



HILLINGDON
LONDON



Audit Committee

Members of the Committee

John Chesshire (Chairman)
Councillor Duncan Flynn (Vice-Chairman)
Councillor Tony Eginton
Councillor Raymond Graham
Councillor John Morgan

Date: THURSDAY 28 APRIL 2022

Time: 5.10 PM

Venue: COMMITTEE ROOM 3 -
CIVIC CENTRE, HIGH
STREET, UXBRIDGE

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

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Published: Wednesday 20 April 2022

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Putting our residents first

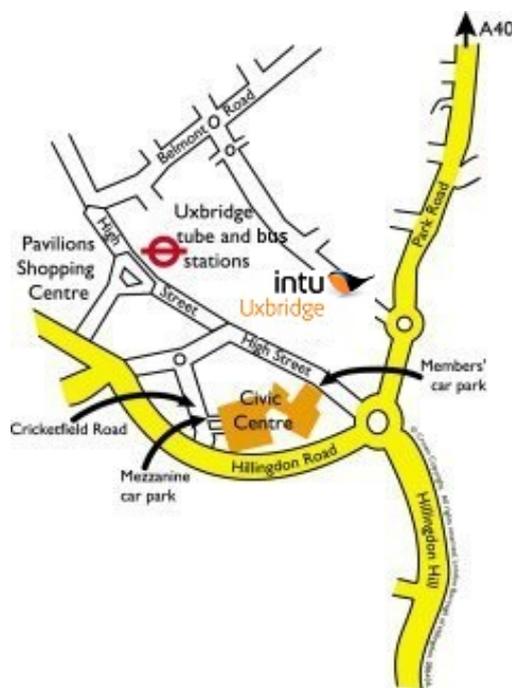
Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
Phase II, Civic Centre, High Street, Uxbridge, UB8 1UW

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Terms of Reference

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

Introduction

The Audit Committee's role will be to:

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

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

Internal Audit

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

External Audit

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

Governance Framework

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

recommendations on the Council's compliance with its own and other published standards and controls.

Accounts

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

Review and reporting

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

Agenda

PART I

- 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 Previous Meeting 1 - 8
- 5** 2021/22 Annual External Audit Plans 9 - 92
- 6** Auditor's Annual Report 2020-21 93 - 130
- 7** Internal Audit Progress Report for 2021/22 Quarter 4 (including the 2022/23 Quarter 1 Internal Audit Plan) 131 - 154
- 8** Draft Annual Internal Audit Plan for 2022/23 155 - 174
- 9** 2021/22 Quarter 4 Counter Fraud Progress Report 175 - 190
- 10** Counter Fraud Annual Operational Plan for 2022/23 191 - 206
- 11** Review of the Audit Committee's Terms of Reference 207 - 208
- 12** Forward Programme 209 - 212

Minutes

Audit Committee
Tuesday, 1 February 2022
Meeting held at Committee Room 6 - Civic Centre,
High Street, Uxbridge



	<p>Cabinet Member Present: John Chesshire (Chairman), Councillors Duncan Flynn (Vice-Chairman), Tony Eginton (Opposition Lead), John Morgan and Colleen Sullivan</p> <p>Officers Present: Sarah Hydrie, Head of Internal Audit & Risk Assurance, James Lake, Head of Finance – Statutory Accounting & Pension Fund, Muir Laurie, Deputy Director of Exchequer Services & Business Assurance, Stephanie Rao, Internal Audit Manager Alex Brown, Head of Counter Fraud and Anisha Teji, Democratic Services Officer</p> <p>Also Present: Helen Thompson (in person), Ernst & Young and Larisa Midoni (remotely), Ernst & Young</p>
1.	<p>APOLOGIES FOR ABSENCE</p> <p>Apologies for absence were received from Councillor Ray Graham with Councillor Coleen Sullivan substituting.</p>
2.	<p>DECLARATIONS OF INTEREST</p> <p>Councillor Tony Eginton declared a non-pecuniary interest in respect of agenda item 5 arising from the fact that he was a retired member of the Local Government Pension Scheme. He remained for the discussion of all items.</p>
3.	<p>TO CONFIRM THAT ALL ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THAT ANY ITEMS MARKED PART II WILL BE CONSIDERED IN PRIVATE</p> <p>It was confirmed that agenda items 1-11 were marked as Part I and would be considered in public.</p>
4.	<p>MINUTES OF THE MEETING HELD ON 29 SEPTEMBER 2021</p> <p>The Committee considered minute 142 – Review of the Effectiveness of the Audit Committee – Management Update. It was noted that there had been subsequent discussions with Democratic Services regarding the actions points and it was agreed that an item to Review the Audit Committee’s Terms of Reference would be added to the work programme for the next meeting. A Committee resolution would be needed to make any recommendations to amend the Terms of Reference to require management to attend. This would then be taken forward by Democratic Services.</p> <p>It was also noted that the Committee requested an update from Internal Audit on the implementation of recommendations in September 2022.</p>

	<p>RESOLVED: That the minutes of the meeting held on 29 July 2021 be approved as a correct record, subject to amending the dates from 2019/20 to 2020/21 in minute 144.</p>
<p>5.</p>	<p>UPDATE EXTERNAL AUDIT GRANT CERTIFICATION 2020/21</p> <p>The Committee was provided with an update on three areas of 2020/21 certification work undertaken by Ernst & Young (EY), the External Auditor, and covered Teachers Pensions, Housing Benefit Assurance Process and Capital Receipts Pooling.</p> <p>The Committee was advised that there had been progress in three areas:</p> <ul style="list-style-type: none"> • Teachers Pensions Q4 2021 - No adjustments had been noted in the Teacher's Pension return and it was submitted by the 30 November 2021 deadline. • Housing Benefit Assurance Process (HBAP) – the audit was submitted by the 31 January 2022 deadline as expected. • Capital Receipts Pooling - EY had began their work relating to the Capital Receipts Pooling and were expected to the meet the extended deadline of the 31 March 2022. <p>RESOLVED: That the Committee noted the update.</p>
<p>6.</p>	<p>EXTERNAL AUDIT 2020/21 STATEMENT OF ACCOUNTS</p> <p>The Committee was provided with a summary of the findings of Ernst & Young (EY), the External Auditor, on the external audit of the 2020/21 statement of accounts, including the pension fund accounts. The report detailed the Council's main financial statements, and the pension fund accounts audit.</p> <p>The Committee was informed that there had been considerable progress since September 2021 and there was no material change. The results were expected by this week and would be distributed to Members. It was noted that EY was unable to finalise the annual audit and issue the audit certificate until the Whole Government Accounts submission had been considered by the HM Treasury (HMT). It was reported that HMT were still developing a Data Collection Tool (DCT) which was due for release in Q1 2022. This did not impact an audit opinion being issued on the Statement of Accounts.</p> <p>During Member questions, it was noted that the last update on the DCT was expected by the end of January 2022. It was also noted that the delivery of the result of the accounts had been impacted by resourcing, staff remote working and more rigorous analysis into the accounts. This had contributed to the delay. As a learning exercise, debrief meetings had been arranged with officers where areas of challenge would be reviewed to refocus efforts for the following year.</p> <p>The Committee was advised that following the approval of delegated authority in September 2021, the Chairman would be asked to virtually sign the on behalf of the Committee following receipt of the audit opinion and audit results report</p> <p>RESOLVED: That the Committee noted the 202/21 external audit update.</p>

7.	<p>INTERNAL AUDIT PROGRESS REPORT FOR 2021/22 QUARTER 2 (INCLUDING THE QUARTER 3 INTERNAL AUDIT PLAN)</p> <p>The Committee received the Internal Audit (IA) Progress Report for 2020/21 Quarter 2 and IA Plan for Quarter 3 which provided summary information on all IA work covered in relation to 2021/22, together with assurance levels in this respect.</p> <p>It was reported that since the Q2 IA Progress Report in July 2021, 1 assurance review and 3 grant claims had concluded. 2 assurance reviews and 1 consultancy review were at draft report/ memo stage. 9 assurance reviews, 2 consultancy reviews and 2 grant claims were at advanced testing stage and 1 assurance review was at planning stage. Performance against Key Performance Indicators 5 and 6 were below target however this had been expected as it was relatively early in the audit year.</p> <p>RESOLVED:</p> <ol style="list-style-type: none"> 1. That the Audit Committee noted the IA Progress Report for 2021/22 Quarter 2 and approval be given to the Quarter 3 Internal Audit Plan. 2. That the Committee noted the coverage, performance and results of Business Assurance Internal Audit activity within this quarter.
8.	<p>INTERNAL AUDIT PROGRESS REPORT FOR 2021/22 QUARTER 3 (INCLUDING THE QUARTER 4 INTERNAL AUDIT PLAN)</p> <p>The Committee received the Internal Audit (IA) Progress Report for 2020/21 Quarter 3 and IA Plan for Quarter 4 which provided summary information on all IA work covered in relation to 2021/22, together with assurance levels in this respect.</p> <p>It was reported that since the Q2 IA Progress Report in October 2021, 6 assurance reviews, 2 consultancy reviews and 4 grant claims had concluded and 3 assurance reviews and 1 consultancy review were at draft report/memo stage. In addition, 11 assurance reviews were at advanced testing stage and 1 assurance review and 1 consultancy review were at planning stage. An external Quality Assessment of the shared IA service at the LB of Camden and LB of Islington had also been undertaken and this proved to be an insightful and useful benchmark in comparing LB Hillingdon IA processes.</p> <p>The Committee was informed that during 2021/22 quarter 1 to 3 IA had verified 140 outstanding recommendations. 67% of these recommendations had been implemented and the remaining 33% had their deadlines extended following agreement with the Head of Internal Audit and relevant Corporate Director. There had been a temporary shift in resource to accommodate the preparation of the annual internal audit plan.</p> <p>During Member discussions, it was noted that there had been changes in senior management structure and directorates had been merged.</p> <p>In terms of outstanding recommendations, it was explained that previously pre pandemic 98-99% of IA risks were identified and actioned within agreed timescales.</p>

	<p>However during the pandemic, priority for the implementation of recommendations had been lowered and a number of extensions had been agreed. Moving out of the pandemic there needed to be more accountability for the risks and the implementation of recommendations. Work was being done to raise awareness, risk owners were being asked for proposed actions and there was close liaison with relevant Corporate Directors and their Executive Assistants to manage this.</p> <p>It was noted that recruitment of internal auditors was a high priority for IA and an interim Head of Internal Audit had been appointed. Interim resources would be obtained from Mazars if required.</p> <p>This was the last meeting for the Head of Internal Audit, and they were thanked for their dedication and excellent service.</p> <p>RESOLVED:</p> <ol style="list-style-type: none"> 1. That the Audit Committee noted the IA Progress Report for 2021/22 Quarter 3 and approval be given to the Quarter 4 Internal Audit Plan. 2. That the Committee noted the coverage, performance and results of Business Assurance Internal Audit activity within this quarter.
<p>9.</p>	<p>INTERNAL AUDIT STRATEGY 2022 - 25</p> <p>The Committee considered the draft Internal Audit Strategy for 2022 - 2025. The Council's strategic objectives delivered through the Hillingdon Improvement Plan (HIP), were the starting point in the development of the strategy.</p> <p>The following areas had been considered:</p> <ul style="list-style-type: none"> • The core objectives of London Borough of Hillingdon (LBH) and the specific risks that impacted the achievement of those objectives; • Regulatory requirements for IA coverage; • The most recent reviews of IA and Audit Committee effectiveness; • The content of corporate and directorate risk registers and assurance frameworks to understand the risks faced, and the controls that the Council placed reliance on to manage those risks; and • An analysis of the risks, strengths, weaknesses, opportunities and threats to the IA Service. <p>The Committee welcomed the areas of focus and questioned whether loss of key staff ought to be added as a consideration.</p> <p>There was a weakness noted in the SWOT analysis with regard to specialist ICT. Members were informed that it had been agreed with Corporate Directors and Heads of Team that there would be an ICT audit in every quarter.</p> <p>RESOLVED: That the Audit Committee noted the Internal Audit Strategy for 2022-2025 and approved it.</p>
<p>10.</p>	<p>2021/22 QUARTER 2 COUNTER FRAUD PROGRESS REPORT</p> <p>The Committee received a report detailing the work undertaken by the Business</p>

	<p>Assurance Counter Fraud Team (BACFT) in relation to 2021/22 Quarter 2 and assurances in this respect.</p> <p>It was reported that there had been a total of £1.5m in loss prevention savings in this quarter across Housing, Revenue and Social Care. During the pandemic, the BACFT concentrated on revenues maximisation and using data matching to identify unlisted business premises. As a result, a total of c£1.2m in loss prevention savings had been identified in this area during Q2. This was predominantly made up of 3 undeclared businesses that had now been billed more than £1.1m, following a robust investigation. A three-year criminal investigation into a 10 year tenancy fraud had now concluded and the suspects had been convicted.</p> <p>It was confirmed that further clarification would be provided in relation to the NNDR figures in Appendix B of the report.</p> <p>The BACFT were commended for their good work.</p> <p>RESOLVED: That the Audit Committee noted the Counter Fraud Progress Report for 2021/22 Quarter 2.</p>
<p>11.</p>	<p>2021/22 QUARTER 3 COUNTER FRAUD PROGRESS REPORT</p> <p>The Committee received a report detailing the work undertaken by the Business Assurance Counter Fraud Team (BACFT) in relation to 2021/22 Quarter 3 and assurances in this respect.</p> <p>It was reported that the BACFT had achieved a c£639k in loss prevention savings in Q3 alone across Revenues, Social Care and Housing services, bringing the total year to date loss prevention financial savings to c£2.47m. This made 2021/22 the most successful financial year ever for the BACFT. During Q3, the BACFT had tackled tenancy fraud through risk based proactive projects and investigative work. The work carried out by the BACFT had generated a significant return during the quarter with 17 Council properties recovered for sub-letting or non-occupation.</p> <p>During Member questions, it was noted that the blue badge investigation had been intelligence led and there was further work planned in this area. It was also noted that there were some staffing vacancies in the team.</p> <p>The Committee commended the team for their excellent work and considered that this would be good making for an application for specific fraud awards.</p> <p>RESOLVED: That the Audit Committee noted the Counter Fraud Progress Report for 2021/22 Quarter 3.</p>
<p>12.</p>	<p>COUNTER FRAUD STRATEGY 2022 TO 2025</p> <p>The Counter Fraud Strategy for 2022 to 2025 was presented to the Committee which set out the planned approach for the next three years.</p> <p>The key elements of the strategic approach included:</p>

	<ul style="list-style-type: none"> • A collaborative approach with Internal Audit to risk and governance. • A risk-based approach to Counter Fraud. • Partnership & Engagement • Prevent, detect, pursue, deter • Innovation & Modernisation <p>It was reported that this approach had been proven to be more effective in the management of fraud risks. It also provided an efficient use of resource in dealing with fraud and a greater opportunity to minimise the Council's fraud losses.</p> <p>Further to the Committee's request, it was agreed that the key performance indicators targets would be reviewed and reported to the Committee.</p> <p>The Committee commented that the Counter Fraud Strategy was good and clear.</p> <p>RESOLVED: That the Audit Committee noted the Counter Fraud Strategy 2022 to 2025 and suggested any amendments and comments.</p>
13.	<p>2021/22 QUARTERS 2 AND 3 CORPORATE RISK REGISTER</p> <p>The Corporate Risk Register for Quarter 2 and Quarter 3 (July to December 2021) report was presented to Members. The report provided evidence about how identified corporate risks had been managed and the actions which were being taken to mitigate those risks.</p> <p>It was reported that since quarter 1 there had been key movements in:</p> <p>Risk 3 – Asylum / Unaccompanied Minors / Trafficked Children & Young People - The Cause had been updated to reflect that the National Dispersal Scheme from December 2021 was now mandatory.</p> <p>Risk 9 – Cyber Security - This risk rating had changed from “D1” to “C1” to reflect the current wider cyber security landscape.</p> <p>Risk 10 – Brexit - This risk was now retired as previous financial and economic pressures had now materialised with mitigating activity embedded in strategic and operational delivery.</p> <p>In response to Member questions regarding horizon scanning, it was explained that this was conducted on a regular basis, with the Head of IT receiving daily reports about potential cyber-attacks, areas of exposure and weaknesses. It was anticipated that risk 12 – Coronavirus would come down as the pandemic came to an end.</p> <p>RESOLVED: That the Committee reviewed the Corporate Risk Register for Quarters 2 and 3 (July to December 2021) as part of the Committee's role to independently assure the Council's corporate risk management arrangements.</p>
14.	<p>AUDIT COMMITTEE FORWARD PROGRAMME</p> <p>Consideration was given to the forward work programme for the Committee.</p> <p>It was agreed that an item on the Review of the Audit Committee's Terms of Reference would be added to the work programme for the next meeting. An update</p>

from Internal Audit on the implementation of the Review of the Effectiveness of the Audit Committee recommendations was requested in September 2022.

It was also agreed that the External Auditors Annual Report would be added to the work programme for the April 2022 meeting. The meeting date for 15 November 2022 would be reviewed.

RESOLVED: That the Audit Committee noted the Forward Work Programme for 2021/22 and additions.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Anisha Teji on 01895 277655 or email: ateji@hillingdon.gov.uk. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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2021/22 Annual External Audit Plans

Committee name	Audit Committee
Officer reporting	James Lake, Finance
Papers with report	2021/22 EY Audit Plan London Borough of Hillingdon 2021/22 EY Audit Plan London Borough of Hillingdon Pension Fund
Ward	All

HEADLINES

The attached documents set out the initial plans for the 2021/22 audit by the Councils external auditors EY. The plans set out the approach to the audit of the Council's Accounts and the Pension Fund Accounts, including a broad timetable which should enable the whole process to be completed by the end of September 2022. Whilst the Pension Fund forms part of the Council's published Financial Statement of Accounts, a separate plan is prepared for that audit.

RECOMMENDATIONS:

That the Committee:

1. Note this report

SUPPORTING INFORMATION

Deadlines

In December 2021, the Department for Levelling Up, Housing and Communities ('DLUHC') announced proposals to extend the deadline for the publication of audited accounts to 30 November 2022 for the 2021/22 Statement of Accounts. The deadline for the Council to produce the draft accounts is the 31 July 2022. However, both EY and the Council are aiming to bring this forward with draft accounts to be produced by 30 June 2022 and audited accounts to be published on 30 September 2022.

Council Financial Statements Audit Plan

Materiality

The materiality level for 2021/22 is £13.7m based on 1.8% of forecast gross expenditure (2020/21, 1.8%, £13.8m). EY plan to report on all uncorrected audit misstatements greater than £0.7m (2020/21 £0.7m).

Key Financial Statement Risks

The plan highlights the key audit risks and areas of focus, these being the main areas on which specific audit work will focus. There is one new item which has been added for 2021/22 and is indicated below. The key risks for 2021/22 are as follows:

- Management override
- Inappropriate capitalisation of revenue expenditure
- Accounting adjustments made in the Movement of Reserves
- Valuation land and buildings (including council dwellings)
- Derecognition of Infrastructure (New)
- Pension Liabilities and the IAS19 valuations
- Consideration of Group Boundary (Hillingdon First Ltd)
- New central government grants and other COVID funding
- Disclosures on Going Concern

In addition, the auditors' have a statutory duty to provide a value for money conclusion, which covers a broad 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.

The outcome of the accounts audit will be provided in the 'Audit Results Report' whilst the Value for Money outcome will be included 'Auditors Annual Report'.

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. As in previous years, to take advantage of the inherent synergies, the Council will request that EY undertake this work.

Fees

The proposed fee for the 2021/22 audit of the main accounts is £121,096. There are additional costs for specialist work and the proposed scale fee increase which are yet to be determined and agreed. (Final fee for 2020/21 £121,096. Specialist fess and the proposed scale fee increase are still to be agreed and confirmed)

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 2021/22 is estimated as £11.6m (2020/21 £11.6m). Based on this amount, EY would expect to report on all unadjusted misstatements greater than £0.6m (2020/21 £0.6m).

Key Financial Statement Risks

The plan highlights the key audit risks, these being the main areas on which specific audit work will focus. For 2021/22 there has been no change with audit risk areas including:

- Misstatement due to fraud or error
- Misstatement of investment amounts through fraudulent journal entries
- Risk of incorrect valuation of level 3 Unquoted Investments
- Disclosure on Going Concern
- IAS26 Disclosure Actuarial Present Value of Promised Retirement Benefits.

Fees

EY remain in consultation with the PSAA regarding the proposed increase in scale fees. The basic scale fee for the 2021/22 audit is £16,170, with additional specialist fees still to be determined. The proposed increase in scale fees is also yet to be agreed. (Fee for 2020/21 includes the scale fee of £16,170 fee plus additional specialist fees and scale fee increase to be agreed.).

Financial Implications

Included within the body of this report.

Legal Implications

Included within the body of this report.

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London Borough of Hillingdon Outline Audit Planning Report

Year ended 31 March 2022

11 April 2022

**Audit Committee
London Borough of Hillingdon
Uxbridge
UB8 1UW**

11 April 2022

Dear Audit Committee Members

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 2021/22 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 28 April 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Helen Thompson
Associate Partner

For and on behalf of Ernst & Young LLP

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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 2021/22 audit strategy



Overview of our 2021/22 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 2021/22, 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	No change in 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.
Valuation of land and buildings valued under the Depreciated Replacement Cost ('DRC') method and the Existing Use Value ('EUV') method	Significant risk	Expanded risk	As at 31 March 2021, the Council recognised significant DRC and EUV assets of £579m and £134m, respectively. Valuation of these assets involves higher risk estimates due to the significant assumptions and judgments involved in their valuation, which triggers the use of experts by management and EY likewise. These estimates give scope for material errors, thus we identified a significant risk on the valuation of these assets.
Derecognition of infrastructure assets upon subsequent expenditure/replacement	Significant risk	New significant risk	An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned. This matter is currently under consideration by CIPFA and we anticipate that a significant risk might arise as a result. If we consider appropriate to downgrade the risk subsequent to more information becoming available, we will update the Committee.

Overview of our 2021/22 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.
Valuation of Council Dwellings	Inherent risk	Focus has been narrowed down	The carrying amount of council dwellings represents a significant balance in the Council's accounts (£786m at 31 March 2021) and it is being revalued by management's external specialists on an annual basis. The valuation approach for social housing involves estimates and assumptions, which has led us to identify an inherent risk on the valuation assertion.
Consideration of Group Boundary	Inherent risk	No change in focus	During 2018/19, the Council 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 up to 2020/21. We will re-assess the interpretation of the preparation of Group Accounts as part of the 2021/22 audit.
New central government grants and other Covid-19 funding streams	Inherent risk	Downgraded from significant to inherent risk	The Council received a series of grants from the UK government during 2020/21 and 2021/22 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an inherent risk due to factors discussed in Section 02.
Disclosures on Going Concern	Area of focus	Downgraded from inherent risk	The unpredictability of the current environment gives rise to a risk that the Council might not appropriately disclose the key factors relating to going concern, underpinned by the Council's actual year end financial position and forecasted performance for the going concern period of 12 months after the auditor's report date.

Overview of our 2021/22 audit strategy

Materiality

Planning materiality

£13.7m

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

£10.3m

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.

Specific materiality

We identified accounts or disclosures for which misstatements of less than PM could be expected to influence the economic decisions of users of the financial statements.

Thus, we have set a materiality of £5,000 for officers' remuneration, related party transactions, members' allowances and exit packages disclosures in the financial statements. This reflects our understanding that an amount less than our main materiality could influence the economic decision of the users of the financial statements in relation to these areas. This specific materiality is set at the remuneration banding used in the officer emoluments note.

Overview of our 2021/22 audit strategy

Audit scope

This Outline Audit Planning Report covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

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.

Page 20 For 2021/22, we will be applying a digital audit approach which puts data at the heart of the audit. Throughout the audit, we begin each task by considering data first, whether it is planning for the audit, performing risk assessment, or responding to risks.

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.

Taking the above into account, and as articulated in this outline audit planning report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the Council's audit, we will discuss these with management as to the impact on the scale fee.

Overview of our 2021/22 audit strategy

Audit scope (continued)

Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money and the associated risk assessment is 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 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.
- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

In December 2021, the Department for Levelling Up, Housing and Communities ('DLUHC') announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22.

We are working with the Council to deliver the audit ahead of 30 November. In Section 07 we include a provisional timeline for the audit.



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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 minimising 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.

What is the risk?

The Council is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels.

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 (continued)

Valuation of land and buildings valued under the Depreciated Replacement Cost ('DRC') method and the Existing Use Value ('EUV') method

Financial statement impact

Misstatements that occur in relation to valuation could affect the year end carrying value of DRC and EUV assets valued by the Council as at 31 March 2021 at £579m and £134m, respectively.

What is the risk?

The value of DRC and EUV assets represents a significant balance in the Council'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.

DRC and EUV assets are subject to regular review by the external valuers - Wilkes Head and Eve (WHE).

Valuation of these assets involves higher risk estimates due to the significant assumptions and judgments involved in their valuation, which triggers the use of experts by management and EY likewise. These estimates give scope for material errors, thus we identified a significant risk on the valuation of these assets.

What will we do?

- ▶ Understand the Council's approach to DRC and EUV assets and the valuation methodology to be adopted in 2021/22;
- ▶ Determine the impact of any upwards/downwards valuations and based on our materiality levels consider the impact on the 2021/22 financial statements;
- ▶ We plan to use 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. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2021/22 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.

Our response to significant risks

Derecognition of infrastructure assets upon subsequent expenditure/replacement

Financial statement impact

Infrastructure assets make up a significant share of the Council's property balance. The net book value of infrastructure assets amounted to £182m as of 31 March 2021.

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What is the risk?

An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned.

Asset registers do not tend to record infrastructure capital expenditure with sufficient detail and geographical specifics to enable identification of prior cost of replaced parts/components and related accumulated depreciation. So, it can be challenging to identify the cost and accumulated depreciation balances that need to be derecognised.

If parts/components have not been derecognised when replaced or decommissioned:

- a. For assets that have been fully depreciated, the gross cost of the asset and accumulated depreciation will be overstated in the property, plant and equipment note to the balance sheet. This will be a matching error, so no impact on the net book value reported on the balance sheet.
- b. For assets replaced or decommissioned ahead of their useful economic life (UEL), i.e., the asset is not fully depreciated and has a positive net book value at year end, the error will also impact the balance sheet, where asset values will be overstated.

What will we do?

This matter is currently under consideration by CIPFA and we anticipate that a significant risk might arise as a result. Thus we have preliminarily recognised this risk in the outline audit planning report. Any possible changes in our risk assessment will be communicated to the Committee in due time.

Under the current circumstances, we plan to undertake the following procedures:

- ▶ Discuss the procedures applied by the Council to ensure the subsequent capital spend is recognised in accordance with the Code, i.e., where the subsequent expenditure concerns the replacement of a part/component, what procedures are performed to identify and derecognise the carrying amount of the old part/component (and any associated accumulated depreciation).
- ▶ Obtain evidence to match the subsequent expenditure to the carrying amount of the replaced part or component that is being derecognised.
- ▶ If the carrying amount of the replaced part or component cannot be identified, test the Council's use of the cost of the replacement as a proxy for the deemed carrying amount of the replaced part, ensuring the calculation appropriately adjusts the cost for depreciation and impairment.

As more information becomes available to us, the above procedures will be adjusted to respond to the most current developments.

Other areas of audit focus (continued)

What is the inherent risk?

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 Hampshire County Council (transferred from Surrey County Council in September 2021).

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 2021 this totalled £739 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 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;
- ▶ Engage with EY Pensions to undertake procedures to create an auditor's estimate for the pension liability;
- ▶ 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)

What is the inherent risk?

Valuation of Council Dwellings

The carrying amount of Council Dwellings represents a significant balance in the Council's accounts and is subject to revaluation changes on an annual basis. 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. nature and number of beacons, valuation of units within beacons);
- ▶ Consider if there are any specific changes to assets/beacons that have occurred and that these have been communicated to the valuer;
- ▶ Consider the appropriateness of management's consideration of estimation uncertainty;
- ▶ Test whether accounting entries were correctly processed in the financial statements.

Consideration of Group Boundary

During 2018/19, the Council 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.

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.

Audit risks

Other areas of audit focus (continued)

What is the inherent risk?

New central government grants and other Covid-19 funding streams

Central Government have provided a number of 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 2021/22.

Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the various 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 2021/22 statements.

We downgraded this risk from significant to inherent because we identified no audit differences in the 2020/21 audit and we are more familiar with certain funding streams.

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 it has 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 it has 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.

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?

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 and of the overall inflation 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.

What will we do?

We will meet the requirements of the 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.



03

Value for Money Risks





Value for Money

Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control 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.

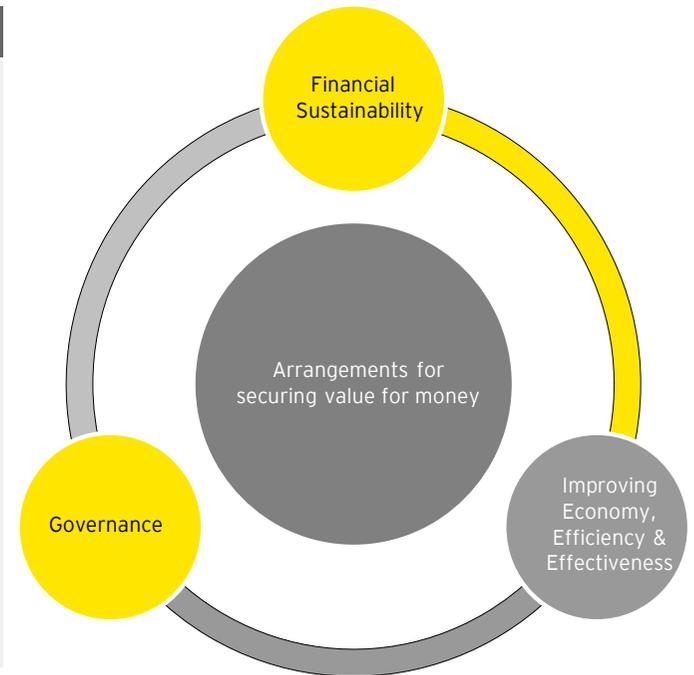
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its 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 arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council 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 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.
- 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.





Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council'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.

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

- The Council's governance statement;
- Evidence that the Council'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 regards 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. However, the NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - the Council 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 Council'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 Council;
- 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 Council's reported performance;
- Whether the issue has been identified by the Council'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 Council has had to respond to the issue.



Value for Money

Responding to identified risks of significant weakness

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

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council'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.

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Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM planning.

We will update the next Audit Committee meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.



04

Audit materiality



Audit materiality

Materiality

For planning purposes, we have set materiality for 2021/22 at £13.7m. 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 identified accounts or disclosures for which misstatements of less than PM could be expected to influence the economic decisions of users of the financial statements. Thus, we have set a materiality of £5,000 for officers' remuneration, related party transactions, members' allowances and exit packages disclosures in the financial statements. This reflects our understanding that an amount less than our main materiality could influence the economic decision of the users of the financial statements in relation to these areas. This specific materiality is set at the remuneration banding used in the officer emoluments note.

Materiality

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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- ▶ Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

For more details, refer to **Specific materiality** discussion on the previous slide.



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 undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO.

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

As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

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.

As in previous years, 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.

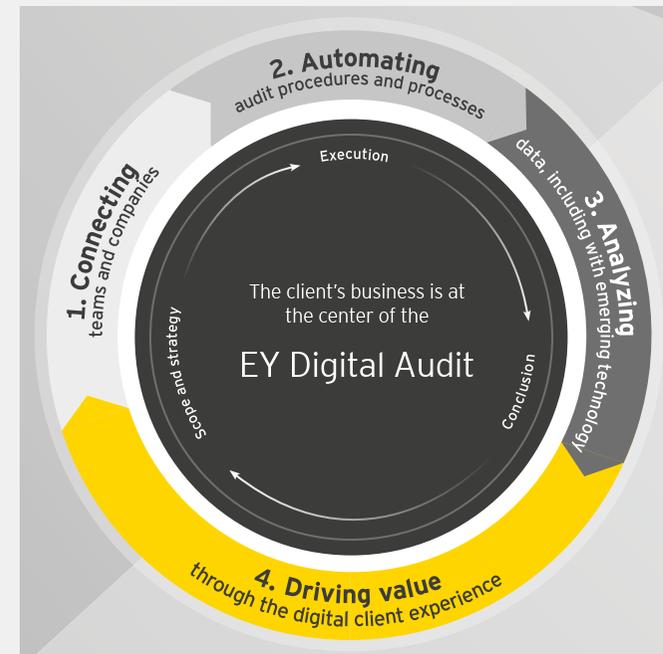
For 2021/22 we will be applying a Digital Audit approach which puts data at the heart of the audit. Throughout the audit, we begin each task by considering data first, whether it is planning for the audit, performing risk assessment, or responding to risks.

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.



Scope of our audit

Audit Process overview

The Digital Audit enhances our ability to:

- Understand changes in the business and processes
- Evaluate and respond to fraud risks
- Evaluate going concern
- Evaluate impairment
- Focus on cash

The Digital Audit experience includes use of the Client Portal which has a number of benefits:

- reduces email communication, saving you time when supporting the audit;
- provides on demand visibility into the status of audit requests, improving project management; and
- better security of data and automatic uploading into EY Canvas, creating confidence that data has been properly provided.

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The digital audit experience

One global platform. One global audit.



Better connected



Data-driven



Reduced burden



Valued insights



Continuous innovation

Audit Process overview

Internal audit

We will review internal audit plans and the results of their work. We will reflect on these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that could have a material impact on the financial statements.



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; Management's external experts: Wilkes Head and Eve and 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; Management's external expert: 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.



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 2021/22.

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 2022	Audit Committee	Outline Audit Planning Report
Walkthrough of key systems and processes	March - April 2022		
Year end audit	July - September 2022		
Audit Completion procedures	September 2022	Audit Committee	Audit Results Report Audit Opinions
	September - November 2022 (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 have not identified any threats that would require mitigation safeguards. We therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, 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 have an investment in the Council; 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.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, 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.

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

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

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

Relationships, services and related threats and safeguards

Self review threats

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

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

Management threats

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

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

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 2021

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 end 30 June 2021: https://www.ey.com/en_uk/about-us/transparency-report-2021



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 2021/22 reflects the year 4 of the new 5 year contract awarded by PSAA.

	Planned fee 2021/22	Final Fee 2020/21
	£	£
Scale Fee (Note 1)	121,096	121,096
2020/21 PSAA expected additional minimal core fees: (Note 2)		
VFM	-	10,000 to 19,000
- ISA 540 accounting estimates	-	4,400
- Covid-19 grants, property valuations, etc.	TBC	TBC
Total current scale and additional fees	TBC	TBC
Proposed increase to the scale fee (Note 1)	TBC	82,728
Non-audit services (Housing Benefits)	TBC	30,600
Non-audit services (Housing Capital Receipts)	7,750 - 8,250	7,900
Non-audit services (Teacher's Pensions)	13,500 - 14,000	13,500
Total other non-audit services	TBC	52,000

All fees exclude VAT

Notes:

1. We proposed an increase of £82,728 to the scale fee. We are currently in discussion with PSAA nationally about an increase to the scale fee. This is yet to be determined by PSAA and it is subject to change in 2021/22.
2. In August 2021, PSAA published 'Additional information for 2020/21 audit fees'. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes of a range of new and updated audit requirements. PSAA determined a minimum range for VFM (£10k-£19k) and a minimum amount for ISA540 (£4.4k).
3. Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 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.	Outline 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 - September 2022 (TBC)
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 2022 (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 ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit results report - September 2022 (TBC)

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 - September 2022 (TBC)
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 - September 2022 (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>Outline audit planning report</p> <p>Audit results report - September 2022 (TBC)</p>
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 2022 (TBC)

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 - September 2022 (TBC)	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report - September 2022 (TBC)	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - September 2022 (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 2022 (TBC)	
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 - September 2022 (TBC)	
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 	Outline audit planning report Audit results report - September 2022 (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, 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 2022

11 April 2022

11 April 2022

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

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 2021/22 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 the 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 28 April 2022, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully,



Helen Thompson
Associate Partner

For and on behalf of Ernst & Young LLP

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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 the 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 the 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 the 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 2021/22 audit strategy



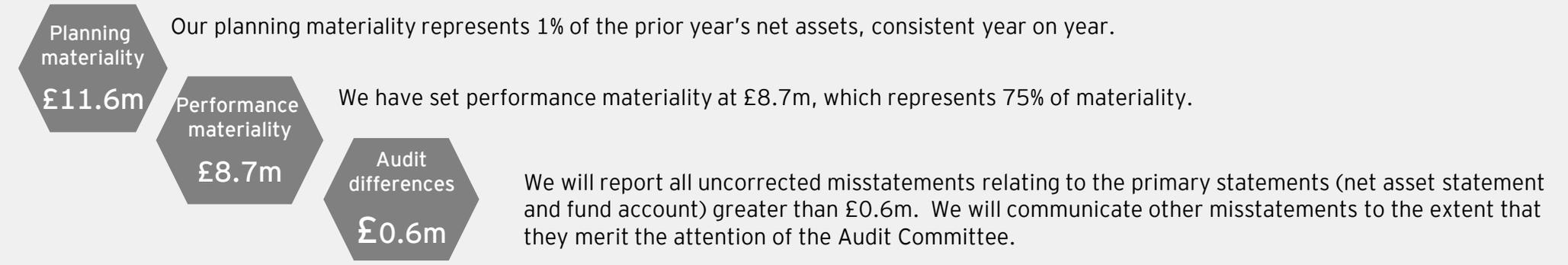
Overview of our 2021/22 audit strategy

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 income and investment values 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 (Level 3) investments	Significant risk	No change in risk or focus	Based on our initial planning work 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 elements of judgement, which increases the risk of misstatement.
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 as at 31 March 2019, 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 31 March 2022.</p>
Disclosures on going concern	Area of focus	Change from inherent risk in prior year to area of focus in 2021/22	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. Disclosures should be underpinned by management's assessment with particular reference to Covid-19 and other factors causing market volatility 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.

Overview of our 2021/22 audit strategy

Materiality



Audit scope

This Outline Audit Planning Report covers the work that we plan to perform to provide you with an audit opinion on whether the financial statements of London Borough of Hillingdon Pension Fund give a true and fair view of the financial position as at 31 March 2022 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 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 2021/22 audit strategy

Audit scope

Taking the above into account, and as articulated in this outline audit planning report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on “the auditors assessment of risk and the work needed to meet their professional responsibilities”. PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the Pension Fund’s audit, we will discuss these with management as to the impact on the scale fee.

Overview of our 2021/22 audit strategy

Timeline

DLUHC have recently confirmed that the target date for the Fund to publish its draft accounts is by 31 July 2022 and the Fund should publish its approved and audited accounts by 30 November 2022, where it can. 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. We are working with the Council to deliver the audit ahead of 30 November.

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 07, our current view of the fees required to carry out the 2021/22 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.

Misstatement of investment income and investment values 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 (Level 3) investments

Financial statement impact

We have assessed that the risk of incorrectly valuing investments is high for unquoted level 3 investments held by the Pension Fund.

Total of level 3 investments held by the Fund at 31 March 2021: £297m.

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 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 26% of the fund's total net assets in 2020/21, 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 valuation experts through review and analysis of ISAE 3402 internal control reports issued on the fund managers and the custodian;
- ▶ Where the ISAE 3402 reports are not issued at 31 March 2022, we will collect and review bridging letters;
- ▶ 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 underlying investment funds and compare the net asset values with the valuation of the assets in the accounts of the Fund. We will also ensure there are no matters arising that highlight weaknesses in the Fund's valuation;
- ▶ If the latest audited accounts are issued at a different date compared to the reporting date of the Fund, we will perform roll forward procedures to support the valuation of the investments as of 31 March 2022, such as benchmark indexation for similar assets and analysis of cash movements in the gap period; and
- ▶ Perform analytical procedures by checking the valuation output for reasonableness against our own expectations.

Other areas of audit focus (continued)

What is the inherent risk?

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 £2,039 million as at 31 March 2021.

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 2020/21, 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 calculate the liability as at 31 March 2022.

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;
- ▶ Engaging with EY Pensions to undertake procedures to create an auditor's estimate for the pension liability. We will leverage off the scope undertaken for IAS 19 valuation for the London Borough of Hillingdon; and
- ▶ Ensuring that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the actuary.

Other areas of audit focus (continued)

What is the 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 that 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.

What will we do?

We will meet the requirements of the 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 to ensure the final disclosure is adequate and sufficient.



03

Audit materiality



Materiality

Materiality

For planning purposes, we have set planning materiality for 2021/22 at £11.6m. This represents 1% of the Pension Fund's prior year net assets value from the draft financial statements. 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

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 2021/22 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 Head of Internal Audit, 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.



05

Indicative audit timeline





Indicative audit timeline

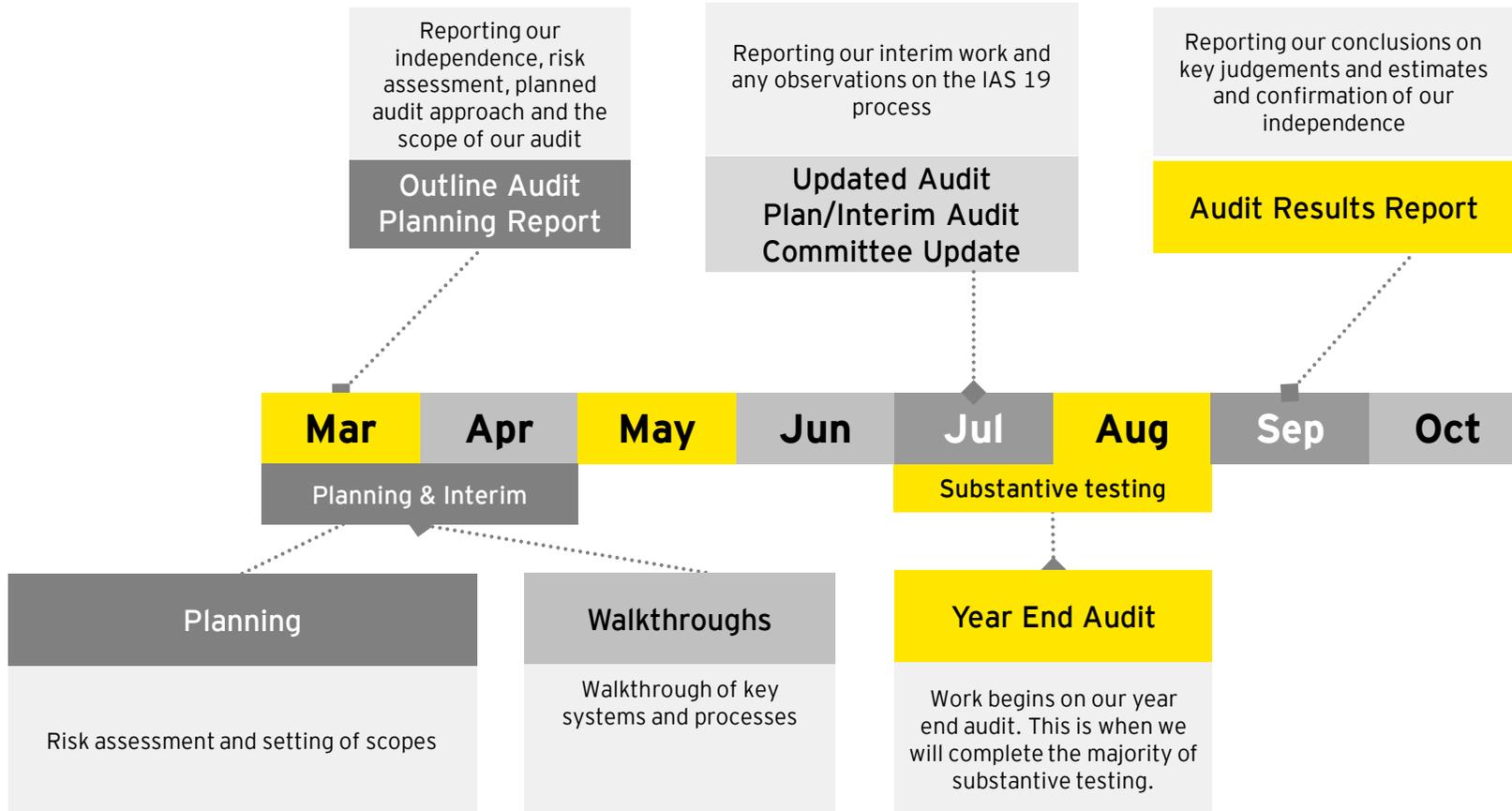
Indicative timetable of communication and deliverables

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 2021/22.

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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06

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in 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 data-bbox="76 726 123 853">Page 81</p> <ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit/additional services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ 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 ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of 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 ▶ An opportunity to discuss auditor independence issues.

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 have not identified any threats that would require mitigation safeguards. We therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, 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 2021

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 2 July 2021 and can be found here:

https://www.ey.com/en_uk/about-us/transparency-report-2021



07

Appendices



Appendix A

Fees

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

	Planned fee 2021/22	Final Fee 2020/21
	£	£
Scale Fee - Code work (Note 1)	16,170	16,170
Additional work and associated fees (Note 2)		
Significant risks on investments	TBC	1,500-2,500
Going concern and PBSE assessments and disclosures	TBC	2,500-5,000
IAS19 assurances (Note 3)	5,500	5,000
Total fees	TBC	TBC

All fees exclude VAT

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. We note that for 2019/20 Code work, PSAA determined £13,694 as additional fee variation, which partially covered an increase in scale fee and partially related to the additional work undertaken by us to cover significant risks. This additional fee only covered a proportion of the total scale fee variation determined by us (i.e. £36,423) and submitted to PSAA for approval.
2. The 2020/21 final scale fee variations have yet to be determined, agreed with management and they will be subject to PSAA approval.
3. IAS19 work is annual to provide assurance to the auditor of the London Borough of Hillingdon. These additional fees are not subject to approval from PSAA.

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 - April 2022
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 2022 (TBC)

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 2022 (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 2022 (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 2022 (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 2022 (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 2022 (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 - April 2022</p> <p>Audit results report - September 2022 (TBC)</p>

Appendix B

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 2022 (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 2022 (TBC)
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report - September 2022 (TBC)
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - September 2022 (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 2022 (TBC)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report	Audit results report - September 2022 (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

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Auditor's Annual Report 2020-21

Committee name	Audit Committee
Officer reporting	James Lake, Finance
Papers with report	EY Auditor's Annual Report 2020/21
Ward	All

HEADLINES

This is a covering report to EY's Auditor's Annual Report which provides a summary of the results and conclusions from their audit work undertaken for the year ended 31 March 2021.

RECOMMENDATIONS:

1) Committee note the 2020/21 Auditor's Annual Report

SUPPORTING INFORMATION

In a new approach for 2020/21 the external auditor is now required to produce Auditor's Annual Report instead of the Audit Letter. As stated in the report, its purpose is to bring together all the auditor's work over the year. A core element of the report is the commentary on Value for Money (VFM) arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Key points included in the report include:

1. The Council's Financial Statements (including the Pension Fund) received an unqualified opinion for the year ended 31 March 2021 and gave a true and fair view of the financial position of the Council as at 31 March 2021. The financial statements were prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. It was concluded that the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements was appropriate.
3. The financial information in the narrative report was consistent with the audited accounts.
4. The financial information in the Pension Fund Annual report was consistent with the audited accounts.
5. There were no matters to report by exception on the Council's VFM arrangements.
6. Other information published within the Statement of Accounts was consistent with the financial statements.
7. EY was satisfied that the Annual Governance Statement was consistent with their understanding of the Council.
8. There were no matters to report in terms of Public Interest or other auditor powers.

Classification: Public

Audit Committee – 28 April 2022

9. EY has not yet issued the audit certificate for 2020/21 as required by the Local Audit and Accountability Act 2014 and the National Audit Office's (NAO) 2020 Code of Audit Practice. This is because the Whole Government Accounts (WGA) Data Collection Tool (DCT) and audit guidance for 2020/21 are delayed and are yet to be issued. As such the Council has not prepared the DCT submission and EY has not performed the procedures required by the NAO on the WGA submission.

FINANCIAL IMPLICATIONS

Council - Total planned audit fees were expected to be within the range of £135,496 to £144,496, although additional fees and increased scale fees yet to be agreed, may increase this figure further.

Pension Fund - Total planned audit fees were estimated at £21,170 however additional fees and increased scale fees yet to be agreed, may increase this figure further.

LEGAL IMPLICATIONS

Legal implications are included in the body of the report.



London Borough of Hillingdon

Auditor's Annual Report
Year ended 31 March 2021

13 April 2022



EY

Building a better
working world

Contents

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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.psaa.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.

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

A close-up portrait of a woman's face, focusing on her eyes and nose. The image is partially obscured by a bright yellow rectangular overlay on the left side. The woman has light brown hair and green eyes.

Section 1

Executive Summary

Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council's:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 4 February 2022.
Going concern	We have concluded that the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the narrative report and other information published with the financial statements	Financial information in the narrative report and published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund annual report and other information published with the financial statements	We concluded that financial information in the Pension Fund Annual report and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 3 February 2022 to the Audit Committee.
We will have to issue a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the valuation of property, plant and equipment, additional requirements in relation to ISA 540 on pensions and the new value for money commentary under the new NAO Code. We were also required to undertake audit procedures on the new significant account Covid-19 grants. We will calculate the associated additional fee and discuss this with the Corporate Director of Finance before sending it to PSAA Ltd for their review. We include details of the audit fees in Appendix 1.

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



Helen Thompson

Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 31 March 2021 and a scope update communicated in the Initial Audit Results Report issued on 16 September 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, narrative report and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit – London Borough of Hillingdon

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

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

On 4 February 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit Committee members on 3 February 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p>Misstatements due to fraud or error - management override of controls</p> <p>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.</p>	<p>Our testing did not reveal any:</p> <ul style="list-style-type: none">➤ material weaknesses in controls or evidence of material management override;➤ instances of inappropriate judgements being applied; or➤ any other transactions during our audit which appear unusual or outside the Council's normal course of business.
<p>Inappropriate capitalisation of expenditure</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p>	<p>We performed our testing as per the audit plan. We did not identify any instances where expenditure had been inappropriately capitalised. We have not identified any issues with management's accounting policies or practices in relation to opting to finance expenditure from capital sources.</p>

Continued over.

Financial Statement Audit - London Borough of Hillingdon (continued)

Significant Risk	Conclusion
<p>Misstatements due to fraud or error – accounting adjustments made in the ‘Movement in Reserves Statement’</p> <p>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 fraud risk, given the financial pressure the Council is under to achieve its revenue budget and maintain reserve balances above the minimum approved levels.</p>	<p>We completed the work and we did not identify any issues with management’s application of the CIPFA guidance and the statutory guidance on Minimum Revenue Provision (‘MRP’) calculation with regards to adjustments made in the movements in reserves statement. We challenged management on the approach to MRP allocation and found management’s approach reasonable.</p>
<p>New central government grants and other Covid-19 funding streams</p> <p>The Council 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 the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, which could lead to a difference in the accounting treatment.</p>	<p>We completed our testing of the Council’s accounting treatment as principal or agent and the related disclosures in the financial statements and have not identified any issues to report. Adequate disclosures of grant income received in the year were included in the accounts under both principal and agent arrangements.</p> <p>We did not identify any exceptions with regards to the accuracy and compliance of received grants with the requirements of the relevant schemes.</p>
<p>Risk of error in the valuation of land and buildings - Schools (updated post Covid-19)</p> <p>Valuation of land and buildings involves significant judgments made by management and their external specialists. We narrowed down our significant risk identification around valuation of schools’ land and buildings because of the material balance of these assets and a history of judgmental audit differences identified.</p>	<p>We instructed EY’s real estate valuation specialists to support us with our work in this area due to the complexity of the estimates involved. Certain differences of professional opinion between the audit team, management and management’s specialist led to the following judgmental audit difference: understatement of land and buildings in an amount of £3,893,000. This amount includes a difference we identified on the valuation of the wider portfolio of land and buildings, which is described further below under areas of focus.</p> <p>This difference remained uncorrected in the statement of accounts of the Council and we reported it to those charged with governance through our final Audit Results Report shared with the members of the Audit Committee on 3 February 2022.</p>

Continued over.

Financial Statement Audit - London Borough of Hillingdon (continued)

In addition to the significant risks on the previous pages, we also concluded on the following areas of audit focus.

Other areas of audit focus	Conclusion
<p>Pension liability valuation</p> <p>The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>The revised auditing standard on accounting estimates led to additional work undertaken this year by EY's internal specialists in order to obtain sufficient assurance on the valuation of pension liability.</p> <p>We completed our work and included a judgmental understatement of pension liability due to the Goodwin case by £2.5 million, which is offset by a factual overstatement of the same amount (£2.5 million) due to timing differences in the valuation of the Pension Fund's assets compared to the timing of issuance of the IAS 19 actuarial report.</p> <p>These differences remained uncorrected in the statement of accounts of the Council and we reported them to those charged with governance through our final Audit Results Report shared with the members of the Audit Committee on 3 February 2022.</p>
<p>Consideration of Group Boundary</p> <p>During 2018/19, the Council 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.</p>	<p>We reviewed the Council's assessment of the need to prepare group accounts as a result of transactions occurring within the subsidiary within the financial year.</p> <p>We did not identify any issues with regards to management's approach not to consolidate Hillingdon First Limited in the 2020/21 accounts on grounds of materiality.</p>
<p>Assessment and disclosures on Going Concern</p> <p>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>We completed our planned procedures and discussed the detailed implications of the revised auditing standard with the Council's finance staff.</p> <p>We did not identify any material uncertainties with regards to the going concern of the Council and following certain adjustments to the disclosure related to the timing of the audit finalisation, we considered the going concern disclosure to be appropriate and sufficient.</p>

Continued over.

Financial Statement Audit - London Borough of Hillingdon (continued)

Other areas of audit focus	Conclusion
<p>Valuation of Other Land and Buildings</p> <p>The carrying amount of other land and buildings, excluding schools' assets, 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.</p>	<p>We selected a sample from the wider pool of properties and we asked EY's real estate valuation specialists to support us with our work in this area due to the complexity of the estimates involved in valuation. In addition, the audit team reviewed an extended sample of assets and corroborated inputs with supporting evidence and results of our specialists' review.</p> <p>We identified a judgmental audit difference on the Central Depot valuation, which is included in the total understatement of land and buildings in an amount of £3,893,000 as set out above under the significant risk around valuation of schools' land and buildings.</p>
<p>Auditing Accounting Estimates</p> <p>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.</p>	<p>We performed additional audit procedures to address the revised requirements of ISA540. This impacted our work on estimates, such as the valuation of property, plant and equipment, the valuation of pension liability and the fair value measurement of financial liabilities.</p> <p>This additional work enabled us to conclude on the accounts involving estimates and we included all our audit differences in this section of the report under the relevant risks. There were no additional audit differences to report to those charged with governance.</p>

Continued over.

Financial Statement Audit - London Borough of Hillingdon (continued)

Audit differences

There were no adjusted differences above our performance materiality level of £10.3m, arising from our work. A small number of other amendments were made to disclosures appearing in the financial statements as a result of our work, which were corrected satisfactorily by management.

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £13.8m as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We report to the Audit Committee all corrected audit differences in excess of £10.3m and all uncorrected audit differences in excess of £0.7m.

We also identified the following areas where misstatements at a level lower than our overall materiality level might influence the reader. For these areas, we audited all disclosures and undertook procedures to confirm material completeness. The areas identified include:

- ▶ Cash/bank balance;
- ▶ Related party transactions;
- ▶ Officers' remuneration;
- ▶ Members' allowances; and
- ▶ Exit packages.

Financial Statement Audit – London Borough of Hillingdon Pension Fund

We have issued an unqualified audit opinion on the Pension Fund's 2020/21 financial statements.

Key issues

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

On 4 February 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit Committee members on 3 February 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p>Misstatements due to fraud or error, including misstatement of investment amounts through fraudulent journal entries</p> <p>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.</p> <p>We assessed that the risk of manipulation of investment income and valuation through management override of controls is most likely to affect investment income and assets in the year, specifically through journal postings.</p>	<p>We did not identify:</p> <ul style="list-style-type: none">➤ any material weaknesses in controls or evidence of material management override;➤ any instances of inappropriate judgements being applied; and➤ any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business. <p>Our journals testing confirmed there were no unusual or unexpected postings.</p> <p>We were able to agree the disclosure of investment values to custodian, fund manager and property valuer reports in the detailed investment note and throughout the financial statements. We also undertook further detailed testing to gain assurance over the valuation of investments with no issues.</p>

Continued over.

Financial Statement Audit – London Borough of Hillingdon Pension Fund (continued)

Significant risk	Conclusion
<p>Valuation of complex investments (Level 3 Fair Value hierarchy) We consider the valuation of Level 3 investments to be of a significant risk due to the unobservable inputs making up the valuations. This involves a high degree of estimation from the fund managers as audited accounts supporting the valuation are prepared at a date before the Pension Fund's financial year-end.</p>	<p>We:</p> <ul style="list-style-type: none"> ➤ reviewed the relevant funds' latest available audited accounts for modifications and corroborated the extracted information with the relevant valuations; ➤ where the latest audited accounts were not as at 31 March 2021, we performed analytical procedures, market indexations and cash flow roll-forward to assess the valuation for reasonableness against our own expectations; ➤ reviewed the fund managers' latest controls reports and bridging letters to assess whether the fund manager maintained appropriate controls to prevent and detect material misstatements in the pricing of assets; and ➤ tested that accounting entries were correctly processed in the financial statements. <p>We did not note any issues with the judgements used in the valuation of level 3 investments.</p>
Other areas of audit focus	Conclusion
<p>Disclosures on going concern There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund was required to carry out a going concern assessment that is proportionate to the risks it faces. The Fund was 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 identified.</p>	<p>From a review of management's assessment, we were satisfied that it is appropriate for the financial statements to be prepared on a going concern basis and the basis was supported by evidence, including a cashflow forecast, for the foreseeable future.</p> <p>We did not identify any material uncertainties with regards to the going concern of the Pension Fund and following certain adjustments to the disclosure related to the timing of the audit finalisation, we considered the going concern disclosure to be appropriate and sufficient.</p>

Continued over.

Financial Statement Audit – London Borough of Hillingdon Pension Fund (continued)

Other areas of audit focus	Conclusion
<p>IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits</p> <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 as at 31 March 2019, 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 31 March 2022.</p>	<p>We:</p> <ul style="list-style-type: none"> > Assessed the competence of management experts, Hymans Robertson; > Engaged 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 > Ensured that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary. <p>We completed the work and concluded that the future pension liability disclosed under IAS26 requirements in the Pension Fund's accounts is reasonable in all material respects.</p>

Audit differences

There were no adjusted differences above our performance materiality level of £8.7m, arising from our work. A small number of other amendments were made to disclosures appearing in the financial statements as a result of our work, which were corrected satisfactorily by management.

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £11.6m as 1% of the Fund's net assets reported in the accounts. We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We report to the Audit Committee all corrected audit differences in excess of £8.7m and all uncorrected audit differences in excess of £0.6m.

Section 4

Value for Money

Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 29 September 2021 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with management and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work on 4 February 2022 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified 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.
-

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Council identifies all the significant financial pressures that are relevant to its medium term plans through its Medium Term Financial Forecast ('MTFF'), which is the financial plan for the Council and it contains the funding strategy for delivering the Council's objectives for a forward looking period of four years. This forecast is revisited and extended on an annual basis, or more frequently if necessary. This forecast enables emerging risks and issues to be reflected in the Council's financial planning in a timely manner.

The budget setting cycle represents a continuous programme of activity across the financial year. Monthly budget monitoring reports are used to identify and address short term financial pressures. This is the process of comparing actual and forecast expenditure and income throughout the financial year, both through budget monitoring and at the point of committing expenditure. It involves identifying variances, pressures and risks while taking prompt action to prevent budget pressures from arising or to bring pressures that have arisen back under control. Budget managers carry out monitoring of the actual positions while being aware of wider factors which may impact upon the budget position. These monthly reports are reviewed by Cabinet, enabling corrective action to be taken in response to emerging pressures, whilst continuing to deliver on the Council's priorities for residents.

The Council also prepares a cash flow forecast that covers one year from the auditor's report date. This enables identification of short term financial pressures.

Financial sustainability (continued)

How the body plans to bridge its funding gaps and identifies achievable savings

Over the period 2020/21 to 2022/23, the Council planned to bridge its funding gap through inflationary council tax increases, approved savings programme and in-year call on general fund balances.

The Council identifies achievable savings through a range of mechanisms, including:

- Business Improvement Delivery ('BID') Programme-led service transformation projects;
- Zero Based Reviews, which identifies budgets as being surplus to requirements through the line-by-line review of outturn and similar exercises being undertaken by Finance;
- Effective Procurement captures the benefits secured from efficiency savings from contracted services and reviews of delivery models in a number of areas;
- Preventing Demand initiatives, such as the Supported Living Programme where investment in early intervention and other support can avoid more costly intervention at a later date;
- Income Generation & Commercialisation proposals primarily relate to amendments to fees and charges;
- Changes of Responsibility & Funding Streams, which relates to mechanisms such as the New Homes Bonus, Troubled Families Grant and the synergies / efficiencies arising from transfers of functions to and from Local Government such as Education and Public Health.

For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council's constitution lays out its core strategic priorities. Full Council considers at its annual meeting whether any additional plans or strategies, both statutory or non-statutory, should be adopted or approved. The Council's plans and strategies make up the Council's budgetary and policy framework.

The Council's budget setting process is service-led, with a comprehensive assessment of the level of demand for services and the level of investment required flowing from the monthly budget monitoring process into future budget plans, as seen in both the regular monitoring and bi-annual budget setting reports to Cabinet. This approach covers the full range of activity within the Council's budget, with particular focus being placed on areas such as social care placements, waste disposal costs and support for homeless households where budgets are realigned to meet demand prior to consideration of potential to generate savings in these areas.

Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The MTFF and budget setting processes facilitate an effective integration with other plans and strategies, for example:

- The Corporate Transformation / BID Team work closely with service departments and the dedicated Transformation (Finance) Business Partner within the Corporate Finance team to ensure that service design and transformation activity is effectively captured in budgets.
- There is an annual process of budget approval by all Tier 3 managers in the organisation (i.e. Deputy Directors and Heads of Service reporting to Corporate Directors) to ensure that the output from the MTFF process is aligned to local service requirements.
- The staffing budgets reflect the HR-owned master establishment list to ensure that workforce plans and budgets are wholly aligned. This is included within the annual budget process and then updated on a monthly basis through the post-level budget monitoring process included in the Council's budget management system.
- Capital & investment strategies are linked into the MTFF and budgets with future debt servicing and repayment costs clearly flowing through from spending plans.
- Where appropriate, joint strategies such as the Better Care Fund Section 75 Agreement, are fully aligned to the MTFF to ensure that contributions to the wider health and social care system are in place and available to meet residents' needs.

For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The Council identifies risks to financial resilience through its budget monitoring and MTFF processes, as well as engagement outside of the organisation through active engagement with bodies such as the Society of London Treasurers (SLT), the Deputy Treasurers Group (DTG) and the Association of Directors of Adult Services (ADASS), where regular discussion, information sharing and benchmarking supplements local intelligence.

The identified financial risks, along with the Council's broader operations risks, are summarised in a risk register, which is updated on a continuous basis and it is discussed at the Council meetings. The Audit Committee will monitor and review, but not direct, the Council's risk management arrangements, including regularly reviewing the corporate risk register (giving reference to the directorate risk registers) and seeking assurances that action is being taken on strategic risk related issues.

Financial sustainability (continued)

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans (continued)

The Council regularly reviews the range of risks against the appropriate level of provision managed through the General Fund. This analysis is set out in the annual review of the adequacy of balances completed as part of the budget setting report in February of each year.

The Council makes effective use of its earmarked reserves as a tool for the management of risks to financial resilience, with dedicated reserves in place for specific risks such as insurance claims, care provider default, income volatility and fluctuations for demand for homelessness support, etc.

As an example, in respect of COVID-19, the Council set aside £9m at the 2019/20 outturn to create a dedicated fund to supplement government grant funding in managing the impact of the pandemic, with a further £1m being added to this fund at the 2020/21 outturn.

Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Cabinet is responsible for approving the Council's risk management policy statement and strategy and for reviewing the effectiveness of risk management.

The Corporate Director of Finance is responsible for preparing the risk management policy statement, for promoting it throughout the Council and for advising the Cabinet on proper insurance cover where appropriate.

Chief officers are responsible for identifying and controlling hazards and containment of losses. They notify the Corporate Director of Finance of any new risks or changes which affect insurable risks and they update the Directorate Risk Registers on a quarterly basis. The most significant risks are escalated and summarised in the Corporate Risk Register ('CRR').

A Corporate Risk Management Group ('CRMG'), chaired by the Corporate Director of Finance, reviews the CRR on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. The CRR is presented to the Audit Committee in the following quarter. Where appropriate, the MTFE incorporates the potential financial impact of significant risks.

The Audit Committee monitor and review, but not direct, the risk management arrangements, including regularly reviewing the CRR and seeking assurances that appropriate action is being taken on managing risks.

For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud (continued)

The Corporate Director of Finance is responsible for advising on effective systems of internal control. These arrangements ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. They ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use. It is the responsibility of chief officers to establish sound arrangements for planning, appraising, authorising and controlling their operations.

The Council maintains an adequate and effective internal audit function as required by the Accounts and Audit Regulations 1996. A risk based internal audit plays a central and essential role in maintaining a sound system of internal control at the Council. Chief officers are required to give proper consideration to internal audit recommendations and to respond, accordingly.

The Corporate Director of Finance oversees the development and maintenance of a prevent and detect anti-fraud and anti-corruption policy. Anyone who becomes aware of any actual or suspected financial irregularity or loss, whether of money or assets, normally notifies their line manager in the first instance.

If necessary, the matter may alternatively be raised with one of the officers listed in the Whistle-blowing policy, or with the external auditor. Per the Council's constitution, all losses must be reported to the Head of Internal Audit.

How the body approaches and carries out its annual budget setting process

The Corporate Director of Finance is responsible for ensuring that a revenue budget is prepared on an annual basis for consideration by the Cabinet, before submission to Full Council.

Following a robust challenge process involving both chief officers and members, as well as a statutory budget consultation process with business ratepayers and residents in the Borough, the Council may decide to adopt the Cabinet's proposals, amend them, refer them back to the Cabinet for further consideration, or substitute with its own proposals. Any decision is made on the basis of a simple majority of votes cast at the meeting. Once the decision has been taken by the Council, it will be publicised and implemented.

The Council's budgets include the General Fund, the Housing Revenue Account and the capital budgets. Detailed approval limits and roles, as well as conflict resolution guidelines on adoption of plans or strategies are set within the Council's constitution: <https://www.hillingdon.gov.uk/constitutionanddelegations>. It is the responsibility of chief officers to ensure that budget estimates reflecting agreed service plans are submitted to the Cabinet and that these estimates are prepared in line with guidance issued by the Cabinet.

For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

Chief officers control income and expenditure within their area and they monitor performance on a monthly basis, taking account of financial information provided by the Corporate Director of Finance, as well as non-financial information where appropriate. They report on variances within their own areas and they take any action necessary to avoid exceeding their budget allocation and alert the Corporate Director of Finance to any problems. Budget manager engagement is actively tracked against the four-day deadline for monitoring returns each month.

As part of the monthly budget monitoring process, the financial position of each department is reviewed in detail by the Corporate Director of Finance with dedicated monthly meetings with each Corporate Director to ensure that issues and actions emerging from the monitoring process are dealt with and reflected in the MTFF as appropriate. Finally, the outputs from this process are presented to Cabinet on a monthly basis.

For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The general format of the budget is approved by Full Council and proposed by the Cabinet on the advice of the Corporate Director of Finance. The draft budget includes an allocation to different services and projects, proposed taxation levels and contingency and reserve funds, sufficient to comply with statutory requirements.

The Audit Committee reviews and monitors 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. This includes their review and approval of the statutory annual statement of accounts. Specifically, they 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. In addition, the Audit Committee considers the External Auditor's report to those charged with governance on issues arising from the external audit of the accounts

Governance (continued)

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Council issues and keeps up to date a record of what part of the Council or individual has responsibility for particular types of decisions or decisions relating to particular areas or functions. The Council's Constitution sets out the key roles and responsibilities for decision making, as well as the procedures that are followed to ensure that the decisions taken are efficient, transparent and accountable to local people. The Constitution is reviewed at Full Council meetings as required and also more comprehensively on an annual basis at each Annual General Meeting, as required.

Part 2, article 7.08 of the Constitution sets out the 'Cabinet Scheme of Delegations'. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet Members. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Directors' responsibilities. Executive decision-making is transparent and undertaken in accordance with regulations and the law, with flexibility for urgent decisions.

Part 3 of the Constitution sets out the 'Scheme of Delegations to Officers'. This governs the responsibilities allocated to officers to perform the authority's activities. Details of what decisions are taken in this way are included in the Scheme of Delegation in the Council's Constitution. Further specific delegations may be granted through recommendation in public reports to Committees.

The Council is committed to the seven Nolan Principles of Public Life and these are detailed in the Constitution: selflessness, integrity, objectivity, accountability, openness, honesty, leadership. All Council and Committee meetings are held in public (the public are excluded only in limited circumstances of consideration of confidential or exempt information), with agenda and reports being produced and published on the Council's website. Key Council meetings are broadcast live on YouTube including Full Council, Cabinet, Planning Committees, Licensing Sub Committees, Petition Hearings (subject to public interest).

The Audit Committee's role is to review, monitor and challenge the Council's audit, governance, risk management framework and the associated control environment, as an independent assurance mechanism. They 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 and they oversee the financial reporting process of the Statement of Accounts.

For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The Council appoints Statutory Officers who have the skills, resources and support necessary to ensure compliance with the Council's statutory and regulatory requirements.

The Council's Monitoring Officer has statutory reporting duties in respect of unlawful decision making and maladministration. After consulting with the Head of Paid Service and Corporate Director of Finance, the Monitoring Officer reports to Full Council or to the Cabinet if he or she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report has the effect of stopping the proposal or decision being implemented until the report has been considered.

The Council's Standards Committee is established by Full Council and is responsible for promoting and maintaining high standards of conduct amongst councillors. In particular, it is responsible for advising the Council on the adoption and revision of the Member Code of Conduct, which apply to both Councillors and Officers.

Clear guidance is in place for members and officers regarding the acceptance of gifts and hospitality detailed in the Gifts and Hospitality Policy, Golden Rules for Employees and the Council's Constitution. Conflicts of interest can potentially arise in a variety of situations and a simple rule of thumb is "if in doubt declare it". Examples of situations where a conflict can arise are set out in the Council's Constitution, including guidance around financial and non-financial interests, family members and personal relationships, other employment, personal opinions and social media behaviour, relationships with colleagues and obligations towards the Council's residents, as well as looking after and using Council's assets and resources.

The Member Register of Interests records the pecuniary and non-pecuniary interests of members and co-opted members of the Council. There is a separate 'Related Parties' register that all members and a selection of senior officers are required to complete each year declaring the relationship and nature of any related party transactions, which the Council has entered into. Related party transactions are disclosed in the Council's Statement of Accounts, which are approved by the Audit Committee on an annual basis.

For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement.

The Council's Performance Management Framework is a Council-wide framework requiring all service areas and teams to set annual service delivery plans, targets, identify risk and report performance against Council priorities. Key aspects of performance are monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the results of which are regularly presented to Senior Management Teams ('SMTs') and reported quarterly to the Corporate Management Team ('CMT'). Performance monitoring covers a broad range of functions, including Highways, Waste & Recycling and Social Care.

An example of the close links between finance and performance data is the Council's social care placement activity data, which is integrated into the budget management system to enable direct comparisons between activity and spend, alongside standard costing to be undertaken within the system.

For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

In addition, the monthly budget monitoring process, as described in the previous sections of this commentary, is the main tool used by the Council to assess its financial performance against set targets and to identify areas for savings and efficiencies. The Council's budget monitoring processes are closely aligned to key performance data – particularly on workforce, demand-led activity and fees & charges. This means that the General Fund revenue budget activity is being monitored with an explicit link to the relevant performance information, which enables identification of areas for improvement.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The effectiveness of the Council's interventions and the quality of its services is monitored through the preparation of regular performance reports showing progress towards goals and targets set in the budget and business plans. Key areas are highlighted for decision-makers to take corrective action if necessary.

The Council puts in place key performance indicators ('KPIs') to monitor internally and externally produced services. Reports compiling KPIs are submitted to SMTs, CMT and members to support transparency and resource allocation to address challenges. The Council ensures that external companies who deliver services have an understanding of expected contract performance and monitoring takes place throughout the contract period.

The Hillingdon Improvement Programme ('HIP') is aimed at delivering a range of key improvements to the way the Council works and improving services to the Council's residents. The programme is led by the Leader of the Council, and the Chief Executive is the Programme Director. Cabinet Members and Corporate Directors are also responsible for specific HIP projects.

Improving economy, efficiency and effectiveness (continued)

How the body evaluates the services it provides to assess performance and identify areas for improvement (continued)

The HIP covers a number of workstreams, including: Business Improvement Delivery programme, Capital Programme and Property, school estates, housing, technology, innovation and communications, corporate finance.

Alongside the governance structures in place, the Council's monthly budget monitoring processes and the MTF process provide a level of challenge to drive out further improvements to services, alongside feedback mechanisms such as members' enquiries and customer complaints. The Council has complaints procedures for members of the public, Council employees and employees and organisations who deliver services on behalf of the Council. These are published on the Council's website: <https://www.hillingdon.gov.uk/complaints>. The policy and procedures allow managers to address issues of unsatisfactory service and seek improvements in service delivery.

For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Cabinet is responsible for approving frameworks for partnerships. The Cabinet is the focus for forming partnerships with other local public, private, voluntary and community sector organisations to addressing local needs.

Specific delegations to the Cabinet Member for Corporate Services & Transformation include: to promote effective methods of partnership working in consultation with the appropriate Cabinet Member if this relates to specific service areas and to oversee proposed arrangements with public and other bodies for the delivery and funding of partnership initiatives which affect the Council.

The Corporate Director of Finance considers the overall corporate governance arrangements, legal issues and other risks when arranging contracts with external partners. Chief officers are responsible for ensuring that appropriate approvals are obtained before any negotiations are concluded in relation to work with partners.

The Council works closely with a broad range of stakeholders and partners, co-ordinated through the Community Engagement Team to ensure that partnerships deliver the expected services for local residents. The annual review of the voluntary sector grants programme enables Cabinet to effectively monitor performance, target resources as appropriate and take action where improvement is necessary. The effectiveness of the Council's working with partners was demonstrated in the context of the voluntary sector's response to COVID-19 in the recent Corporate Services, Commerce and Communities Policy Overview Committee's review in this area.

Improving economy, efficiency and effectiveness (continued)

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

For the year ending 31 March 2021, the Council had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The Council's Constitution lays out the framework for procurement and contract standing orders for every contract awarded by or on behalf of the Council in respect of goods, works and services. Compliance with the procurement standard operating procedures is mandatory across all Council departments, together with the application of best practice.

Corporate Directors, Directors, Deputy Directors and Heads of Service ensure that all officers who procure goods, works or services comply with the Constitution and the Procurement Standard Operating Procedures. Only officers who are deemed to be qualified and competent by the Head of Procurement, in conjunction with the appropriate Corporate Director, are allowed to procure goods, works or services. These officers are identified within each Department's individual Scheme of Delegations.

Where external or specialist advice is required, a specific legal budget exists within procurement that is used to mitigate risks in the work the Council undertakes. Procurement is subject to internal audit in a number of areas and where recommendations are made, appropriate action is taken. In addition, the Council's overall process for assessing performance, as discussed previously in this commentary, enables the assessment of benefits received from partners against the relevant pre-set key performance indicators.



Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

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

We completed this work and identified a small number of areas where disclosure amendments were required to reflect the position at the Council. The Council amended the annual governance statement to reflect our recommendations.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the Council to complete this work as required.

Report in the Public Interest

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

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

Other powers and duties

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

Control Themes and Observations

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

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

Our audit identified an observation we brought to the attention of the Audit Committee around the calculation of the bad debt provision on debtors for taxation. We noted an increase in debtor balances as the Council went through its first full pandemic year and we understand that the Council has certain plans for more intensive recovery of debts compared to the 2020/21 financial year. We were able to obtain sufficient assurance over the bad debt provision following an increased audit effort given the uncertainties. However, we are drawing attention to the fact that appropriate consideration should be given to the recovery plans used to make judgments about the recoverability of debts and a close monitoring of the progress against those plans and the impact on the accounts of future years.

Appendix A

Audit Fees

Audit Fees – London Borough of Hillingdon

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Total Audit Fee – Code work	TBC	135,496 to 144,496**	162,047*
Non-audit work			
Housing benefits	30,600	Variable***	28,290
Capital receipts return	7,900	7,500 – 8,500	8,000
Teachers' pensions	13,500	13,000 – 13,500	12,500
Total non-audit fees	52,000	Variable	48,790

*The 2019/20 Code work includes an additional fee of £40,951, which relates to additional procedures to address the increased regulatory audit requirements, additional specific one-off work required for Covid-19 considerations in relation to Going Concern and professional consultation and additional procedures to address the significant risk around properties valuation and VFM conclusion. This additional fee variation was approved by PSAA and covers only a proportion of the following total scale fee variation determined by us and submitted to PSAA for approval: a general increase of £82,728 to the scale fee and an additional fee to address specific risks, going concern and consultations of £31,217.

**The planned fee for 2020/21 includes the scale fee set by PSAA of £121,096 and the 2020/21 PSAA expected additional minimal core fees of £10,000 to £19,000 for VFM and £4,400 for ISA 540 accounting estimates. The PSAA scale fee is indicative and does not reflect the actual costs of undertaking the audit, to address all risks identified and to meet current regulatory standards. We set out the key areas of focus of our work in Section 03. In our audit results report, we included an estimate of the scale fee increase by £82,728 to reflect those underlying costs, however this was only an indicative amount. We will finalise and discuss the total fee with management and PSAA, and communicate progress to the Audit Committee.

***For Housing Benefits procedures we planned £19,500 plus VAT for the certification work and £3,700 plus VAT for the each set of extended ("40+") testing.

Audit Fees – London Borough of Hillingdon Pension Fund

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Total Audit Fee – Code work	TBC	16,170**	29,864*
IAS 19 protocol procedures***	TBC	5,000***	8,987***
Total fees	TBC	21,170	38,851

*The 2019/20 Code work includes an additional fee of £13,694, which relates to additional procedures to address the increased regulatory audit requirements, additional specific one-off work required for Covid-19 considerations in relation to Going Concern and professional consultation and additional procedures to address the significant risk around investments valuation. This additional fee variation was approved by PSAA and covers only a proportion of the following total scale fee variation determined by us and submitted to PSAA for approval: a general increase of £28,293 to the scale fee and an additional fee to address specific risks, going concern and consultations of £8,130.

**The planned fee for 2020/21 includes the scale fee set by PSAA. The PSAA scale fee is indicative and does not reflect the actual costs of undertaking the audit to address all risks identified and to meet current regulatory standards. We set out the key areas of focus of our work in Section 03. In our audit results report, we included an estimate of the scale fee increase by £28,293 to reflect those underlying costs, however this was only an indicative amount. We will finalise and discuss the total fee with management and PSAA, and communicate progress to the Audit Committee.

***This fee covers procedures on IAS 19 assurances provided to the auditor of the London Borough of Hillingdon and this fee is not set by PSAA. The 2019/20 final fee includes the triennial membership data testing used in IAS19 valuations. There is no fee for triennial data testing included in the planned fee for 2020/21. We will finalise and discuss the IAS 19 fee with management, and communicate progress to the Audit Committee.

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AUDIT COMMITTEE - Internal Audit Progress Report for 2021/22 Quarter 4 (including the 2022/23 Quarter 1 Internal Audit Plan)

Committee name	Audit Committee
Officer reporting	Rupert Bamberger, Interim Head of Internal Audit
Papers with report	Internal Audit Progress Report for 2021/22 Quarter 4 (including the Internal Audit Plan for 2022/23 Quarter 1)
Ward	All

HEADLINES

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in 2021/22 Quarter 4, and assurance in this respect. It also provides an opportunity for the Head of Internal Audit 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 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 risk based IA Plan for 2022/23 Quarter 1 which has been produced in consultation with senior managers and outlines the planned programme of IA work due to commence in the 1st April to 30th June 2022 period.

RECOMMENDATIONS:

That the Audit Committee:

1. **Notes the IA Progress Report for 2021/22 Quarter 4 and considers the 2022/23 Quarter 1 IA Plan and, subject to any further minor amendments, approves it; and**
2. **Ensures that the coverage, performance and results of the Business Assurance IA activity in quarter 4 is considered and any additional assurance requirements are communicated to the Head of Internal Audit.**

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 risk based 2022/23 Quarter 1 IA Plan.

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BUSINESS ASSURANCE

Internal Audit Progress Report to Audit Committee:

2021/22 Quarter 4

(including the 2022/23 Quarter 1 Internal Audit Plan)

6th April 2022



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

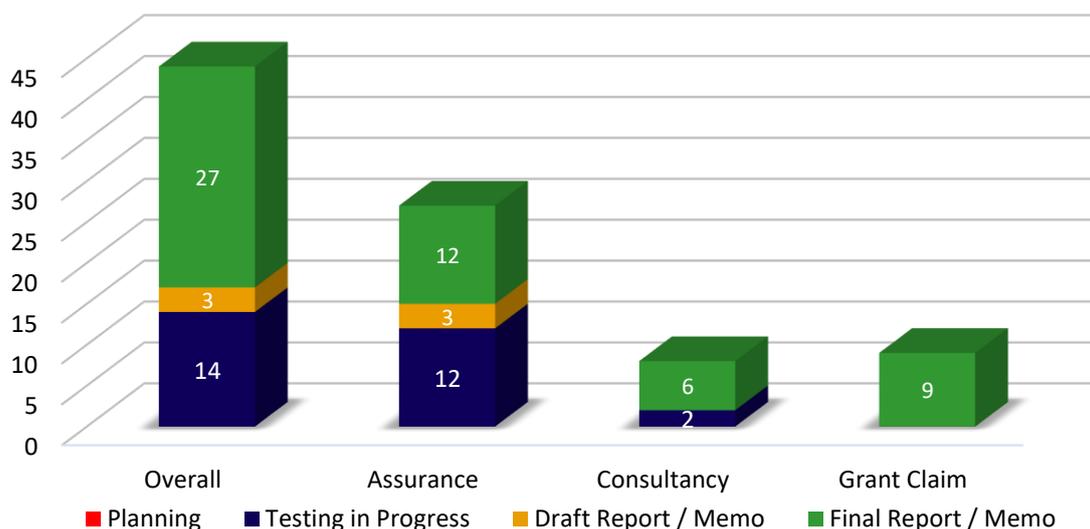
1.2.1 This progress report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all IA work for Quarter 4 (1st January to 31st March 2022). In addition, it provides an opportunity for the Council's Head of Internal Audit (HIA), to highlight any significant 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 2022/23 Quarter 1 (Q1) IA plan (refer to **Appendix C**). This has been produced throughout Q4 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 2022).

2. Executive Summary

2.1 Since the Q3 IA Progress Report to CMT and the Audit Committee dated 21st January 2022, **5 assurance** reviews, **4 consultancy** reviews and **1 grant claim** have concluded, and **3 assurance** reviews are at draft report stage. In addition, **7 assurance** reviews and **2 consultancy** reviews are at advanced testing stage, and the remaining **5 assurance** reviews are at testing stage. The teams progress against this year's programme of IA work for 2021/22, is depicted in Chart 1 below:

Chart 1 ~ 2021/22 IA Work Undertaken to Date



- 2.2 IA's work on the 2021/22 Q4 IA Plan commenced in early January 2022 with the planning stage of all audits now complete and testing well underway on almost all remaining Q4 pieces of IA work. Despite further challenges caused by Covid-19, vacancies, and staff movements within the IA team, the IA work in Q4 has continued with **10** pieces of IA work being finalised this quarter.
- 2.3 Key assurance reviews finalised in this quarter include **Section 106 & Community Infrastructure Levy (CIL)**, **Birth Registration Service**, and a **Thematic Review of Safeguarding in Schools**. These three reviews received a **LIMITED** assurance opinion. **Positive action has been proposed by management** to address all the **HIGH** and **MEDIUM** risk recommendations raised within these reviews, with any subsequent recommendations followed-up by IA in due course. Further details of these reviews are included in section 3.1 below.
- 2.4 Following IA undertaking its previous round of planning, **2 assurance reviews** have been **deferred** (in agreement with the HIA). One due to a service request to broaden the scope of the review, and the second following work undertaken (and progress made) by the authority in this area. One of these deferred reviews will be picked up in Q1 2022/23, and the other will be monitored and re-programmed in due course. In addition, **2 consultancy reviews** were **added** to the Q4 IA plan (refer to **Appendix B**).
- 2.5 Further details of all IA activity carried out in this period are summarised in section 3 below.

3. Analysis of Internal Audit Activity

3.1 Assurance Work in Quarter 4

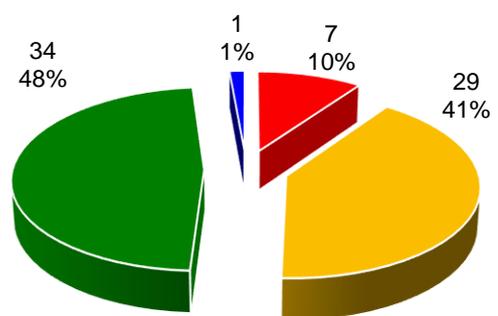
- 3.1.1 During this quarter, **5** assurance reviews have been completed to final report stage with an additional **3** assurance reviews at draft report. A further **7** assurance reviews are at advanced testing/ completion stage with the remaining **5** Q4 assurance reviews at testing stage.
- 3.1.2 In Q4, as highlighted in 2.3 above, **3** assurance reviews received **LIMITED** assurance opinions:
- **Section 106 & CIL** where **5 MEDIUM** and **3 LOW** risk recommendations were raised. The audit review was unable to verify that all appropriate legal and planning compliance fees were paid by the developer in a timely manner due to incomplete management information. There was no single central register for recording all S106 agreements from 2015. Furthermore, there was no overview of current developments with pending, active, or outstanding obligations where trigger points are not proactively identified when they have been reached. Positive management action has been proposed by management to address all the **MEDIUM** and **LOW** risk recommendations raised.
 - **Birth Registration Service** where **4 MEDIUM** and **2 LOW** risk recommendations were raised. The audit review identified enhancements that were possible within the service's booking system. At the time of the audit review, the system was unable to generate robust performance information, with this having to be manually collated. Positive management action has been proposed by management to address all the **MEDIUM** and **LOW** risk recommendations raised.
 - **Thematic Review of Safeguarding in Schools** where **5 HIGH** and **3 LOW** risk recommendations were raised. The IA team found that although 2/4 schools had robust safeguarding arrangements, this review identified some potentially high-risk issues at other schools which affected the level of assurance IA could provide. In 2/4 of the schools there were instances where DBS checks were completed after their commencement date in post and in 1/4 schools there were instances where identity and qualification checks were verified after their commencement date in post. Positive management action has been proposed by management to address all the **HIGH** risk recommendations raised.

- 3.1.3 Other assurance reviews finalised this quarter include the review of the **ICT Service Desk** which was awarded a **REASONABLE** assurance opinion. The review of **Home to Assess** was awarded a **SUBSTANTIAL** assurance opinion. Again, for both reviews, positive action has been proposed by management to address all the **MEDIUM** and **LOW** risk recommendations raised within the reviews and these recommendations (and the underlying risks) will be followed-up by IA in due course.
- 3.1.4 All IA assurance reviewed 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 recommendations risk categories outlined at **Appendix E**).
- 3.1.5 Assurance opinions provided, and the associated IA recommendations raised are further summarised in **Chart 2** and **Chart 3** overleaf:

Chart 2 ~ Q4 IA Assurance Opinions



Chart 3 ~ Q4 IA Assurance Recommendations



■ Substantial ■ Reasonable ■ Limited ■ No ■ High ■ Medium ■ Low ■ Notable Practice

3.2 Consultancy Work in Quarter 4

- 3.2.1 The IA team continues to undertake some consultancy work across the Council. Attached at **Appendix A** is the list of consultancy work carried out in Q4 with **4 consultancy** reviews finalised in Q4: **External Quality Assessment for LB Camden & LB Islington, Occupational Therapy - Contract Management, Mayors Charity Accounts 2021/22, and Stores Stock Check 2021/22**. Two pieces of consultancy work were added to the IA workplan throughout Q4 as detailed in **Appendix B**.

3.3 Grant Claim Verification Work in Quarter 4

- 3.3.1 During this quarter IA has assisted the Council in certifying **1** grant claim. As detailed at **Appendix A** the planned quarterly verification work on the **Supporting Families (SF) Grant** has progressed well this quarter. IA has tested a sample of SF cases that had been identified as being 'turned around' by the Council's SF Team. At the conclusion of the work IA issued 3 memos in January, February, and March 2022. The total number of families claimed for in Q4 was **70**.

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 (including schools) **HIGH** risk recommendations **within 2 weeks** after their implementation date and **MEDIUM** risks **within 4 weeks** after their implementation date.

- 3.4.2 Further to this, IA has removed the functionality for risk owners to revise recommendation implementation dates in isolation and instead any requests for implementation date extensions go to the HIA for consideration. The HIA will then, in consultation with the relevant CMT Corporate Director, agree the most appropriate course of action.
- 3.4.3 However, as agreed with Audit Committee at their meeting on the 1st February 2022, due to COVID-related pressure the Council was facing, alongside vacancies within the IA team, **the programme of IA follow ups was effectively 'paused' within Q4**. Once IA team vacancies have been filled and/ or IA resources bolstered, we anticipate recommencing this work in Q1 of 2022/23, but we will inform CMT and the Audit Committee if there are any delays to this.
- 3.4.4 In the meantime, we are available to support action owners with their recommendations should they need our assistance. Further, TeamCentral continues to issue automatic reminders to Managers whose recommendations are due for implementation and if no update has been provided (on the system) a weekly reminder is sent thereafter. We will also help schools with their recommendations by training them to use TeamCentral to record updates and attach evidence where actions have been marked as implemented.

3.5 Other Internal Audit Work in Quarter 4

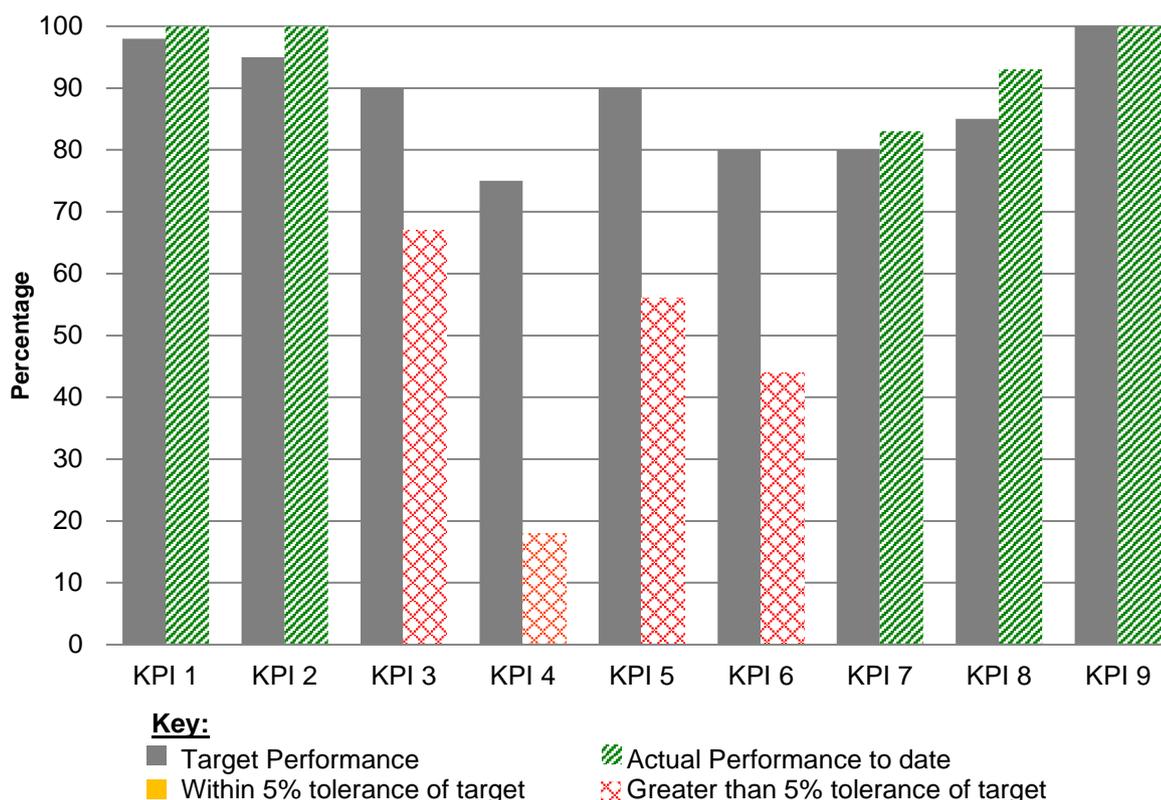
- 3.5.1 We continue to undertake a quarterly approach to IA planning to ensure emerging risks and new areas of concern are captured, particularly following the global pandemic and the risk this still places on the council. During Q4 we continued to undertake risk-based planning meetings alongside risk register reviews due to the synergies between these two functions.
- 3.5.2 The detailed operational IA plan for Q1 of 2022/23 (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.
- 3.5.3 The IA plan for Q1 2022/23 includes **8** audit reviews; **7** of which are assurance reviews and **1** which is a grant claim. Due to vacancies within the IA team, we anticipate bringing in co-source support for 3 of the audits in Q1. The IA resourcing position will continue to be monitored, with potential further co-source support required throughout 2022/23.

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 D**) are meaningful and provide challenge to the service. Cumulative performance for 2021/22 to date period is summarised below:

Chart 4 ~ 2021/22 IA Key Performance Indicators



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

- **KPI 3** refers to **HIGH** risk IA recommendations where management action is taken within agreed timescale. **4/6 (67%*) HIGH** risk recommendations raised in 2021/22 IA projects to date have been closed and verified by IA.
- **KPI 4** refers to **MEDIUM** risk IA recommendations where management action is taken within agreed timescale. **2/11 (18%*) MEDIUM** risk recommendations raised in 2021/22 IA projects to date have been implemented and closed by management.
- **KPI 5** shows that 15 assurance reviews (out of 27) have reached draft report stage in 2021/22 which accounts for **56%** of work undertaken so far throughout Q1-Q4 compared to the **90% target**; and
- **KPI 6** shows that 12 assurance reviews (out of 27) have reached final report stage by the 31st March 2022 which accounts for **44%** of work undertaken so far throughout Q1-Q4 compared to the **80% target**.

* These percentage implementation figures are likely to have been impacted by the effective 'pause' of IA follow up activity in Q4 (see para 3.4.3 above).

- 4.1.3 **Appendix A** shows a large portion of IA work is underway and progressing through to completion. Following the end of each financial year, a short time lag of completion of all audit work through to draft and final report stage is expected, and the team is working hard to ensure that work is concluded and finalised as soon as possible. There is no doubt that vacancies and resourcing challenges will have impacted delivery, however plans are in place to mitigate the longer-term effect of this. Further details have been included below.

5. Current Internal Audit staffing position and resourcing challenges

- 5.1 2021/22 has seen significant resourcing changes and challenges in the IA team. A summary of the current IA structure and associated vacancies is included below:
- **Head of Internal Audit and Risk Assurance** – Vacant since February 2022, however being covered on an interim basis (*current interim until end of April 2022, then planned handover to new Interim Head of Internal Audit (HofIA) throughout April.*) A recruitment campaign in Q4 2021/22 to find a new permanent HofIA was unsuccessful.
 - **2 x Internal Audit Managers** – 2 in post, although 1 leaving July 2022
 - **2 x Senior Internal Auditors** – 1 in post, 1 vacant (*plan to supplement vacancy through co-source support in the short-term*)
 - **2 x Internal Auditors** – 2 in post
 - **2 x Trainee Internal Auditors** – 2 vacant (*recruitment currently on hold*)
- 5.2 The challenge of losing IA staff to professional services firms continues, with 3 IA staff moving to one firm (BDO) in particular over the last year.
- 5.3 Given the period of transition within the IA team, along with vacant senior IA posts, it was decided to place the planned recruitment round for 2 x Trainee Auditors on hold.

6. Forward Look

- 6.1 Looking ahead to 2022/23, **recruitment and/ or bolstering IA resource through a co-source arrangement** is a high priority for the IA Team. What is essential is IA resource secured has a high level of skill and proficiency, but can also deliver change/ add value and thrive within the LBH culture. Despite a number of vacancies and staff movements in a period of significant change, the IA team is working hard to ensure that IA delivery is not impacted in a negative way.
- 6.2 Given the various challenges that COVID has presented the Council, along with it was agreed that internal audit would effectively 'pause' their programme of audit follow up work in Q4 2021/22. This was to allow officers more time and/ or focus on their respective service areas. Given the reduction in percentage of IA recommendations where management action is taken within agreed timescale, alongside the end of all COVID-related restrictions, **the recommencement of a programme of IA follows ups will be a priority going forwards.**
- 6.3 The IA team has successfully procured the upgrade to TeamMate called **TeamMate Plus (TM+)** which was due to be installed in early 2022/23. The system offers better integration with MS Office 365 and there are also additional modules which can help the IA Team with risk management and data analytics. However, due to current resourcing challenges within the IA team, **this upgrade has currently been placed on hold.**
- 5.4 IA would like to take this opportunity to formally thank all staff throughout the Council with whom it had contact during Q4. 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.

Rupert Bamberger CMIIA QIAL CIA
Interim Head of Internal Audit

6th April 2022

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2021/22**

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

2021/22 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 31 st March 2022	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
21-A6	Transport Contract Management	Final report issued on 22 nd Nov 2021	Limited	1	1	0	0	✓
21-A18	S106 and CIL	Final report issued on 17 th Jan 2022	Limited	0	5	3	0	✓
21-A14	Birth Registration Service	Final report issued on 17 th Jan 2022	Limited	0	4	2	0	✓
21-A9	Business Continuity Planning	Final report issued on 3 rd Sept 2021	Reasonable	0	3	1	0	✓
21-A2	Planned Works & Contract Management	Final report issued on 14 th Oct 2021	Reasonable	0	3	3	0	✓
21-A7	Fostering Service	Final report issued on 15 th Oct 2021	Reasonable	0	4	2	0	✓
21-A5	Expenditure Approval Process	Final report issued on 18 th Oct 2021	Reasonable	0	2	5	0	✓
21-A17	Road Naming and Numbering	Final report issued on 10 th Dec 2021	Reasonable	0	4	4	1	✓
21-A16	Procurement – Contract Compliance	Final report issued on 31 st Dec 2021	Reasonable	1	1	3	0	✓
21-A3	ICT Service Desk	Final report issued on 28 th Jan 2022	Reasonable	0	2	3	0	x
21-A20	Thematic Review of Safeguarding in Schools	Final report issued on 18 th Feb 2022	Limited	5	0	4	0	✓
21-A28	Home to Assess	Final report issued on 14 th Mar 2022	Substantial	0	0	4	0	✓
21-A26	Planning Enforcement	Draft report issued on 16 th March 2022						
21-A29	Music Service – Overseas Trip	Draft report issued on 1 st April 2022						
21-A23	Chronology on Protocol	Draft report issued on 6 th April 2022						

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2021/22****2021/22 IA Assurance Reviews:**

IA Ref.	IA Review Area	Status as at 31 st March 2022	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
21-A11	Crematorium	Testing concluding/ delayed*						
21-A12	Absence Management	Testing concluding						
21-A13	Allotments	Testing concluding						
21-A24	Transport Funded Projects	Testing concluding						
21-A25	Hatton Grove	Testing concluding						
21-A27	Payroll Rent Payments	Testing concluding						
21-A21	IT Application Review: ContrOCC	Testing concluding						
21-A1	Disabled Facilities Grant	Testing in progress						
21-A31	Tenancy Management – Fixed Term Tenancies	Testing in progress						
21-A32	IT Governance	Testing in progress						
21-A34	Licensing – Animal Welfare	Testing in progress						
21-A35	Pension Fund Data Mapping	Testing in progress						
Total Number of IA Recommendations Raised				7	29	34	1	
Total % of IA Recommendations Raised				10%	41%	48%	1%	

* Internal Audit are currently working with the Bereavement Service to complete the testing for this review. The Bereavement Service has suffered staffing and resource difficulties since the audit commenced and therefore testing has been suspended to allow services for residents to take a priority. Testing will re-commence in mid-April with the assistance of the Interim Head of Green Spaces to ensure that information required for the review is provided in a timely manner. Testing will also assess the impact of the staffing issues on the Service's ability to deliver its services to residents.

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2021/22****2021/22 IA Follow-Up Reviews:**

IA Ref.	IA Follow-Up Review Area	Status as at 31 st March 2022	Recommendations					CFQ Received?
			Implemented	Partly Implemented	Not Implemented	+N/A	Total	
21-A8	Follow-up of Implemented Recommendations	Deferred	Refer to para 3.4 and 5.2					

2021/22 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 31 st March 2022	CFQ Received?
21-C1	Civica Casework - Enforcement	Final memo issued on 22 nd October 2021	✓
21-C2	General Ledger	Final memo issued on 23 rd December 2021	✓
21-C3	External Quality Assessment for LB Camden & LB Islington	Final memo issued on 2 nd February 2022	N/A
21-C4	Occupational Therapy - Contract Management	Final memo issued on 28 th March 2022	x
21-C5	Mayors Charity Accounts 2021/22	Final memo issued on 18 th March 2022	N/A
21-C6	Stores Stock Check 2021/22	Final memo issued on 31 st March 2022	N/A
21-C7	[†] Purchasing and Payments in Hayes Park School	Testing concluding (new review added February 2022)	-
21-C8	[†] Direct Payments Transactional Testing	Testing concluding (new review added February 2022)	-

[†]New IA Consultancy Reviews – refer to **Appendix B**

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2021/22****2021/22 IA Grant Claim Verification Reviews:**

IA Ref.	IA Review Area	Status as at 31 st March 2022
21-GC1	Supporting Families Grant - Quarter 1	Certified, memos issued on 29 th Apr, 28 th May and 25 th Jun 2021
21-GC2	Safety at Ports Grant	Certified and memo issued on 12 th August 2021
21-GC6	Bus Service Operators Grant	Certified and memo issued on 30 th September 2021
21-GC3	Supporting Families Grant - Quarter 2	Certified, memos issued on 30 th Jul, 27 th Aug and 24 th Sept 2021
21-GC5	Disabled Facilities Capital Grant	Certified and memo issued on 26 th October 2021
21-GC7	Supporting Families Grant - Quarter 3	Certified, memos issued on 29 th Oct, 26 th Nov and 17 th Dec 2021
21-GC4	Housing Benefit Subsidy Grant	Certified and memo issued on 10 th December 2021
21-GC8	Green Homes Grant	Certified and memo issued on 15 th December 2021
21-GC9	Supporting Families Grant - Quarter 4	Certified, memos issued on 28 th Jan, 24 th Feb and 23 rd March 2022

APPENDIX B**REVISIONS TO THE 2021/22 INTERNAL AUDIT PLAN ~ QUARTER 4****AMENDMENTS to the 2021/22 Operational IA Plan for Quarter 4:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
21-C7	Purchasing and Payments in Hayes Park School	Consultancy	MEDIUM	Tony Zaman Interim Chief Executive, Corporate Director, Social Care & Health	Joint Internal Audit and Counter Fraud consultancy reviews.
21-C8	Direct Payments Transactional Testing	Consultancy	MEDIUM	Tony Zaman Interim Chief Executive, Corporate Director, Social Care & Health	Joint Internal Audit and Counter Fraud consultancy reviews.

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IA work DEFERRED from the 2021/22 Operational IA Plan for Quarter 4:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
21-A30	Dedicated Schools Grant (DSG) – Pupil Places Planning including Special Education Needs (SEN)	Assurance	HIGH	Dan Kennedy Corporate Director Planning, Environment, Education & Community Services	The Council have a recovery action plan in place which has now been agreed by the DfE. A dedicated officer is co-ordinating activities with monitoring and oversight of its work streams. Therefore, the service has highlighted that greater value would be gained by deferring this IA review and instead IA providing assurance through verification regarding the completion of the future recovery action plan workstream.
21-A33	Stronger Families Hub	Assurance	MEDIUM	Julie Kelly Executive Director, Children and Young People Services	The Deputy Director has agreed for this audit be deferred to 2022/23 Q1 in order to extend the scope all of the Stronger Families early help model to increase the value of this review. The deferral was suggested and agreed with the HIA in light of the short-term resourcing challenges faced by the IA team.

APPENDIX C**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2022/23 ~ QUARTER 1****IA work scheduled to commence in the 1st April to 30th June 2022 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
22-A1	Capital Programme	Assurance	HIGH	Perry Scott Corporate Director, Place	<p>Hillingdon's existing property and infrastructure assets require significant investment in order to continue to deliver services to residents. The main aim of the Capital Programme Funded Projects workstream is to maximise the council's property and land assets and provide an overview of asset development being undertaken to council properties as part of the Capital programme. These projects consist of the Council's housing development programme, sites developed in the Housing Zone and the Schools expansion, development and maintenance programmes.</p> <p>This review will assess the effectiveness and management of Capital Programme funded projects and how these projects are delivered, to include:</p> <ul style="list-style-type: none"> • The effectiveness of project management of construction or refurbishment • The ongoing review of Asset Management Data and system; • The delivery within the agreed budget and timeframe that was set and approved by Cabinet; and <p>Ensure that there is clear and effective performance management of contractors.</p>
22-A2	Direct Payments	Assurance	HIGH	Paul Whaymand Corporate Director, Finance	<p>Direct Payments are inherently high risk as they involve paying funds to individuals in order to address their own care and support needs. The review will provide assurance regarding the overall management of the scheme and examine costs compared to commissioned services.</p>
22-A3	Domestic Violence Homelessness Process	Assurance	HIGH	Perry Scott Corporate Director, Place	<p>Housing are experiencing a consistent increased cohort requesting assistance in relation to homelessness following instances of domestic abuse (with an of average of 1 person/family presenting each day). The review will provide assurance over the adequacy and effectiveness of the management of domestic violence cases that result in homelessness, particularly where joint working is involved, e.g. with housing associations and LBH Social Care.</p>

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2022/23 ~ QUARTER 1****IA work scheduled to commence in the 1st April to 30th June 2022 period:**

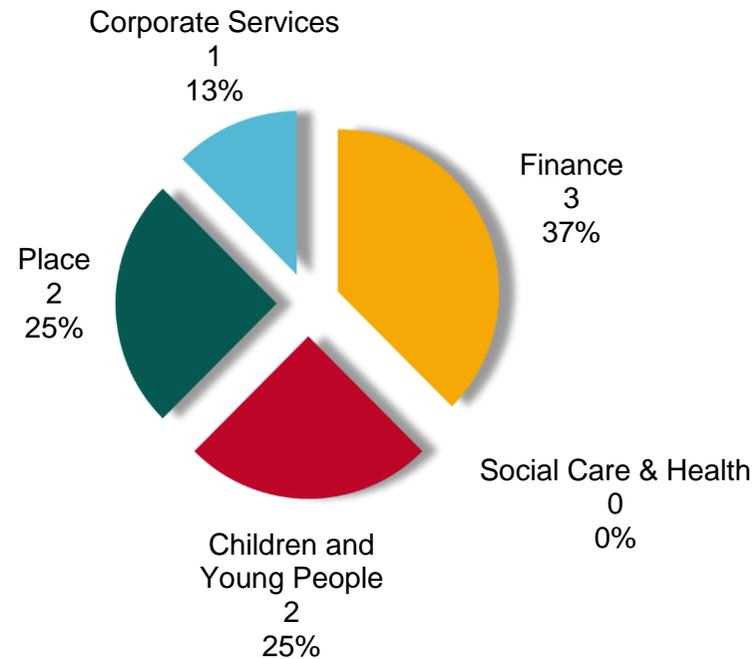
IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
22-A4	Information Security (IS)	Assurance	HIGH	Dan Kennedy Corporate Director, Central Services	Following the Remote Working audit in Quarter 2 2020/21 which included some aspects of IT security, it was agreed by the Corporate Directors and senior management that it would be beneficial to stakeholders across the Council to complete a dedicated review of IS (to include aspects of disaster recovery and the backup capability of key data and systems in accordance with clearly defined business requirements). This review will coincide with the annual PSN compliance exercise to enable the inclusion of any recommendations that arose from the most recent Public Security Network submission and certification.
22-A5	Fraud Prevention Controls in Contracts	Assurance	MEDIUM	Paul Whaymand Corporate Director, Finance	This review will assess the effectiveness of fraud prevention controls across contract variations, contract management and Declarations of Interest, amongst other areas, across the Council.
22-A6	Stronger Families	Assurance	MEDIUM	Julie Kelly Executive Director, Children and Young People Services	Stronger Families is a locality based Early Help and Prevention Service supporting children at the earliest possible stage by working closely with partners across Hillingdon. This review will seek to provide assurance that this early help model is embedded, efficient and effectively responding to need. This review was deferred from Q4 in order to extend the scope of the audit to all of the Stronger Families early help model to increase the value of this review. The deferral was suggested and agreed with the HIA in light of the short-term resourcing challenges faced by the IA team.
22-A7	Making Tax Digital	Assurance	MEDIUM	Paul Whaymand Corporate Director, Finance	Failure to comply with legislation could result in reputational damage and financial penalties. Review systems development to ensure that the making tax digital agenda is adhered to. The work will need to focus on expenditure, including petty cash and income streams which feed the annual accounts.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2022/23 ~ QUARTER 1****IA work scheduled to commence in the 1st April to 30th June 2022 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
22-GC1	Supporting Families Grant – Quarter 1	Grant Claim	N/A	Julie Kelly Executive Director, Children and Young People Services	Supporting Families Grant 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.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2022/23 ~ QUARTER 1 (cont'd)**

IA work scheduled to commence in the 1st April to 30th June 2022 period – Analysis by Corporate Director:



- 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**INTERNAL AUDIT KEY PERFORMANCE INDICATORS**

KPI Ref.	Performance Measure	Target Performance	Actual* Performance	RAG Status
KPI 1	2021/22 HIGH risk IA recommendations where positive management action is proposed	98%	100%	GREEN
KPI 2	2021/22 MEDIUM risk IA recommendations where positive management action is proposed	95%	100%	GREEN
KPI 3	2021/22 HIGH risk IA recommendations where management action is taken within agreed timescale	90%	67%	RED
KPI 4	2021/22 MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	18%	RED
KPI 5	Percentage of annual (Q1 to Q4) IA Plan delivered to draft report stage by 31 st March	90%	+56%	RED
KPI 6	Percentage of annual (Q1 to Q4) IA Plan delivered to final report stage by 31 st March	80%	++44%	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%	83%	GREEN
KPI 8	Client Satisfaction Rating (from CFQs)	85%	93%	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.
- * = as at 31st March 2022.
- + = **10% improvement** from Quarter 3 performance.
- ++ = **12% improvement** from Quarter 3 performance.

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

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

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

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

RISK	DEFINITION
<p 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>

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AUDIT COMMITTEE - Draft Annual Internal Audit Plan for 2022/23

Committee name	Audit Committee
Officer reporting	Rupert Bamberger, Interim Head of Internal Audit
Papers with report	Draft Annual Internal Audit Plan for 2022/23
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 2022/23 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 2022/23 has been linked to the organisational objectives and strategic priorities, whilst also taking account of the Council's wider assurance framework. The IA Plan for 2022/23 has been developed in accordance with the IA Strategy, the IA Charter and also gives consideration to the Counter Fraud Strategic Plan 2022/23.

BACKGROUND PAPERS

The Business Assurance service holds various background research papers in relation to the Annual IA Plan 2022/23.

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BUSINESS ASSURANCE

Internal Audit Plan 2022/23: Draft for Audit Committee

11th March 2022

Contents

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

Rupert Bamberger CMIIA,
QIAL, CA
Interim Head of Internal Audit
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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 2022/23 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 2022/23 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 2022/23 has been developed in accordance with the IA Charter, the IA Strategy 2022-25 and considers the Counter Fraud Strategy 2022-25.

2. The Internal Audit Planning Process

2.1 The Approach to IA Planning in 2022/23

- 2.1.1 The pandemic continues to have a major impact globally, and as a result, Council services continue to adapt or in some cases radically change the way they operate. Further, the Council's Corporate Management Team is undergoing considerable change since the former Chief Executive retired after 13 years at the Council. The consequences of this are some changes to the Council's control environment. It is against this backdrop that IA continues to apply its revised '**Audit Needs Analysis**' to help formulate its IA plan for 2022/23.
- 2.1.2 Since 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 2022/23 IA Plan. Another feature of the plan is **greater 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 Interim 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 Interim 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 it is 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 2022/23** at Hillingdon is **1,100 IA Days**, which is broadly consistent with the 2021/22 IA Plan. This is likely to include approximately **100 days** of external IA resource bought in to supplement the in-house provision.
- 2.2.5 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 2022/23 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:
- **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 28th April 2022. 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 2022/23 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 2022/23 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 2022/23 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 2022/23**' which highlights that the calculated **total available IA chargeable time** for a full audit year will be **1,100 IA Days**, which is consistent with last year. The IA Days (as detailed at para. 2.2.4) is achievable because of a recent team structure changes which saw **an increase in the number of IA Trainees** which will change the skills mix of the IA team (refer to the IA structure chart attached at **Appendix E**). The 2022/23 plan is likely to include approximately **100 days** of external IA resource bought in to supplement the in-house provision.
- 3.4 Appended to the 2021/22 Quarter 4 IA Progress report presented to the Audit Committee, is the detailed operational IA plan for **2022/23 Quarter 1** as agreed with the relevant senior managers. The quarterly detailed operational IA plans include several **key features** as detailed overleaf:

- **ICT Audit** – The quarterly operational IA plans enables 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** – A number of grant certifications and sign offs will be required during the year (some of which will be related to Covid-19). We will ensure that there is appropriate resource available to audit grant claims within the required timescales.
- **Counter Fraud** – Whilst the Business Assurance Counter Fraud Team (CFT) is the lead assurance provider for the Council on fraud and corruption, the PSIAS require IA to evaluate the risk of fraud and thus we have a responsibility to give regard to the possibility of fraud and corruption as part of our coverage. IA will review the Council's counter fraud and corruption key controls as part of its 'assurance' coverage. 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. We will raise recommendations where applicable on how to achieve better VfM and to improve the services under review.
- **Contracts** – With the increasing number of contracts in operation across the Council, there will be an increased focus by IA on contract related 'assurance' audits. This will include reviews of the procurement process, as well as contract management arrangements for the significant / high value contracts.
- **Consultancy** – In line with the PSIAS, IA coverage will include some consultancy work. The allocation of IA days at **Appendix C** highlights that only **66 days** has been allocated for IA consultancy in 2022/23. This reflects the change in risk appetite following the pandemic, with assurance coverage becoming a 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 2022/23 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 Corporate 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 2022/23** 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 longer 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 recommendations 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 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 increase in the number of IA recommendations where the implementation date has been revised/ extended several times by risk owners and as a result in the meantime these risks remained a threat to Council objectives. Consequently, IA has amended this process so that the functionality to revise implementation dates has been removed for risk owners and instead all requests for implementation extensions now go to the HIA for consideration. The HIA then, in consultation with the relevant CMT Director, agrees the most appropriate course of action. These discussions 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 includes a table listing the numbers of **HIGH** and **MEDIUM** risk IA recommendations that have passed their implementation date and details their current status. We 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 subsequently still exposed to.

- 5.6 This revised approach provides 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, the Audit Committee and other key stakeholders 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 IA's 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 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.
- 6.1.2 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 2022/23. We will continue to use the monitoring data maintained on our dedicated IA software system (TeamMate).
- 6.3.2 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 and also provide an indicator on how effectively the Council is at managing its risks.

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. 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.
- 6.4.2 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.

6.6 External Quality Assessment (EQA)

- 6.6.1 An EQA evaluates conformance with the International Professional Practices Framework (IPPF), which includes the Code of Ethics, the Core Principles, the Definition of Internal Audit and the International Standards for the Professional Practice of Internal Auditing (the IIA Standards). An EQA is conducted every five years, our EQA took place in September 2017 where we were awarded 'Fully Conforms'. Since 2021 the ratings have changed and 'Fully Conforms' is no longer awarded to local authorities. However, we are still working towards the highest available rating of 'Generally Conforms' as we prepare for this review.

7. Acknowledgement

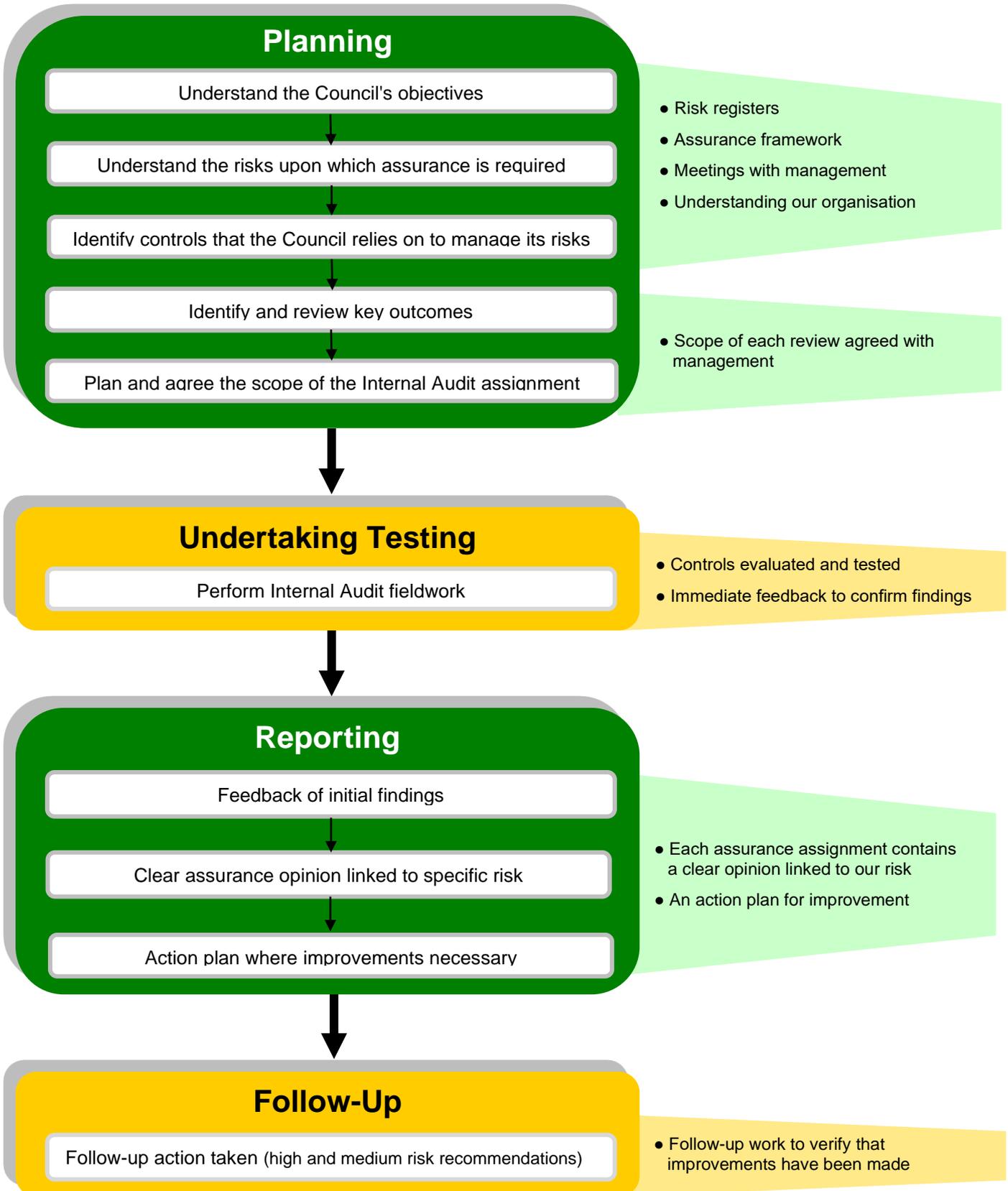
- 7.1 The draft 2022/23 AIA Plan has been considered by CMT on 9th March and is due to be presented to the Audit Committee at its meeting scheduled for 28th April 2022. It will then be finalised and circulated/ made available to key stakeholders.
- 7.2 The IA team would like to take this opportunity 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.

Rupert Bamberger CMIIA, QIAL, CA
Interim Head of Internal Audit
11th March 2022

APPENDIX A

THE INTERNAL AUDIT PROCESS

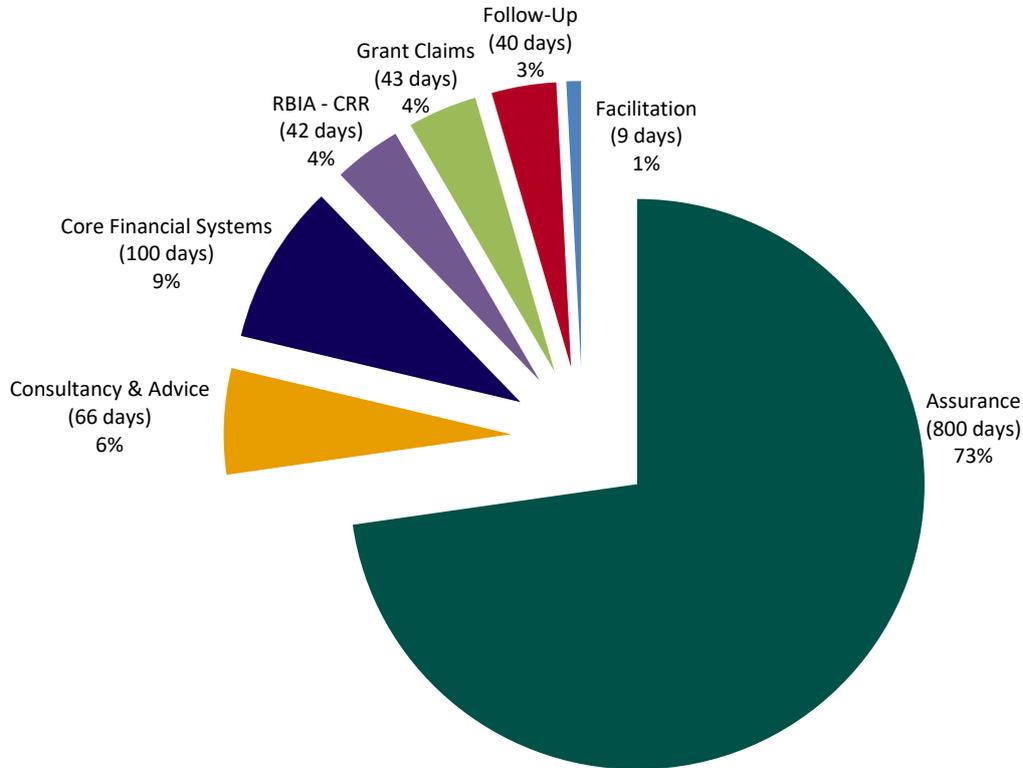
As per para 2.2, after total available IA resources have been determined the overall IA process is summarised below:



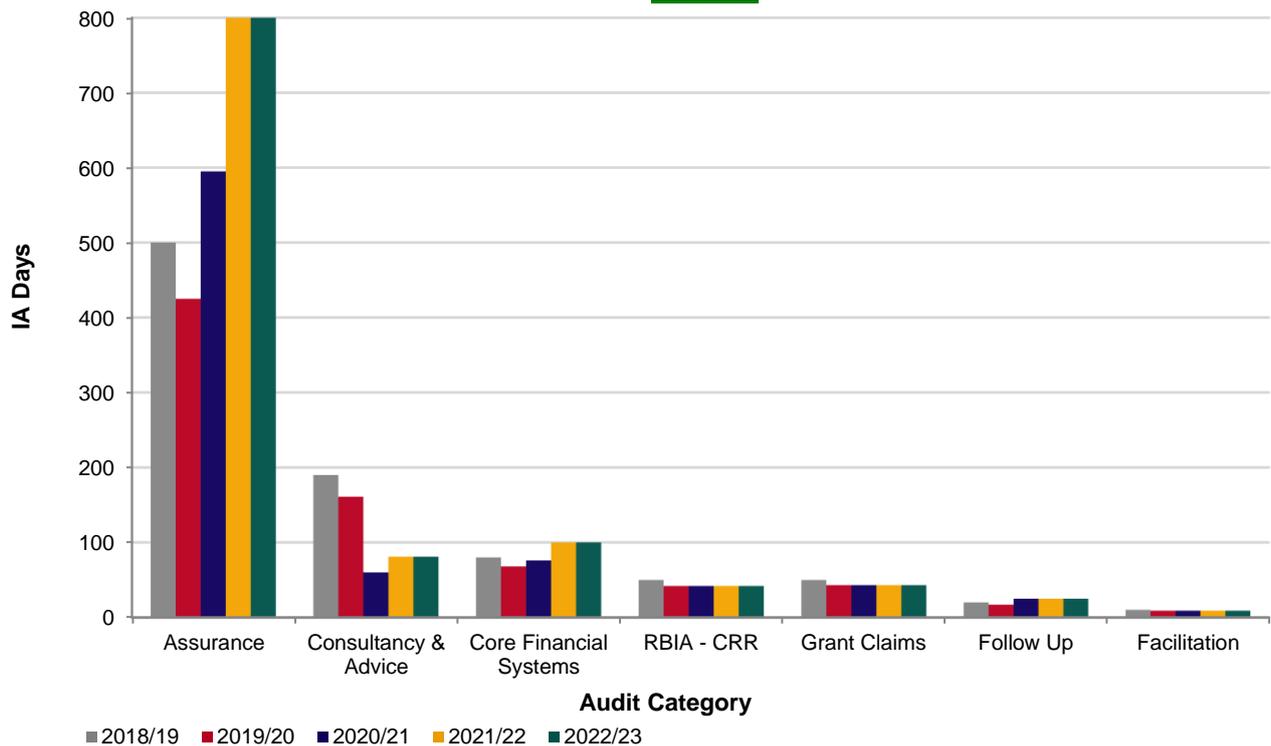
APPENDIX B

THE 2022/23 ANNUAL INTERNAL AUDIT PLAN ~ ESTIMATED ALLOCATION BY AUDIT TYPE

The 2022/23 Annual IA Plan estimated allocation by audit type is as follows:



COMPARISON OF PLANNED IA TIME BETWEEN 2018/19 THROUGH TO 2022/23



APPENDIX C**THE 2022/23 ANNUAL INTERNAL AUDIT PLAN ~ ALLOCATION OF DAYS**

Type of IA Work	Definition	% of IA Plan	2022/23 Days	2021/22 Days	2020/21 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	800 Days	595 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	100 Days	76 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	66 Days	60 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	40 Days	25 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	1,100 Days	850 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 2022/23**

The Key Performance Indicators (KPIs) for IA quarterly reporting to CMT and the Audit Committee in 2022/23 are set out below:

KPI Ref.	Performance Measure	Target Performance 2022/23
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 2022/23 have been set at the same thresholds as they were for 2021/22.

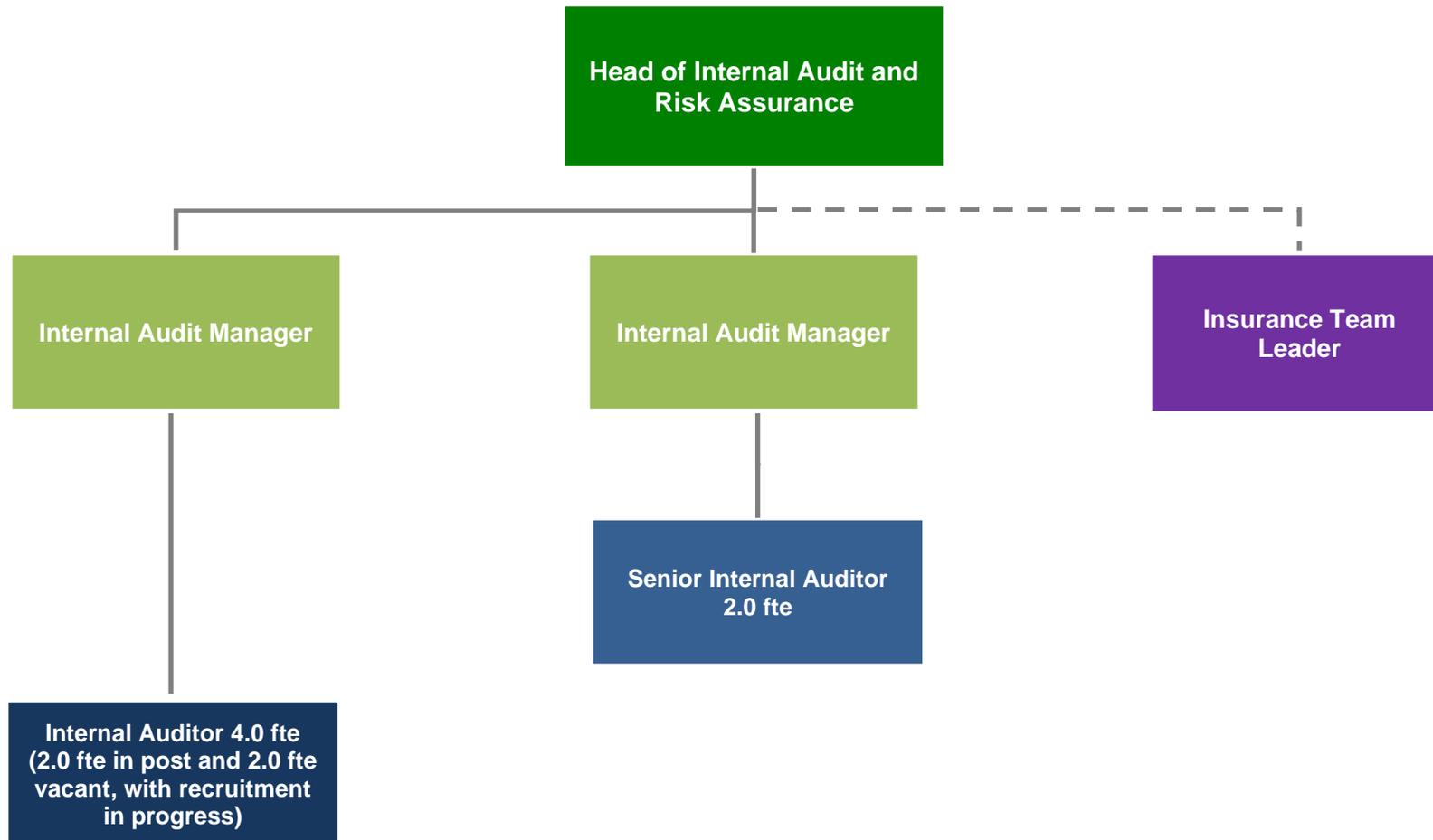
Key for above:

- 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 - 2021/22 Quarter 4 Counter Fraud Progress Report

Committee name	Audit Committee
Officer reporting	Alex Brown, Head of Counter Fraud
Papers with report	2021/22 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 2021/22 Quarter 4 and assurance in this respect. It also provides an opportunity for the Head of Counter Fraud to highlight to the Audit Committee any significant Counter Fraud issues that have arisen which they need to be aware of. Further, the report enables the Audit Committee to hold the Head of Counter Fraud to account on delivery of the Counter Fraud 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 2021/22 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 Plan.

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BUSINESS ASSURANCE

Counter Fraud Progress Report to Audit Committee: 2021/22 Quarter 4

31st March 2022



HILLINGDON
LONDON

www.hillingdon.gov.uk

Contents

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

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1. Introduction

1.1 The Role of the Business Assurance Counter Fraud Team

- 1.1.1 The Business Assurance Counter Fraud Team (BACFT) 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 2022). In addition, it provides an opportunity for the Head of Counter Fraud (HCF) 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 to be held to account in this respect.

2. Executive Summary

- 2.1 The BACFT has had a productive last quarter of the financial year with successful outcomes achieved within the varied counter fraud workstreams. A total of **£576k** in loss preventions savings have been identified during Q4. As a result of the continued dedication and hard work of the BACFT, **£3m of financial savings** have been obtained for 2021/22. This is a tremendous achievement considering everchanging demands on the service over the last twelve months and emphasises the benefits of a **risk-based approach to tackling fraud, loss and error**.
- 2.2 Tenancy Fraud has continued to be a focus for the BACFT during Q4, with **8 properties recovered** for non-occupation or sublet. Overall, in this financial year **42 properties have been successfully returned**. These properties will be re-allocated to residents with a genuine housing need. The BACFT will continue to work closely with colleagues from Housing Services, Legal Services, and external partners to develop and refine methodologies to identify instances of tenancy fraud.
- 2.3 The Revenue Maximisation project has now been effectively incorporated into the daily workload of the BACFT. The efficient use of internally held and externally available open-source data has enabled the BACFT to identify **£154k in previously uncollected business rates in Q4**. The sustained development and utilisation of an intelligence led approach will continue to progressively discover previously unlisted businesses, along with identifying businesses that have made amendments that modify their rateable value (RV).
- 2.4 The BACFT has continued to improve the results achieved within Social Care and recorded their most successful quarter to date. A total of **£111k of savings** were identified across multiple service areas including DFG, Section 17, Financial Assessments and Direct payments. These outcomes have demonstrated the value in the work carried out by the BACFT in Social Care.

- 2.5 The Council has joined several other London based local authorities by signing up to the **Cabinet Office NFI Fraud Hub**. Over the course of the year, it is envisaged that many if not all the London Boroughs will have also joined what is effectively known as the **London Counter Fraud Hub**. The hub will support our proactive data driven approach to identify fraud, loss and error. The Cabinet Office are conducting a series of further upgrades to improve functionality and adding additional investigative tools that are due to go live in Q1 of 2022/23.
- 2.6 The HCF has reviewed the current interim structure arrangements for the BACFT, taking into consideration the skills mix required to maintain this high level of performance moving into 2022/23. **A new structure has now been approved and the BACFT are currently recruiting to new posts**. This new structure reduces management capacity and increases operational capabilities to ensure the BACFT meets its strategic objectives in the new financial year.

3. Analysis of Counter Fraud Activity in Quarter 4

3.1 Housing Fraud

- 3.1.1 Q4 has seen the BACFT continue to work successfully within Housing Services and have recovered a **total of 8 Council properties**. As per **Table 1** (below), the Team have **returned a total of 42 properties** this year which is highest recovery figure since the introduction of the risk-based approach. Additional positive outcomes within housing fraud have also identified a total of **£261k in loss prevention savings** over the course of the quarter.
- 3.1.2 The BACFT currently have **104 ongoing investigations** into suspected housing fraud, consisting of sub-let, non-occupation, wrongful succession, and abandonment. From these investigations the BACFT have instructed **legal proceedings for 10 cases**, with **Notices served on a further 20 cases**. Whilst a number of these investigations are in their infancy, we envisage further positive outcomes with the likelihood of additional properties being recovered.

Table 1 ~ Housing Tenancy Fraud Cases

Housing Tenancy Fraud Cases	2021/22*		2020/21		2019/20	
	Cases*	£k/value**	Cases	£k/value	Cases	£k/value
Total number of properties recovered	42	£756k	22	£396k	28	£504k
Total number of ongoing cases	104	£1,872k				

* As at end of Q4 (31st March 2022).

** In 2014, the Audit Commission reported the national average temporary accommodation costs to Local Authorities for one family as **£18k per property**. We have continued to use this prudent estimate during 2021/22 for reporting purposes, although across London many 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. In 2022/23 the BACFT will be using the new Tenancy Fraud Forum valuation for property recovery.

- 3.1.3 The Key Performance Indicator (KPI) 4 (refer to **Table 5** in **Appendix A**) targets an outcome of a Council property to be recovered for 20% of tenancy fraud referrals received. The BACFT is committed to investigating housing fraud effectively and this is demonstrated with **29% of tenancy fraud referrals resulting in property recovery**. This success can in part be attributed to the quality of referrals the BACFT are receiving from Housing Services.

- 3.1.4 The BACFT has continued to carry out checks on all **Right to Buy (RTB) applications** submitted to Housing Services. During Q4, the BACFT has carried out 12 verifications for RTB and has prevented **1 fraudulent RTB application**, leading to **loss prevention savings** of **c£108k**. A further **5 cases of suspected RTB fraud** are currently being investigated.
- 3.1.5 As reported in Q3, the BACFT launched the Council's **first ever Key Amnesty Campaign**. The campaign was designed to highlight to residents that social housing fraud is a crime, and to also raise awareness that the Council has a responsibility to investigate any suspected cases of fraud. To promote the campaign, a **widespread media drive** was undertaken. The campaign was publicised across the Council's social media platforms, Hillingdon People, and posters were put up in public notice boards and local libraries.
- 3.1.6 The results from the Key Amnesty were positive with **3 two-bedroom properties returned** to the Council's housing stock, this is in **addition to the 17 properties recovered during the time of the amnesty during Q3**. The tenants had chosen to return their keys after encountering the Key Amnesty webpage on the Council's website and after receiving a campaign flyer. With a significant demand for social housing, it is important properties are let to those with a genuine housing need.
- 3.1.7 During Q4 the BACFT's **proactive Bed and Breakfast (B&B) emergency accommodation project** in housing has begun. The purpose of this project is to verify the details of the current residents, providing key stakeholders with positive assurance that all B&B properties are being **lawfully occupied**. Currently there are **181 applicants in B&B accommodation**. Working collaboratively with the housing department, to date the BACFT have carried out **282 unannounced visits verifying residents** and ensuring that any changes of circumstances are reflected correctly on internal systems. The results of the Q4 project will be reported in Q1 of the new financial year.
- 3.1.8 Although the council no longer offers the First Time Buyer (FTB) scheme, the BACFT continues its **fraud prevention work** by conducting periodic unannounced **post-sale residency checks** on properties purchased through the scheme. The conditions of the scheme specify that the homeowner(s) must occupy their property for the first 36 months after purchase to retain the grant. Currently, **2 FTB cases are under investigation for sub-letting** and legal proceedings have been instigated for one investigation. These post sales checks will continue for those already in receipt of the grant.
- 3.1.9 Per **Table 2** below, the BACFT as part of its prevention activity undertake eligibility checks on applicants who register for social housing. In Q4 the BACFT has **completed 341 verifications**; these checks include gathering information on an applicant's income, savings, assets, as well as their stated current housing situation.

Table 2 ~ Housing Tenancy Verification Cases

Housing Tenancy Verification Cases	Q1	Q2	Q3	Q4*	2021/22*	2020/21
Total number of cases reviewed	756	511	492	341	2100	2,010
% Identified by BACFT for rejection	29%	24%	25%	26%	24%	31%
Total number of applications closed	1	3	6	6	16	14

* As at end of Q4 (31st March 2022)

- 3.1.10 In Q4 the BACFT closed a further **6 Social Housing applications**, bringing the total to **16 closed applications** for the year. Applications are closed due to a range of reasons, such as they no longer have a housing need, they have no immigration status, they own a property elsewhere or they have over the threshold in savings or assets. Without the BACFT's enhanced verification checks, these applicants may have been successful in obtaining a council property that they were not entitled to.
- 3.1.11 KPI 2a (refer to **Table 5** in **Appendix A**) targets an **outcome of 95%** of Housing allocation verifications to be completed within the target date set by the Housing department. In Q4 the team has successfully achieved **99% of verifications** being completed within their target date. The BACFT have consistently performed at this level throughout the financial year, this is due to the risk-based changes and efficiencies implemented within the team's verification process.

3.2 National Fraud Initiative, London Fraud Hub & Grants

- 3.2.1 The updated NFI Single Person Discount (SPD) to Electoral Roll match was returned at the start of Q4. A total of **c£1.4k of incorrectly claimed Single Person Discount (SPD) and Council Tax Reduction (CTR)** has been identified. The review of these matches will continue with further outcomes due to be reported in Q1 & Q2. A further NFI match to Housing Tenancies also returned a **loss prevention saving of c£9.9k** by identifying a Council property being unlawfully occupied.
- 3.2.2 The Council has united with several other London based local authorities by agreeing to take part in the Cabinet Office (CO) backed **London Fraud Hub**. The hub will be built upon existing software that is utilised by the NFI. It enables the Council to undertake agreed upon proactive data matching exercises with other authorities who have also already joined. Further enhancements to the hub are expected to be incorporated and ready for use by the start of the new financial year.
- 3.2.3 Officers from the BACFT have been working with colleagues from London Borough Fraud Investigators Group (LBFIG) **to set up a framework and agreed upon timetable** with regards to which data sets would be uploaded and when. Preliminary talks have been held with further discussions due over the coming weeks. An agreed roadmap would provide much needed structure and reduce the chance of uploading data for matches that produce limited benefits or outcomes. The London Fraud Hub provides a fantastic opportunity, if utilised correctly to identify instances of cross borough fraud.

3.3 Revenues Fraud & Inspections

- 3.3.1 Per **Table 3** below, in Q4 the Revenues Investigation Unit (RIU) has **conducted 2,244 inspections, with 2,226 (99%) visited within the 10-day target**. The BACFT has progressively improved their KPI performance in this area throughout the year (refer to **Table 6** at **Appendix B**). The officers have worked extremely diligently to adapt to the targeted data led approach, which is driving the team forward in identifying business and residential properties that are unlisted.

Table 3 ~ Revenues Inspections Performance 2021/22

Revenues Inspections	Q1	Q2	Q3	Q4	2021/22*	2020/21
Total number of inspections completed	1,981	2,462	2,305	2,244	8,992	6,005
Percentage within 10 day target	94%	97%	98%	99%	97%	59%

* As at end of Q4 (31st March 2022).

- 3.3.2 A total of **9 'Beds in Sheds'** have been identified due to ongoing proactive project work and referrals from internal or external sources. **Four** of these outbuildings have been added to the Council Tax listings with the remaining five outbuildings are pending a decision from the Valuation Office Agency (VOA). As a result, over **£11k of loss prevention savings** have been identified following the issuance of revised Council Tax bills to the households in question.
- 3.3.3 Due to diligent efforts of the BACFT, officers were able to identify a property that had been **split into three flats** which had also an **unlisted outbuilding**. This all came to light following the identification of a suspicious address on a Financial Assessments application. An inspection was conducted which revealed the changes in the property layout and hereditament which have now been reported to the VOA. The financial outcomes will be reported in Q1. This further highlights the importance of the verification checks that are undertaken by the BACFT. Without these checks the changes may not have been identified and would have resulted in a loss of Council Tax revenue.
- 3.3.4 The BACFT has successfully integrated elements of the Revenue Maximisation Project into its daily workload. By utilising internally held data along with open-source external data sources a total of **14 previously unlisted businesses** have been identified. As a result, a total of **c£150k of previously uncollected revenue** was identified.
- 3.3.5 The joint working with external data providers has started to bear fruit. Following the identification of amendments, the VOA have recalculated the Rateable Value (RV) of **two business premises**. The Council Tax accounts have been amended with revised bills **totalling c£4k issued**. There are several outstanding amendments that have been raised with the VOA with further results expected over the coming quarters.
- 3.3.6 The BACFT has continued to provide support for colleagues within Exchequer Services. Over **300 additional verification checks** have been conducted for businesses that have applied for the latest set of **Omicron grants schemes**. These checks helped to ensure that only legitimate eligible local businesses are able to access these much needed funds.

3.6 Social Care Counter Fraud Work

- 3.6.1 Q4 has seen a continued focus by the BACFT to maximise loss prevention and undertake counter fraud activity within **Financial Assessments (FA)**, with the team receiving **99 verification requests**. The verification process allows the BACFT to provide assurance to key stakeholders that any anomalies such as hidden assets, income or capital are highlighted and investigated prior to any funds being administered. There are currently **10 cases undergoing additional checks** where further information is required and **1 case is under investigation**.
- 3.6.2 With the BACFT working across multiple fraud risks accessing a variety of in-house data sets, frauds spanning numerous departments have been identified, in particular Disabilities Facilities Grants (DFG) and FA. The successful conclusion of an ongoing DFG investigation that was linked to a financial assessment verification **resulted in a combined saving of over c£21k across both services**. The applicant had failed to disclose their ownership of a commercial property in a deliberate attempt to lower their financial contribution towards meeting their care costs. The applicant was found to be liable to pay the full cost of meeting their care needs.
- 3.6.3 As part of counter fraud coverage across social care, a newly formed working group with the FA Team and Corporate Collections Team (CCT) has further strengthened the BACFT's ability to tackle fraud and maximise revenue for the Council. The working group allows the teams to collaboratively approach high priority cases and enabling key information to be shared.

- 3.6.4 With a key focus on loss prevention work within social care, the BACFT conduct tracing enquiries to assist the CCT in recovering Adult Social Care debt from clients for both residential and non-residential charges. Using their investigative and analytical skill set the BACFT officers look to trace debtors, next of kin and/or the executors managing the deceased's estate. This allows the CCT to recover monies owed. During Q4 the BACFT successfully concluded **2 tracing enquiries recovering over c£14k** of unpaid debt to the Council. Work in this area has had a positive impact on reducing the Councils Adult Social Care aged debt.
- 3.6.5 The BACFT concluded its **first direct payment investigation resulting in a saving of just over £39k**. The investigation established that a claim for care had been made in two boroughs simultaneously, with the client failing to disclose their true circumstances. There is currently **1 Direct Payments case under investigation**, with outcomes anticipated to be reported in Q1. The early identification of false or misrepresented circumstances will prevent the Council from incurring thousands of pounds of costs for each year the care is provided.
- 3.6.6 Verifications checks are undertaken by the BACFT for all applicants who approach Social Services for Section 17 accommodation. **Table 4** below, illustrates the outcomes and highlights the importance of these low volume, yet high monetary value cases. The BACFT evidenced in **1 case** that an applicant had access to public funds, therefore financial support from the Council for the family was not required, resulting in **accommodation and subsistence savings of c£18k**.

Table 4 ~ Section 17 Verification Cases 2021/22

Section 17 Cases	Q1	Q2	Q3	Q4	2021/22*
Total number of cases reviewed	6	7	7	1	21
Total number verified as accurate	4	6	6	1	17
Total number of cases closed	2	1	1	1	5
Loss Prevention Savings	£26,256	£13,128	£13,128	£18,172	£70,684

* As at end of Q4 (31st March 2022).

- 3.6.7 Q4 saw the conclusion of the **Unaccompanied Asylum-Seeking Children (UASC) proactive project**. In total, 98 properties were visited, and the project identified **2 cases of non-occupation**. Both placements were subsequently closed, resulting in a **saving of over c£18k**, with a further 6 cases remain under investigation for possible non-occupation and sub-let.
- 3.7 Blue Badge Fraud**
- 3.7.1 Following on from the BACFT's positive results during the Blue Badge project held in Q3, the BACFT have successfully concluded 3 out of the 4 Blue Badge investigations. All **3 offenders received a £100 fixed penalty notice and a Simple Caution**. The fourth case remains under investigation. A further 11 referrals have also been received and are currently under investigation.
- 3.7.2 As the BACFT continues to deter misuse across the borough in known hot spot areas, the team will be looking at reviewing its proactive projects to ensure resources are continually deployed effectively and opportunities to identify instances of misuse are optimised. Further blue badge misuse projects are planned for 2022/23.

3.8 Onsite Immigration Official

3.8.1 Due to a prolonged period of sickness the Onsite Immigration Official (OSIO) was unavailable for the majority of Q4. The Home Office were unable to provide any additional cover during this period of absence and therefore no costs were incurred for the service. As a result, there have been no identified savings made by the OSIO. He is actively working through the backlog of referrals and any positive outcomes will be reported in Q1 of 2022/23.

3.9 Other Counter Fraud Activities

3.9.1 The BACFT has continued to support colleagues from the **Community Safety Team** and has taken part in monthly targeted problem-solving days. These targeted days aimed to highlight areas within the borough which have been identified by residents, businesses, and local Councillors as having identified issues such as ASB.

3.9.2 As part of the BACFT's continued commitment to creating a strong counter fraud culture within the organisation, the team has continued to deliver fraud awareness training sessions to colleagues in other services. In total, **5 Fraud Awareness sessions** have been delivered this quarter across Extra Care, Financial Assessments and Corporate Collection Teams.

3.9.3 Following the Government's announcement of the '**Homes for Ukraine**' scheme, the BACFT has been working in conjunction with colleagues from other services to conduct desk-based checks on the households that have applied to join the scheme. These checks have provided assurance to CMT that the applicants are in a suitable position to accept Ukrainian families fleeing their country.

3.9.4 Utilising funding made available by the Government Additional Restrictions Grant (ARG); the Council launched the **Hillingdon Enterprise Programme (HEP)**. A total of £2.15m was set aside for local businesses to apply for, as long as they met the qualifying criteria. The HEP scheme received 22 applications. The application documentation was shared with the BACFT who undertook further desk-based enquiries to ensure the legitimacy of these companies.

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

4.1 Attached at **Appendix A** is **Table 5** which sets out the Q4 performance by the BACFT against the eight KPIs. Also attached at **Appendix B** is **Table 6** 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 The BACFT has achieved a consistent level of performance across the majority of the KPIs this quarter. The details of this are that **7 of the 8 KPIs are at or above targeted performance**, with **1 at red**. The HCF will continue to prioritise and monitor the team's performance closely to ensure this high level of performance continues.

5. Forward Look

5.1 As we look forward into Q1 of the new financial year, the BACFT will undertake various proactive projects, including a **new approach to Blue Badge misuse operations**. The Q1 operation, which has been formulated from the analysis of referrals received from members of the public over the last year, will see counter fraud officers deployed to known hot spot areas across the borough.

5.2 Q1 will see the launch of the **London Counter Fraud Hub**, in which the BACFT will work collaboratively with other London boroughs to identify fraud, loss and error more efficiently through data sets where there is a known high risk of fraud.

- 5.3 Following a review of resources within the BACFT, the HCF has agreed and implemented a **new team structure**, which will see the recruitment of two new **Counter Fraud Officers**. The additional resource will have a positive impact on delivery of the team's Annual workplan for the new financial year. The new structure will also see the formation of the new **Data Analytics Unit (DAU)** and place greater emphasis on the utilisation of appropriate data matches to assist with the identification of fraud.
- 5.4 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 HCF needs to bring to the attention of CMT or the Audit Committee at this time.

Alex Brown ACFS APCIP
Head of Counter Fraud

31st March 2022

APPENDIX A**Table 5 ~ BACFT KPIs and Actual Performance**

BACFT KPIs	Target	Q1	Q2	Q3	Q4*	21/22*	20/21
1. Percentage of fraud referrals risk assessed within 3 working days	95%	100%	100%	99%	99%	99%	87%
2. Verification work timescales for completion:							
a. Housing Allocations completion within the target date set by Housing	95%	99%	99%	99%	99%	99%	95%
b. First Time Buyer completion within 5 working days	95%	100%	N/A**	N/A**	N/A**	100%	33%
c. Right to Buy case completion within 28 working days	95%	100%	100%	100%	100%	100%	100%
3. Investigation plan completion within 5 working days of case allocation	95%	100%	95%	98%	100%	99%	90%
4. Tenancy fraud referrals received resulting in property recovery	20%	39%	23%	38%	29%	33%	41%
5. Investigations resulting in sanction (prosecution/penalty/caution)	10%	12%	4%	2%	2%	5%	5%
6. Investigations resulting in loss prevention/financial saving outcome	25%	44%	51%	64%	56%	55%	39%
7. Revenue inspections completed within 10 days of raising	95%	94%	97%	98%	99%	97%	59%

* As at end of Q4 (31st March 2022).

N/A** = KPI has been retired as the scheme has disbanded.

APPENDIX B**Table 6 ~ BACFT Quarter 4 2021/22 ~ Financial Performance**

Work Area	Description	Quarter 1	Quarter 2	Quarter 3	Quarter 4	2021/22*
Housing	Right to Buy discounts	£0	£108,000	£112,300	£108,000	£328,300
	Property Recovery (notional savings)	£180,000	£126,000	£306,000	£144,000	£756,000
	Other savings/loss prevention	£0	£4,122	£0	£9,999	£14,122
Social Services	Section 17 and UASC**	£27,775	£13,128	£13,128	£18,172	£72,203
	Financial Assessments and Direct Payments	£0	£1,754	£0	£59,767	£61,521
	Disabled Facilities Grants	£30,000	£0	£14,209	£15,000	£59,209
Revenues	Single Person Discount	£3,247	£37,172	£18,629	£6,057	£65,105
	Council Tax Reduction	£4,930	£4,081	£4,623	£5,542	£19,176
	Beds in Sheds	£12,367	£13,202	£12,224	£11,517	£49,310
	Housing Benefit Overpayments	£23,312	£41,419	£74,718	£20,443	£159,892
	NNDR***	£5,866	£1,165,672	£37,003	£154,196	£1,362,737
Blue Badge	Simple Caution & Financial Penalty	£500	£100	£200	£300	£1,100
Immigration Officer	Housing Homelessness Applications**	£0	£9,999	£0	£0	£9,999
	Social Care Savings	£20,303	£0	£46,592	£0	£66,895
Totals	Loss Prevention Savings	£78,078	£132,882	£186,229	£229,145	£626,334
	Notional Savings	£208,299	£1,158,240	£412,171	£295,510	£2,074,220
	Cashable Savings	£21,423	£232,428	£41,026	£51,623	£346,500
	Costs awarded and penalties	£500	£1,100	£200	£300	£2,100
	Total	£308,299	£1,524,650	£639,626	£576,578	£3,049,154

* As at end of Q4 (31st March 2022).

** Average weekly cost against average length of support. This figure fluctuates but has been provided by the Council's Business Performance Team.

*** NNDR operates under a business rates retention model with the Council keeping 15% of income.

APPENDIX C**Glossary of terms****Beds in Sheds**

'Beds in Sheds' is the term used to describe habitable outbuildings, or annexes to private properties being utilised without the awareness of the Council or the Valuation Office Agency (VOA).

Blue Badge

A Blue Badge provides parking concessions and helps people with **non-visible and visible disabilities or health conditions** park closer to their destination. The Blue Badge enables holders to park in designated disabled person's parking bays either on the public highway or privately owned car parks. In addition, badge holders can park on single or double yellow lines for up to 3 hours.

Direct Payments

The Council are responsible for administering direct payments to service users who have been assessed as needing care and support services. The payments are made to allow applicants to access care to meet their social care needs, such as support with living tasks and social activities.

Disabled Facility Grants

The council offers a range of financial support schemes for people with disabilities, such as the Disabled Facilities Grant (DFG). The DFG is a means tested scheme that allows eligible applicants to receive financial support to make adaptations to their home, if they, or someone living at the property is disabled.

Financial Assessments

The Council is under a financial and legal obligation to carry out this means tested assessment for each service user. The Financial Assessment (FA) identifies whether the applicant(s) is eligible to receive funding towards their care costs.

Fraud Hub

Utilising the existing Cabinet Office infrastructure and systems, most London based local authorities have agreed to upload internally held data sets for proactive data matching exercises. These regularly agreed upon exercises will lead to the identification of possible fraud, loss or error.

National Fraud Initiative

The National Fraud Initiative (NFI) is a data matching exercise co-ordinated by the Government Cabinet Office and conducted every 2 years. There is also an annual review of claimants in receipt of Single Persons discount data that is matched against the Electoral Roll data. The NFI matches data from over 1,200 organisations, including councils, the police, hospitals and almost 100 private companies to identify potential fraud and error.

New Homes Bonus

The New Homes Bonus (NHB) is a grant that is paid by central government to incentivise local housing growth.

Onsite Immigration Enforcement Official

The Onsite Immigration Enforcement Official (OSIO) provides 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.

Right to Buy

The Right to Buy (RTB) process is a statutory scheme whereby a tenant(s) can apply to purchase their property at a significant discount from its market value. There are strict conditions that must be met by the applicant(s) if they are to qualify for the discount.

Revenue Maximisation

The use of internally held data and the utilisation of external data partners to identify previously unlisted commercial and domestic properties, along with identifying commercial properties that have undertaken modifications or improvements that would result in the revaluation of its Rateable Value (RV). Commercial entities are under no obligation to inform Council Tax as to when they have started trading or if their RV needs to be recalculated. The Council will only retain 15% of the identified rates.

Section 17

The BACFT provides assurance and mitigate the risk of fraud within Children's Social Care, in particular the allocation of emergency accommodation provided under Section 17 of the Children's Act 1989. The verification process seeks to validate a family's reason for approach as well as their financial circumstances, as applicants claim to be destitute and requiring accommodation and or financial support. The BACFT conducts verification checks on all applicants approaching the Council.

Small business Rates Relief

The Small Business Rates Relief (SBRR) scheme is designed to reduce the amount of business rates payable by small businesses. This reduction is available to ratepayers who occupy a property with a rateable value of no more than £15,000.

Unaccompanied Asylum-Seeking Children

Unaccompanied Asylum-Seeking Children (UASC) are children and young people who are seeking asylum in the UK but have been separated from their parents or carers. Whilst their asylum claim is processed, they are cared for by the Council and provided with accommodation and or financial support.

AUDIT COMMITTEE - Counter Fraud Annual Operational Plan for 2022/23

Committee name	Audit Committee
Officer reporting	Alex Brown, Head of Counter Fraud
Papers with report	Counter Fraud Annual Operational Plan for 2022/23
Ward	All

REASON FOR ITEM

The attached report presents the Audit Committee with the planned Counter Fraud approach and activity for the forthcoming financial year and seeks to:

- Provide assurance to all key stakeholders that the risk of fraud is being managed effectively;
- Demonstrate the Council's commitment to good governance through minimising the risk of fraud; and
- Set out the Business Assurance Counter Fraud Teams resources to meet its strategic objectives.

RECOMMENDATIONS:

That the Audit Committee:

1. Notes the Counter Fraud Annual Operational Plan for 2022/23; and
2. Suggests any amendments/comments.

SUPPORTING INFORMATION

The Business Assurance Counter Fraud Team supports the Councils risk and governance arrangements by taking a zero-tolerance approach to fraud and corruption. In order to deliver this assurance, the Counter Fraud team produce an Annual Operation Plan detailing activity across high risk areas of fraud. The plan is formulated based on the Counter fraud Strategy, Fraud Universe and takes into consideration, both, the IA Plan and strategy.

BACKGROUND PAPERS

The Business Assurance service holds various background statistical management documents in relation to the production of the Counter Fraud Annual Operational Plan 2022/23.

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BUSINESS ASSURANCE

**Counter Fraud
Annual Operational Plan
2022/23
31st March 2022**



HILLINGDON
LONDON

www.hillingdon.gov.uk

Contents

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1. Introduction

The Role of the Business Assurance Counter Fraud Team

- 1.1 The Business Assurance Counter Fraud Team (BACFT) is responsible for delivering the Counter Fraud Strategy and Annual Operational Plan to ensure that the Council meets its statutory objectives in relation to fraud and corruption. The Annual Operational Plan gives key stakeholders an overview of the BACFT operational activity for the coming financial year, as well as a summary of the key fraud risks the Council faces.
- 1.2 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, other loss prevention work, etc. It also includes preventative work such as fraud awareness training, advising management on fraud risks and counter fraud controls as well as ensuring the Council has up-to-date and appropriate investigation policies and procedures.

The Purpose of the Counter Fraud Annual Operational Plan 2022/23

- 1.3 The Annual Operational Plan 2022/23 outlines the Council's approach to effectively tackle both the internal and external risk of fraud through its planned counter fraud activity. This planned approach is produced based upon the fraud landscape set out within the 'Fraud Universe', to ensure that BACFT resources are effectively deployed into areas of the highest fraud risk. The Annual Operational Plan also features a variety of proactive and reactive activity including investigative, project and verification work.

2. The Counter Fraud Strategic Approach

- 2.1 The published Counter Fraud Strategy for 2022-25 details the approach and core principles of how the BACFT will tackle and combat fraud and corruption over the next 3 years. It also highlights the BACFT's strategic objectives and provides assurance to key stakeholders by setting out how the Council's exposure to fraud is minimised.
- 2.2 The main principles of the Counter Fraud Strategy are:
 - **Risk Based Approach** – The deployment of resources into the highest areas of fraud risk based upon the fraud universe and the risk assessment process.
 - **Partnership & Engagement** – Communicating with service areas and key stakeholders to understand the risks the Council faces whilst creating a counter fraud culture. Offer support to stakeholders by undertaking work streams to identify fraud.
 - **Prevent, Detect, Pursue & Deter** – The cornerstone of the counter fraud approach, with a focus on prevention, as preventative measures are more effective than cure.
 - **Innovation & Modernisation** – A focus on delivering an efficient and effective counter fraud service through greater use of technology.
- 2.3 To ensure the BACFT can operate effectively in preventing, detecting, and pursuing fraud, a wide range of policies are in place providing a corporate framework to support staff. These corporate policies outline the Council's approach to countering fraud and corruption. Further details on these policies are included in the Counter Fraud Strategy 2022-25.

3. The Fraud Universe

- 3.1 In line with the Counter Fraud Strategy, the BACFT deploys a risk-based approach which is embedded into all forms of counter fraud activity, including the triaging of referrals. Specifically, a risk assessment is carried out on all referrals received to verify the veracity of the allegation by gathering intelligence to corroborate the original referral.

- 3.2 During the risk assessment process, the BACFT will score the assessment based on the following categories:
- **Financial risk** – What is the potential value of the fraud? What impact does it have on the Council and its residents?
 - **Reputational risk** – How does this damage the Councils reputation? How would residents and the wider public perceive the referral if it were to be true?
 - **Operational risk** – How does this allegation, if true effect the day to day running of the Council? Is there a need to strengthen processes to mitigate fraud?
 - **Systemic risk** – Is this a new or emerging risk based on environmental, Social or economic factors? Is this a fraud risk we will likely continue to be exposed to? Do we need to change working practices to combat the risk?
- 3.3 The Fraud Universe for the Council and the Counter Fraud Team's risk assessment of those risks are set out in **Table 1** at **Appendix A**. These highlights environmental pressures faced by the Council which includes national and local influences. All council services are continuing to feel the lingering effects of the global pandemic. The combined impact of the pandemic and the transition to an endemic, as well as the negative influence of the rise in the cost of living, has created a perfect storm for opportunistic fraud to significantly increase.
- 3.4 As the fraud landscape within the public sector is ever changing, it is important that the BACFT keeps up to date with industry news and communicates with key stakeholders to recognise the pressures and risks the Council will encounter. This will give the BACFT the ability to adapt and combat the changing fraud risk landscape.

4. The Counter Fraud Annual Operational Plan 2022/23

- 4.1 Set out in **Table 2** at **Appendix B**, is the draft Counter Fraud Annual Operational Plan for 2022/23. The plan has been devised in liaison with key stakeholders and takes into consideration the Risk Assessment/Fraud Universe as set out at in **Table 1** at **Appendix A**. The planned operational activity covers proactive and reactive work across a wide range of fraud risks, whilst also retaining the flexibility for the BACFT to tackle any emerging risks.
- 4.2 The plan explains the work the BACFT will carry out by fraud risk and includes outcomes achieved previously in these areas, as well as the overall risk assessment rating. The plan for 2022/23 includes a variety of activity, which is listed below by type:
- **Criminal Investigations** – Investigations that have a criminal element undertaken by qualified investigators. These investigations normally fall within services areas, where a fraud is alleged to have taken place by a person or business accessing services or funds. Typically, the BACFT will investigate offences relating to fraud, theft, bribery and forgery but may where it is in the interest of the Council and its residents, investigate other offences.
 - **Civil Investigations** – These investigations are often where the burden of proof for criminal proceedings cannot be met, or it is not in the public interest to prosecute. These matters are dealt with by way of compliance and may require civil proceedings to bring the case to a resolution.
 - **Disciplinary Investigations** – At times key stakeholders in conjunction with HR may require the assistance of the BACFT in disciplinary matters, as per the corporate investigations protocol. The Special Investigations Unit is well equipped to pursue these cases where required to do so.
 - **Verifications** – A workstream conducted by the BACFT to verify the eligibility of service users before accessing a particular scheme. These verification workstreams are embedded into processes within Housing and Social Care. This type of work is the core function behind the BACFT's preventative measures.

- **Proactive Projects** – A series of one-off projects conducted throughout the financial year, targeting the highest risk areas within the Council to drive down fraud, loss and error.
- **Data Matching** – Exercises designed to identify fraud, loss or error by matching internal and external data sets. Returned matches are analysed to verify the veracity of the potential outcomes identified.

4.3 Another key feature of the 22/23 plan is a closer collaborative approach to risk and governance between Internal Audit (IA) and the BACFT. The BACFT will provide greater support to IA in identifying and mitigating fraud risks as part of undertaking IA assurance and consultancy reviews. This will lead to the BACFT being alerted to fraud risks at the earliest opportunity and supporting IA in developing measures to prevent fraud.

5. Counter Fraud Skills & Resources

- 5.1 Every member of staff in the Counter Fraud Team is either professionally qualified in counter fraud or is actively studying for a relevant professional qualification supported by the Council. This helps to ensure that the BACFT provides a fully professional and effective service. A skills matrix approach is also used as part of monthly one to one meetings as well as at 6 monthly performance reviews.
- 5.2 To provide the BACFT with the ability to combat the risk of fraud and deliver its operational work plan for 2022/23, a minor change to the BACFT structure has been implemented as detailed at **Appendix C**. The revised structure has reduced management overhead and increased operational resources. This is due to the increased risk of fraud faced by the Council which is highlighted in the fraud universe risk assessment set out at **Appendix A**. The updated structure is in the early stages of implementation with the need to recruit to **two new Counter Fraud Officer posts**. The Head of Counter Fraud is confident these posts will be recruited to in Quarter 1 of 2022/23, giving the BACFT a fully resourced service to meet its strategic objectives.

6. Counter Fraud Reporting

- 6.1 The BACFT reports its progress to Corporate Management Team (CMT) and the Audit Committee (AC) on all matters of counter fraud activity on a quarterly basis. These reports provide an update on performance against KPIs, strategic and operational objectives and delivery against the financial loss prevention target for the year. In addition to this, an annual report is presented to CMT and AC providing a summary overview of counter fraud activity for the financial year including a detailed analysis on team performance and outcomes. This enables CMT and the AC to hold the Head of Counter Fraud and the Deputy Director of Exchequer Services and Business Assurance to account.
- 6.2 The BACFT also liaises with services managers on an ongoing basis to ensure regular dialogue in relation to counter fraud activities (where appropriate) as well as delivery of service level agreements. This high level of engagement plays a significant part in the BACFT meeting its core principles set out in the Counter Fraud Strategy 2022-25.

7. Measuring Counter Fraud Performance

- 7.1 As the BACFT is a support function that works closely with the majority of service areas across the Council, there are a wide range of stakeholders to satisfy, as well as key stakeholders such as CMT and the AC. To monitor counter fraud performance across service areas, outcomes and objectives a suite of KPIs were refreshed and agreed in the Counter Fraud Strategy 2022-25. Regular updates on performance against these KPIs will be provided in each quarterly progress report.

- 7.2 The Counter Fraud Strategy 2022-25 sets out nine strategic objectives for the BACFT to pursue, which includes the **financial loss prevention target for the year**. Taking into consideration the change in fraud valuations set out in the appendices of the Counter Fraud Strategy and the team's performance in 2021/22, **the financial loss prevention target for 2022/23 has been set at £3.5m.**

8. Acknowledgement

- 8.1 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.

Alex Brown ACFS APCIP
Head of Counter Fraud

31st March 2022

APPENDIX A

The fraud risks specific to LBH are set in **Table 1** below, which is a summary of the organisational Fraud Risk Assessment (the Fraud Universe) for the Council.

Table 1 ~ Fraud Risk Assessment

Fraud Risk Area	Fraud Risk Assessment
<p>General Fraud Risks</p>	<ul style="list-style-type: none"> • Withdrawal from the European Union, the economic impact of the pandemic and the uncertainty created by the conflict in Ukraine has generated financial pressures on the business community creating higher levels of unemployment and greater numbers of people seeking housing services and tax exemptions creating higher instances of fraud within related services. • Increased financial pressure associated with the rise in the cost of living on individuals and concerns over money and fear of redundancy due to economic climate leading to higher likelihood and pressure to commit fraud. • Increased demand of delivery within services leading to reduced due diligence over service delivery and overriding of controls and a greater opportunity for fraud. • Internal 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 meetings with service users, less verification of original documentation with reliance on scanned or copies of documentation. More provision of services remotely leading to higher likelihood of fraud not being detected. • The negative impact of the rise in the cost of living combined with economic uncertainty, leads to a greater risk of non-payment for services, increasing the Council's debt and reduces the opportunity for recovery.
<p>IT & Procurement of Goods and Services</p>	<ul style="list-style-type: none"> • An increased need to win government contracts because of financial pressures on businesses due to Brexit and the pandemic leading to the fraudulently manipulation of the procurement processes. • Increased cyber-crime activity nationally and globally and the higher likelihood of a cyber-attack against the Council such as 'ransom-ware' Denial of Service attacks, account takeover and account creation. • Higher financial pressure on Council contractors creating increased desire to maximise profit from contracts leading to higher likelihood of misrepresentation of services, goods and materials supplied. • Demand to shift more of our activities onto online platforms to access services can expose the organisation to programmed bots that break into user accounts to redirect payments/refunds, steal contact information and other harmful activities that could also lead to negative GDPR and reputational ramifications. • Utilisation and implementation of bots is currently in its very early stages. They could potentially be maliciously programmed and undertake potentially fraudulent activities without the appropriate human oversight.

(cont'd)

APPENDIX A (cont'd)**Table 1 ~ Fraud Risk Assessment (cont'd)**

Fraud Risk Area	Fraud Risk Assessment
Port Authority	<ul style="list-style-type: none"> Higher numbers of Unaccompanied Asylum Seekers (UAS) approaching the Council compared to non-port authorities, leading to greater levels of fraudulent approaches to the Council for services. Increases in service use by individuals where service provision is subject to immigration status, leading to more likelihood of misrepresentation of circumstances to access services where there is No Recourse to Public Funds (NRPF).
Statutory Duty to Provide Social Housing	<ul style="list-style-type: none"> Higher levels of housing need and homelessness claims in the borough linked to ongoing cost of living pressures, leading to increased levels of fraud within housing. Availability of low-cost social housing leads to greater numbers of individuals seeking housing from the Council and the opportunity to misrepresent circumstances within the process to obtain housing fraudulently. Increased pressure on housing services requiring greater use by the Council of temporary accommodation. With the likelihood of the accommodation used being outside of the borough which in turn, reduces the ability to monitor use and occupation, and increases likelihood of misuse going undetected. The pandemic and cost of living rise, has changed individuals' perceptions to rationalise fraud, leading to an increase in sub-letting and non-occupation of accommodation from historic tenants.
Social Care Provider	<ul style="list-style-type: none"> High costs of social care provisions lead to greater pressure to misrepresent circumstances in relation to assets and income in the financial assessment process. Inability of vulnerable individuals to properly manage Direct Payments meaning greater involvement of family members and third parties to manage payments, leading to increased risk of opportunistic misappropriation of funding by a third party. Absence of appropriate financial controls or appropriate monitoring, leading to the increased risk of unwarranted 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 to access services where there is NRPF.

(cont'd)

APPENDIX A (cont'd)**Table 1 ~ Summary Risk Assessment (cont.)**

Fraud Risk Area	Fraud Risk Assessment
Revenue Collection Authority	<ul style="list-style-type: none"> • Administration of 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, companies, and opportunists not eligible for funding. Utilisation of phishing emails to exploit weaknesses and redirect payments. • High cost of rateable value of business premises leads to the risk of fraudulent misrepresentation of circumstances to take advantage of reliefs. • Pressure to reduce individual costs against the cost of Council Tax leads to the wrongful claiming of single person discount and/or other exemptions and discounts, leading to lost revenue across a large number of residential addresses. • Increases in the cost of living leads to residents misrepresenting their circumstances in order to qualify for the Council Tax Reduction scheme. • Council Tax and Business Rates costs leads to the risk of deliberate avoidance of completion of new build properties and lost revenues for the Council. • Introduction of Council Tax rebate leads to owners of second homes/empty properties misrepresenting their circumstances to claim eligibility.

Appendix B

Set out below is the draft Counter Fraud Annual Operational Work Plan for the key proactive projects and investigative work due to be conducted in 2022/23.

Table 2 ~ Counter Fraud Annual Operational Work Plan 2022/23

Counter Fraud Activity	Planned Work	Outcomes 2021/22	Risk
Tenancy Fraud & Housing Investigations	The BACFT will continue to detect illegal sub-letting and non-occupation of Council properties as referred by colleagues and residents. This also includes false applications for housing, assignment and succession.	41 properties recovered, £738k notional savings	HIGH
Social Housing Residency Checks	A risk-based approach to tenancy residency checks working with the Housing team and using tenancy fraud data to identify hotspots. This will be delivered as part of proactive projects work.		
Housing Fraud Data Review	A new initiative to analyse data held by the Council to identify fraud. The BACFT will review a variety of Council held data sets, particularly that already available in Housing, to identify sub-letting and non-occupation.	New for 2022/23	HIGH
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.	3 applications closed, £328k loss prevention	HIGH
B&B and Temporary Accommodation Residency Checks	The BACFT will continue with annual residency checks on all emergency B&B and temporary housing accommodation. The checks will identify suspected non-occupation and subletting of emergency housing, and false applications.	Outcomes will not be available until Q1 22/23	HIGH
Social Services S.17 Emergency Funding	Desk based checks to confirm eligibility of applicants requiring emergency accommodation and support from Social Care.	6 applications cancelled, £72k in loss prevention savings	HIGH
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 who's status allows them to access national schemes funding and no longer require funding by the Council.	£65k loss prevention savings identified	HIGH
UASC Project	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.	1 application closed and 2 tenancies cancelled, LP saving £18k	HIGH

(cont'd)

Appendix B (cont'd)**Table 2 ~ Counter Fraud Annual Operational Plan 2022/23 (cont'd)**

Counter Fraud Activity	Planned Work	Outcomes 2021/22	Risk
Disabilities Facilities Grant	Cases of hidden assets, income or fictitious residency will be referred to the BACFT's via the referrals process.	£59k loss prevention identified	HIGH
Direct Payments	Cases of funds not being used appropriately, and or misrepresentation of circumstances to access funding towards care costs will be referred to the BACFT for investigation.	3 cases under investigation	HIGH
NFI Bi-annual Exercise	Continuous work on statutory data matches from the Cabinet Office, which will be investigated as an ongoing project throughout 22/23. The matches provide a significant contribution to savings areas such as Housing and Revenues.	Bi-annual exercise not available for 2021/22	HIGH
Revenues Inspections and Investigations	In 2022/23 the BACFT will continue to deliver all inspections for Business Rates and Council Tax and develop an investigative approach to Business Rates and Council Tax avoidance and illegal evasion.	8012 inspections conducted in 2021/22 52 active investigations	HIGH
Revenue Maximisation	Proactive project work utilising data to identify previously unlisted or modified domestic or commercial properties that are not paying the correct amount of tax or rates.	£1.3m of previously uncollected NNDR identified	HIGH
Council Tax Discounts & Exemptions	A proactive desk top data review of discounts and exemptions utilising data matching and in-house data. All discounts found to be fraudulent will be referred to Exchequer Services for removal of discounts/exemptions and investigated for fraud where appropriate by the BACFT.	£82k in loss prevention savings	HIGH
London Counter Fraud Hub	Working in conjunction with other London based local authorities to create proactive data matching exercises to identify fraud and error in known risk areas leading to loss prevention outcomes.	Not available for 2021/22	MEDIUM
Social Care Financial Assessments	The BACFT will continue to 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.	£8k of loss prevention identified	MEDIUM

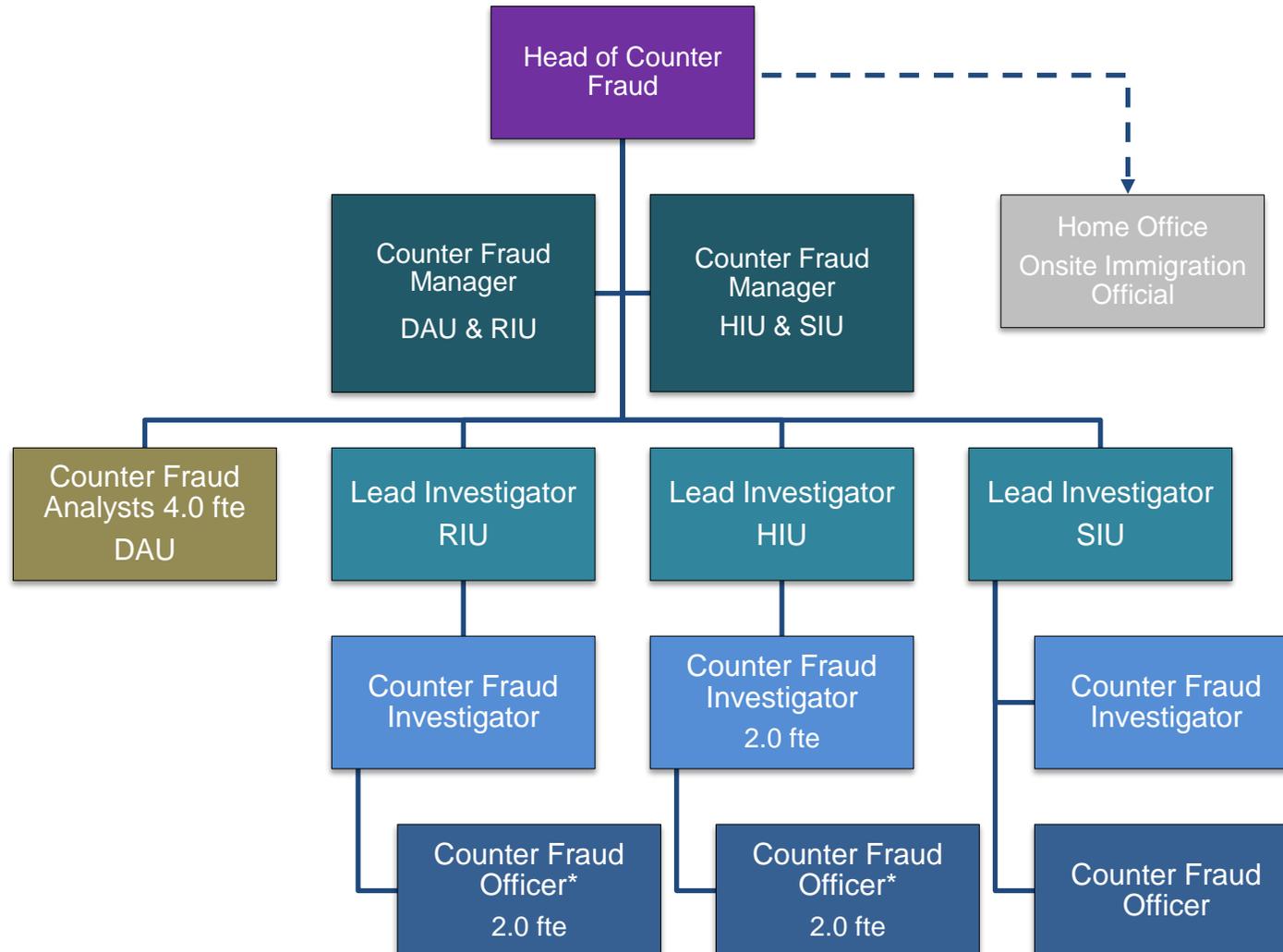
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Appendix B (cont'd)**Table 2 ~ Counter Fraud Annual Operational Plan 2022/23 (cont'd)**

Counter Fraud Activity	Planned Work	Outcomes 2021/22	Risk
Empty Properties/ New Homes Bonus	A yearly proactive project to maximise the grant received from Central Government by identifying empty properties that are now occupied, alongside monitoring new build properties for completion. The net number of properties brought back into occupation by the Council attracts a grant from central government.	Delivered funding £300k above Finance Department's forecast in NHB grant	MEDIUM
Housing Verifications	The BACFT will continue to verify applicants who apply for social housing, mutual exchange or succession/assignment.	13 applications closed and 2 cases referred for investigation	MEDIUM
'Beds in Sheds' - Unregistered Residential Dwellings	The Revenues Investigations Unit will identify unlawful and unregistered residential dwellings in order that properties are brought within Council Tax banding and evasion pursued as investigations. Any enforcement action on planning issues will be referred to Planning Enforcement and Housing Standards.	25 cases identified, revenue of £48k	MEDIUM
First Time Buyers Residency Checks	Post purchase residency checks to verify occupation, as continued residency for a set period is a mandatory scheme condition. Any properties where subletting or non-occupation is identified will be further investigated and the grant will be sought for recovery.	2 cases referred for prosecution	MEDIUM
Debt Tracing Enquires	A relatively new initiative that will see the BACFT trace debtors that are uncontactable, or identify hidden assets and capital, to support debt recovery.	£14k recovered through tracing enquiries	MEDIUM
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 this fraud seriously and deter misuse across the borough.	11 financial penalties issued	LOW
Fraud Awareness & Engagement	The BACFT will continue to provide a program of fraud awareness internally to champion a counter-fraud culture and encourage service provider engagement over fraud risks. This will also include periodic social media communications released to the public to promote awareness and raise the profile of counter fraud activity within the borough.	Delivered 22 awareness sessions	LOW

Appendix C

COUNTER FRAUD TEAM – STRUCTURE as at March 2022 (* = 2.0 fte currently vacant with recruitment in progress)



Key: DAU = Data Analytics Unit, RIU = Revenue Investigations Unit, HIU = Housing Investigations Unit, SIU = Special Investigations Unit.

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Review of the Audit Committee's Terms of Reference

Committee name	Audit Committee
Officer reporting	Anisha Teji, Central Services Directorate
Papers with report	None
Ward	All

HEADLINES

On 29 September 2021, the Audit Committee received a management update on the effectiveness of the Audit Committee. Members discussed the management action plan and informally recommended four Constitutional changes to the Audit Committee's Terms of Reference. The purpose of this report is to formally recommend the Constitutional changes as a matter of record.

RECOMMENDATIONS:

That the Audit Committee agree to formally recommend four Constitutional changes as set out in this report.

SUPPORTING INFORMATION

At its meeting on 29 July 2021, the Committee received a report on the Review of the Effectiveness of the Audit Committee 2020/21. The review was awarded a reasonable assurance, with seven low risk recommendations for best practice and one notable practice observation identified.

On 29 September 2021 the Audit Committee received a management update on the effectiveness of the Audit Committee. A management action plan was created to address the recommendations made in relation to the Committee's membership, Terms of Reference, the corporate risk register, attendance at meetings, training, and pre-meetings. The Head of Democratic Services attended the meeting to provide further details on the management action and answer any Member queries.

Following this meeting, Members discussed the management action plan and informally made four recommendations to the Committee's Terms of Reference. The recommended Constitutional changes will be taken forward for the Leader of the Council's consideration and ultimately by the Full Council.

The Constitutional changes recommended for consideration are:

- 1) Reviewing the Member quorum and (increasing) the number of independent Members on

the Audit Committee. Both actions could help mitigate the risk of Audit Committee being unable to meet on a given date.

- 2) Subject to discussions with HR and other officers, provide for the Audit Committee to oversee the appointment, removal and performance appraisal of the Head of Internal Audit. This would require an amendment to the Officer Employment Procedure Rules and related matters constitution.
- 3) Require formal compulsion for management to attend Audit Committee meetings in line with good practice. It is proposed this would be similar to the constitutional provision for the formal requirement for officers to attend Select Committees.

An additional change to operations, that Members have promoted, is to hold informal private pre-meetings of the whole committee prior to the formal public Audit Committee meeting to briefly discuss the agenda to improve committee effectiveness. Although Democratic Services must duly advise that this it is not ordinary practice and could be perceived as pre-determination, it remains ultimately a matter for the Audit Committee to decide.

BACKGROUND PAPERS

None.

AUDIT COMMITTEE FORWARD PROGRAMME 2021/22

Committee name	Audit Committee
Officer reporting	Anisha Teji, Central Services Directorate
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 meeting on 28 April 2022 will start at 17:10.

Meetings	Room
27 July 2022	TBC
29 September 2022	TBC
15 November 2022	TBC
31 January 2023	TBC
27 April 2023	TBC

Meeting Date	Item	Lead Officer
27 July 2022	**Private meeting with Ernst & Young to take place before the meeting	
	Annual Internal Audit Report 2022/23 (including the HIA Opinion Statement)	Head of Internal Audit and Risk Assurance
	Annual Counter Fraud Report 2021/22	Interim Head of Counter Fraud
	Internal Audit Progress Report Quarter 1 2022/23 (incl. the Quarter 2 2022/23 Internal Audit Plan)	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 1 2022/23	Deputy Director of Exchequer Services & Business Assurance
	2021/22 Q4 Corporate Risk Register -	Deputy Director of Exchequer Services & Business Assurance
	Member training programme/skills matrix	Democratic Services
	Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
29 September 2022	**Private meeting with Corporate Director of Finance to take place before the meeting	
	Approval of the 2022/23 Statement of Accounts (Including Annual Governance Statement & External Audit Results Report on the Audit for the Year Ended 31/03/2022) & External Audit Report on the Pension Fund Annual Accounts 2021/22	Ernst & Young
	Annual Report of the Audit Committee 2021/22	Deputy Director of Exchequer Services & Business Assurance
	Internal Audit Progress Report Quarter 2 2022/23 (incl. the Quarter 3 2022/23 Internal Audit Plan)	Head of Internal Audit and Risk Assurance
	2022/23 Q1 Corporate Risk Register -	Deputy Director of Exchequer Services & Business Assurance
	Annual Risk Management Report 2021/22	Deputy Director of Exchequer Services & Business Assurance
	Update on the Effectiveness of the Implementation of the Audit Committee	Head of Internal Audit and Risk Assurance
	Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
15 November 2022	**Private meeting with Deputy Director of Exchequer Services & Business Assurance to take place before the meeting	
	EY 2021/22 Auditor's Annual Report and Grant Certification	Corporate Director of Finance /Ernst & Young
	Counter Fraud Progress Report Quarter 2 2022/23	Head of Counter Fraud
	Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
31 January 2023	**Private meeting with Ernst & Young to take place before the meeting	
	Internal Audit Progress Report Quarter 3 2022/23 (incl. the Quarter 4 2022/23 Internal Audit Plan)	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 3 2022/23	Deputy Director of Exchequer Services & Business Assurance
	Internal Audit Charter	Head of Internal Audit and Risk Assurance
	2022/23 Q2 Corporate Risk Register -	Deputy Director of Exchequer Services & Business Assurance
	Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
27 April 2023	**Private meeting with Corporate Director of Finance to take place before the meeting	
	2022/23 External Audit Plan.	Corporate Director of Finance / Ernst & Young
	Internal Audit Progress Report Quarter 4 2022/23 (incl. the Quarter 1 2023/24 Internal Audit Plan)	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 4 2022/23	Deputy Director of Exchequer Services & Business Assurance
	2022/23 Q3 Corporate Risk Register -	Deputy Director of Exchequer Services & Business Assurance
	Forward Programme	Democratic Services