & Housing Investigations	The BACFT will continue to detect illegal subletting and non-occupation of Council properties as referred by colleagues and residents. This also includes false applications for housing, assignment and succession.	21 properties recovered – meaning a notional saving of £378k
Social Housing Residency Checks	A risk-based approach to tenancy residency checks working with the Housing team and using investigations data to identify fraud hotspots. This will be delivered as part of proactive projects work.	
Housing Key Fob Data Review	A new initiative to analyse data held by the Council to identify fraud. The BACFT will review the key fob activity of residents in social housing, to identify suspected subletting or non-occupation due to access and use patterns. Due to the impacts of Covid-19 this project was delayed in 2020/21.	N/A
Housing Key Amnesty	A new project in in which Council tenants and those in emergency accommodation can surrender their tenancies during an amnesty period whereby no action will be taken in relation to housing fraud.	N/A
Housing Right to Buy (RTB)	The BACFT will continue to provide a risk-based verifications service of all RTB applications to identify fraud and where appropriate actively investigate applications found to contain suspected misrepresentation.	2 RTBs cancelled totalling over £214k of loss prevention savings
B&B and Temporary Accommodation Residency Checks	The BACFT will continue with an annual residency check on all emergency B&B and temporary housing accommodation. The checks will identify suspected non-occupation and subletting of emergency housing, and false applications. Due to the impacts of Covid-19 this was delayed in 2020/21.	N/A
Social Services s.17 Emergency Funding	Desk-based checks to confirm eligibility of applicants requiring emergency accommodation and support from Social Care. An annual review of all families in Section 17 accommodation to identify potential subletting and non-Occupation.	2 Fraudulent applications closed saving over £27k
Unaccompanied Asylum-Seeking Children (UASC) Status Checks	The embedded Immigration Enforcement Officer will periodically check the status of all UASC clients, this helps identify those whose status allows them to access national schemes funding, therefore no longer requiring funding by the Council. Due to Covid-19 this new initiative was not introduced until Quarter 4 2020/21.	N/A

cont.

COUNTER FRAUD TEAM - OPERATIONAL WORK PLAN 2021/22 (cont.)

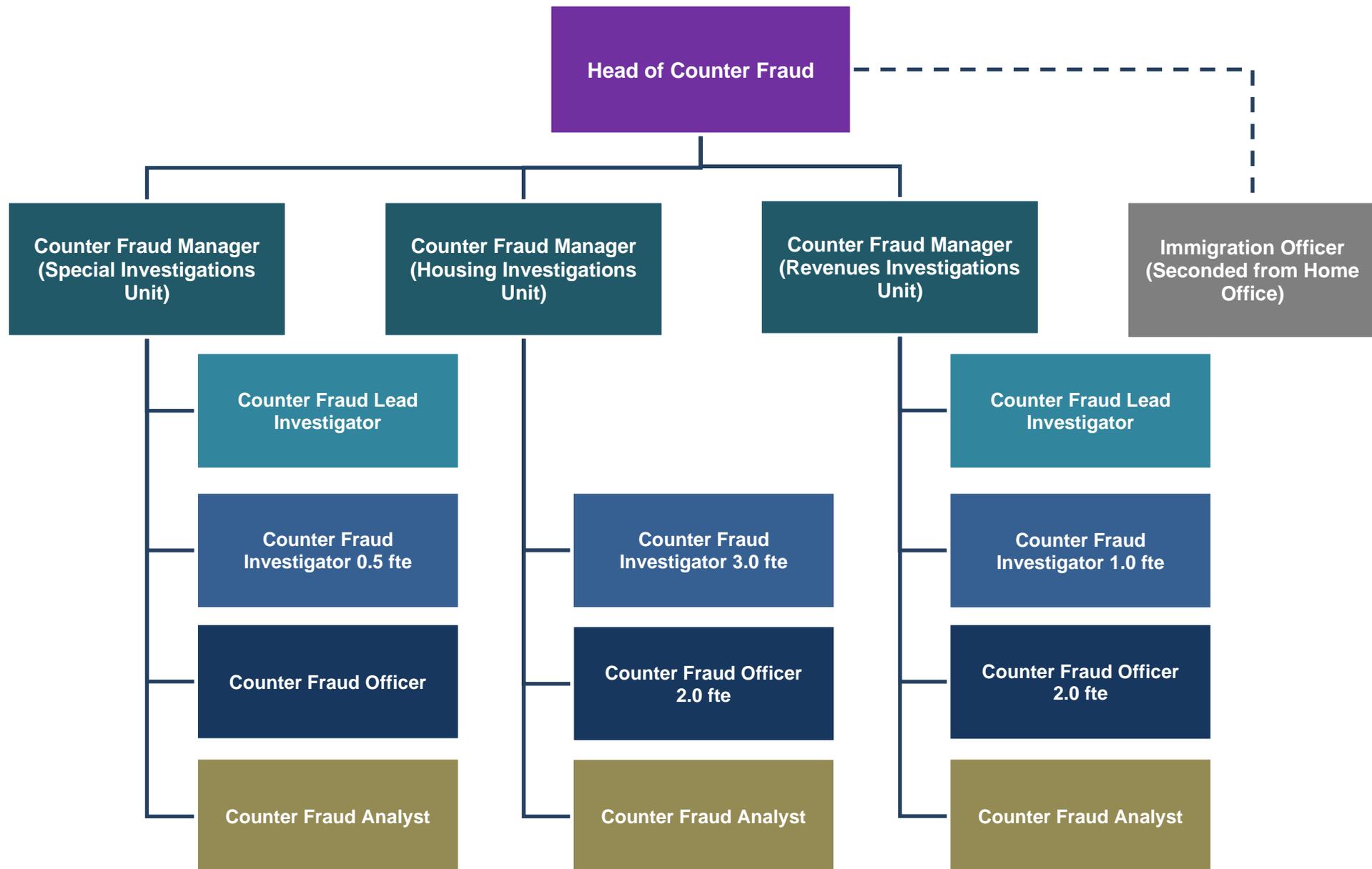
Counter Fraud Activity	Planned Work	Outcomes 2020/21
UASC	An annual proactive project identifying suspected subletting or non-occupation of accommodation provided by the Council. A referral process is in place for cases of misrepresentation to be passed to the BACFT for investigation. This project was not conducted in 2020/21 due Covid-19 restrictions.	N/A
Disabilities Facilities Grants	Cases of hidden assets, income or fictitious residency will be referred to the BACFT's via the a referrals process.	3 cases investigated preventing loss of over £49k
Social Care Financial Assessments	The BACFT will verify all applicants who apply for Social Care funding via Financial Assessments to ensure eligibility. The BACFT will also conduct a proactive project with the Financial Assessment Team to identify loss prevention savings during the annual review process.	1 case investigated providing loss prevention savings of £53k.
Direct Payments	Implementation of guidance and a referrals process underpinned by periodic fraud awareness training. Cases where funds are not being used appropriately will be investigated robustly.	N/A
NFI Bi-annual Exercise	Continuous work on statutory data matches from the Cabinet Office, which will be investigated as an ongoing project throughout 2021/22. The matches provide a significant contribution to savings areas such as Housing and Revenues.	£8.7k* worth of loss prevention identified *Project ongoing
'Beds in Sheds' - Unregistered Residential Dwellings	A proactive project to identify unlawful and unregistered residential dwellings in order that properties are brought within Council Tax banding and cases of suspected evasion investigated. Enforcement action on Planning issues will be referred to the Planning Enforcement and Housing Standards teams.	20 dwellings identified. £37k worth of loss prevention
Revenues Inspections and Investigations	In 2021/22 the BACFT will deliver all inspections for Business Rates and Council Tax. A further aim is to identify internal and external data sources that will assist in identifying businesses and dwellings that are attempting to avoid paying council tax.	1100 + new properties identified
Procurement Fraud Culture	Fraud Awareness delivered to all officers within procurement highlighting potential fraud risks and providing guidance on the referral process.	N/A
Procurement Process Review	Engagement exercise with the Head of Procurement & Commissioning for a detailed review and assessment of the Council's exposure to procurement fraud risks, and implementation of mitigation controls in line with the Council's risk appetite.	N/A

cont.

COUNTER FRAUD TEAM - OPERATIONAL WORK PLAN 2021/22 (cont.)

Counter Fraud Activity	Planned Work	Outcomes 2020/21
Grant Verification	Assist colleagues in Exchequer Services with the administration and recovery of government grants issued due to the Covid-19 pandemic.	3,016 checks 85 under investigation 14 Not verified
Housing Verifications	The BACFT will continue to verify applicants who apply for social housing, mutual exchange, or succession/assignment.	14 housing applications closed, 7 succession cases resulting in property recovery
First Time Buyers Residency Checks	Post purchase residency checks to verify occupation, as continued residency for a set period is a mandatory condition of the scheme. Any properties where subletting or non-occupation is identified will be investigated and recovery of the grant will be sought.	2 cases under investigation
Blue Badge Operations	Bi-annual Blue Badge enforcement projects to confirm lawful use of Badges in identified misuse hotspots. A visual presence to provide assurance to residents that the Council takes Blue Badge Fraud seriously and to deter misuse across the borough.	3 Simple Cautions & Fixed Penalty Notices administered
Maintained Schools	A program of Fraud Awareness training for schools will be delivered, focusing on potential fraud risks and building a robust control environment. A toolkit is being designed for distribution to schools to encourage fraud prevention practices and good governance.	N/A
Fraud Awareness & Engagement	The team will continue to provide a program of Fraud Awareness internally to champion an counter-fraud culture and encourage service engagement over fraud risks. Including periodic social media communications released to the public to promote awareness and to raise the profile of Counter Fraud activity within the borough.	11 Fraud Awareness sessions delivered in 2020/21 alongside external communication via social media

COUNTER FRAUD TEAM – STRUCTURE 2021/22



AUDIT COMMITTEE MEMBER SKILLS MATRIX

Committee name	Audit Committee
Officer reporting	Steve Clarke, Democratic Services
Papers with report	Appendix A: Audit Committee Terms of Reference Appendix B: Audit Committee Member Skills Matrix
Ward	All

HEADLINES

This report is to enable the Audit Committee to review the skills matrix for Members to inform the Training and Development Programme for Audit Committee Members.

RECOMMENDATIONS

That the Audit Committee:

1. suggests any amendments/makes comment; and
2. subject to any agreed amendments, approves the Member Skills Matrix.

SUPPORTING INFORMATION

It is important to provide appropriate and relevant training to all Audit Committee Members to ensure that they have the relevant skills and knowledge to carry out their role within the terms of reference of the Committee.

Attached to this report is a newly amended skills matrix, encompassing updates from the Chairman and all relevant officers.

Members are asked to suggest any further amendments before approving the skills matrix. Once the Committee is satisfied with the skills matrix, this will be sent to Members for self-evaluation.

Democratic Services will then work with Business Assurance to ensure the necessary training sessions are arranged based on Members' skills requirements.

BACKGROUND PAPERS

None.

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Appendix A

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.

Appendix A

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.

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London Borough of Hillingdon - Skills Matrix for Audit Committee Members (please score 1 to 4 as appropriate)

Audit Committee Member Name:

Skill/Knowledge/Experience:		Level of Experience Score (see guidance note on pg.2)	Comments:
<u>Area:</u>	<u>Indicator:</u>		
Audit Committees	An understanding of the purpose of an Audit Committee (AC) and the specific remit and responsibility of the AC at LBH.		
Internal Audit	An understanding of the role and responsibilities of Internal Audit in a local authority, including their statutory responsibilities and reporting requirements for assurance and consultancy work.		
External Audit	An understanding of the role and responsibilities of External Audit in a local authority, including appointment, reporting requirements, grant claims, value for money and statutory powers.		
Risk Management	An understanding of the purpose of Risk Management (RM) and its application within LBH including the RM process, policy and framework.		
Corporate Governance	An understanding of what Corporate Governance (CG) is and the AC's role in ensuring good CG. Also, an understanding of LBH's CG framework including the Contract Procedure Rules and the purpose of the Annual Governance Statement.		
Anti-Fraud & Anti-Corruption	An understanding of anti-fraud and anti-corruption frameworks and the role and responsibilities of the Business Assurance Counter Fraud Team at LBH.		
Financial Reporting (including Pensions)	An understanding of the published statement of accounts (including pensions assets and liabilities) and the statutory financial reporting framework.		
Please enter details of any other additional relevant areas of expertise not listed above:			

Guidance Note on Level of Experience - Skills Descriptors

Skill Level Score	Skill Level Description
1. No Experience	No knowledge or previous experience/ training.
2. Basic Understanding	A basic awareness of the skill gained from working experience (usually over 1 year) or appropriate training and development. Or where knowledge possessed is not current (more than 3 years out of date).
3. Well Informed	Practical training and experience (a minimum of 2 years, gained during the last 10 years) in the specified skill or application of knowledge.
4. Specialist Knowledge	Formal training, appropriate qualification (degree or professional qualification) and/or considerable practical experience (3 years or more, gained in the last 10 years) in the specified skill.

AUDIT COMMITTEE FORWARD PROGRAMME 2021/22

Committee name	Audit Committee
Officer reporting	Steve Clarke, Democratic Services
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 Audit 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 virtual meeting on 20 April 2021 will start at 17:10.

Meetings	Room
20 April 2021	Virtual
29 July 2021	CR5
29 September 2021	CR5
09 November 2021	CR6
01 February 2022	CR6
28 April 2022	TBC

Meeting Date	Item	Lead Officer
20 April 2021	**Private meeting with Corporate Director of Finance to take place before the meeting	
	EY 2020/21 Annual Audit Plan; 2020/21 Pension Fund Audit Plan	Corporate Director of Finance /Ernst & Young
	EY update on the 2019/20 Housing Benefit Assurance Process	Corporate Director of Finance /Ernst & Young
	Internal Audit Progress Report Quarter 4 2020/21 (incl. the Quarter 1 2021/22 Internal Audit Plan)	Head of Internal Audit and Risk Assurance
	Draft Internal Audit Plan 2021/22	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 4 2020/21	Head of Counter Fraud
	Counter Fraud Strategic Plan 2021/22	Head of Counter Fraud
	Audit Committee Members' Skills Matrix	Deputy Director of Exchequer Services & Business Assurance
	2020/21 Q3 Corporate Risk Register - Part II	Deputy Director of Exchequer Services & Business Assurance
	Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
29 July 2021	**Private meeting with Deputy Director of Exchequer Services & Business Assurance to take place before the meeting	
	Annual Internal Audit Report 2021/22 (including the HIA Opinion Statement)	Head of Internal Audit and Risk Assurance
	Annual Counter Fraud Report 2021/22	
	Internal Audit Progress Report Quarter 1 2021/22 (incl. the Quarter 2 2021/22 Internal Audit Plan)	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 1 2021/22	Deputy Director of Exchequer Services & Business Assurance
	2021/21 Q4 Corporate Risk Register - Part II	Deputy Director of Exchequer Services & Business Assurance
	Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
29 September 2021	**Private meeting with Ernst & Young to take place before the meeting	
	Approval of the 2020/21 Statement of Accounts (Including Annual Governance Statement & External Audit Report on the Audit for the Year Ended 31/03/2021) & External Audit Report on the Pension Fund Annual Accounts 2020/21	Ernst & Young
	Annual Report of the Audit Committee 2020	
	2021/22 Q1 Corporate Risk Register - Part II	Deputy Director of Exchequer Services & Business Assurance
	Annual Risk Management Report 2020/21	Deputy Director of Exchequer Services & Business Assurance
	Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
09 November 2021	**Private meeting with Deputy Director of Exchequer Services & Business Assurance to take place before the meeting	
	EY 2020/21 Annual Audit Letter and Grant Certification	Corporate Director of Finance /Ernst & Young
	Internal Audit Progress Report Quarter 2 2021/22 (incl. the Quarter 3 2021/22 Internal Audit Plan)	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 2 2021/22	Head of Counter Fraud
	Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
01 February 2022	**Private meeting with Deputy Director of Exchequer Services & Business Assurance to take place before the meeting	
	Internal Audit Progress Report Quarter 3 2021/22 (incl. the Quarter 4	Head of Internal Audit and Risk Assurance

	2021/22 Internal Audit Plan)	
	Counter Fraud Progress Report Quarter 3 2021/22	Deputy Director of Exchequer Services & Business Assurance
	Internal Audit Charter	Head of Internal Audit and Risk Assurance
	2021/22 Q2 Corporate Risk Register - Part II	Deputy Director of Exchequer Services & Business Assurance
	Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
28 April 2022	**Private meeting with Corporate Director of Finance to take place before the meeting	
	2021/22 External Audit Plan.	Corporate Director of Finance / Ernst & Young
	Internal Audit Progress Report Quarter4 2021/22 (incl. the Quarter 1 2022/23 Internal Audit Plan)	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 4 2021/22	Deputy Director of Exchequer Services & Business Assurance
	2021/22 Q3 Corporate Risk Register - Part II	Deputy Director of Exchequer Services & Business Assurance
	Forward Programme	Democratic Services

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Agenda Item 13

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