INTERNAL AUDIT

Annual Internal Audit Report & Opinion Statement 2013/14

17 July 2014

Contents

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1. Introduction

1.1   The Role of Internal Audit

1.1.1   Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the Council undertakes an adequate and effective IA of its accounting records and of its system of internal control in accordance with the proper practices.

1.1.2   IA give an objective opinion to the Council on whether the control environment is operating as expected. In 'traditional' IA teams this usually means compliance testing of internal controls. However, the IA service at Hillingdon is fully embracing the risk based approach which means IA will give greater assurance to the Council because it is based on the key risks to the achievement of 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.

1.1.3   The new UK Public Sector IA Standards (PSIAS) which came into force on 1 April 2013 are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement (AGS).

1.2   The Purpose of the Annual Internal Audit Report and Opinion Statement

1.2.1   This annual report summarises the main findings arising from the 2013/14 IA assurance and consultancy work. The report also provides IA key stakeholders including the Council's Corporate Management Team (CMT) and the Audit Committee, with an opportunity to hold the Council's Head of Internal Audit (HIA) to account on delivery of the 2013/14 IA Plan and on the effectiveness of the IA service.

1.2.2   The UK PSIAS require the HIA to deliver an annual IA report and opinion statement that can be used by the organisation to inform its AGS. Therefore, in setting out how it meets the reporting requirements, this report and opinion statement also outlines how IA has supported the Council in meeting the requirements of the Accounts and Audit (England) Regulations 2011.

2. Executive Summary

2.1   Despite a reduction in IA capacity during the year and the negative impact that the 2012/13 slippage has had on available 2013/14 IA resources, the HIA is pleased to report that **as at 16 July 2014, 94% of the 2013/14 IA assurance reviews have been completed to final report stage**. When you consider that at the end of November 2013 only 3 non-school 2013/14 audits had been finalised, **this represents a significant achievement for IA and highlights a positive direction of travel for the service**.

2.2   Delivery of the revised IA Plan for 2013/14 has been achieved in such a comparatively timely manner by implementing a number of new initiatives. These have included applying introducing a fully risk based approach to help focus IA resources, restructuring the IA management team to generate greater front line capacity and applying a range of lean auditing principles to the IA process. In addition, the HIA believes this relative success is predominantly due to the more collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Council. Further details of this area of work can be found at para 6.1 of this report.

2.3   From the 2013/14 IA work undertaken and from the other sources of assurance referred to in para 3.7:

> *It is the HIA's opinion that overall IA can provide* **REASONABLE** *assurance that the system of internal control that has been in place at Hillingdon Council for the year ended 31 March 2014 accords with proper practice, except for the significant internal control issues referred to in para 3.8 (see para 3.12 for further details).*

2.4   A total of **49** 2013/14 IA assurance reports and **7** consultancy reports have been finalised this year including **5 LIMITED** and **1 NO** assurance IA opinions. It is worth noting that just under half of the **LIMITED** assurance reports relate to schools.

2.5   All 2013/14 **HIGH** and **MEDIUM** risk recommendations raised by IA were accepted by management with positive action proposed, including the risk and control issues highlighted in the **six** audits highlighted at para 2.6. Further analysis of the IA assurance levels issued in 2013/14 along with an analysis of the risk recommendations raised can be found in section 4 of this report.

2.6   The key findings from these **six IA assurance reviews** were as follows:

(i) Housing Rent Arrears – **NO** Assurance

- As detailed at Appendix A, IA raised **13 recommendations** as part of this audit including 6 **HIGH** risk recommendations. In particular IA found evidence of significant delays in updating rent account/ tenancy changes on i-World and a severe lack of management review of this process. There was a lack of communication across the different functions within Housing Services as well as insufficient management oversight of rent arrears. As a result IA was unable to give any assurance as to the accuracy of the total arrears data being produced. The Audit Sponsor response to the recommendations raised was very positive and the management proposed by the Head of Housing appears constructive. IA has confirmed that significant management action has been taken. As at 16 July, 5 of the 6 **HIGH** risk recommendations have been verified as implemented.

(ii) Bishop Winnington-Ingram C of E Primary School – **LIMITED** Assurance

- As detailed at Appendix A, IA raised **8 recommendations** as part of this audit including 1 **HIGH** risk recommendation in relation to debt management and recovery. Specifically, IA identified that the School had debts over three months old totalling £83,730 from parents/ guardians in relation to before and after school care. There were weak controls in place to follow up and recover payment of these debts, which represents a significant weakness in the design and operation of the School's control environment. However, the school has confirmed that it has put new procedures in place for invoicing parents termly in advance rather than in arrears. The school is in the process of chasing old debts and IA has confirmed that a stronger system is now in place for debt recovery.

(iii) West Drayton Primary School – **LIMITED** Assurance

- As detailed at Appendix A, IA raised **10 recommendations** as part of this audit including 1 **HIGH** risk recommendation in relation to an *ultra vires* finance lease. As part of this review, IA identified the School had procured four photocopiers costing £22,847 over a three year period through a finance lease. This is a type of contractual arrangement that local authority schools do not have the mandate to enter into. However, since this time further guidance has been issued by the Council as a number of schools had entered theses type of arrangements. IA subsequently carried out a follow-up audit in February 2014 and confirmed that positive action has been taken by the school to address the vast majority of the control issues identified. One recommendation remained outstanding as the timescale for completion had not been reached. As a result, IA issued a revised opinion of **SUBSTANTIAL** assurance on 31 March 2014 (refer to Appendix A).

(iv) Inspection Team – **LIMITED** Assurance

- As detailed at <u>Appendix A</u>, IA raised **8 recommendations** as part of this audit including 2 **HIGH** risk recommendations, both in relation to time recording. Specifically, IA identified that 70% of the Council's care providers were not using the Electronic Call Monitoring System (ECMS), an electronic logging system that enables care providers and the Council to monitor accurate records of time spent by a care worker in the service user's home. Furthermore, IA found that the Inspection Team did not check that carers' timesheets accurately to ensure it reflected the time spent by carers in providing care. In particular, timesheets were not being reviewed before the invoice supplied by the care provider was processed for payment to see if carers were for example 'double booking' time. Management action is in progress and IA is in the process of following these recommendations up.

(v) Looked After Children Placed Out of Borough – **LIMITED** Assurance

- As detailed at <u>Appendix A</u>, IA raised **4 recommendations** as part of this audit including 2 **HIGH** risk recommendations in relation to care and placement plans. Specifically, IA found that Management approval of plans on Protocol ICS could be circumvented. This appeared to be as a result of some inadequate user update restrictions on Protocol ICS. As such, IA concluded that the control provided by manager approval was potentially compromised. In addition, IA found that there were delays in submission and approval of Care Plans and Placement Plans. Manager approvals were recorded as having been given after the effective dates of the action. As a result of this, plans could proceed without formal manager approval and any changes required would have to be made in retrospect. Management action is in progress and IA is in the process of following these recommendations up.

(vi) Corporate Anti-Fraud and Anti-Corruption Arrangements – **LIMITED** Assurance

- As detailed at <u>Appendix A</u>, IA raised **17 recommendations** as part of this audit including 1 **HIGH** risk recommendation, 9 **MEDIUM** risk recommendations, 7 **LOW** risk recommendations and 1 **NOTABLE PRACTICE**. The focus of this review was not on the Council's approach to benefit fraud, where IA noted that the Corporate Fraud Investigation Team (CFIT) has been recognised by the Department for Work and Pensions (DWP) as running the best performing Single Fraud Investigation Service pilot in the Country. Further, the DWP has acknowledged the innovative team working within the CFIT which is producing positive outcomes for Hillingdon residents through high quality benefit fraud investigations.

- The focus of this audit was on the corporate arrangements the Council has in place in relation to Anti-Fraud and Anti-Corruption (AF&AC). The key finding coming out of this audit was the lack of strategic oversight by senior officers and Members regarding the Council's corporate AF&AC arrangements. Currently these arrangements are spread across 3 Corporate Directors which has resulted in a diffusion of responsibilities which has impacted on the level of awareness across the organisation on what the Council's AF&AC arrangements are. This includes who has ownership and responsibility for the relevant AF&AC policies and procedures which are either out of date or do not exist. It is IA's judgement that whilst Directors proactively cascade key AF&AC messages to their staff, there are parts of the organisation which have a poor AF&AC culture with a relatively low level of understanding amongst staff of how to prevent and detect fraud.

- This audit is just in the process of being finalised and therefore discussions with management are ongoing in relation to the best way forward. Further information on the management action proposed will be included as part of an oral update by the HIA at the next Audit Committee meeting (currently planned for 30 July 2014).

2.7 Focussing dedicated IA resource to the **follow-up of previous recommendations** due to have been implemented has helped achieve a much improved outcome for the Council over the 2013/14 year. As at 16 July 2014, **94%** (96 out of 102) of the **HIGH** risk recommendations raised in 2012/13 and 2013/14 due to have been implemented, have been **confirmed by management as now in place**.

2.8   In addition, as at 16 July 2014, **93%** (340 out of 365) of the <mark>MEDIUM</mark> risk recommendations raised in 2012/13 and 2013/14 due to have been implemented, have been **confirmed by management as now in place**. Whilst there is scope for improvement, overall, these results compare extremely favourably when compared to previous years. Further details of this area of work can be found at section 5 of this report.

3. Head of Internal Audit Opinion Statement 2013/14

3.1   Background

3.1.1   The HIA opinion statement is provided to inform the Chief Executive and Leader of the Council to assist them in completing the AGS, which forms part of the statutory Statement of Accounts for the 2013/14 year. The AGS provides public assurances about the effectiveness of the Council's governance arrangements, including the system of internal control. The HIA opinion statement meets the Council's statutory requirement under Regulation 4 of the Accounts and Audit (Amendments) (England) Regulations 2011 and in line with the UK PSIAS.

3.2   Scope of Responsibility

3.2.1   The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty, under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

3.2.2   In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk. Specifically, the Council has a statutory responsibility for conducting a review of the effectiveness of the system of internal control on at least an annual basis.

3.3   The Purpose of the System of Internal Control

3.3.1   The Council's system of internal control is designed to manage risk to a reasonable level rather than to completely eliminate the risk of failure to achieve policies, aims and objectives. Consequently, it can only provide a reasonable, and not absolute, assurance of effectiveness.

3.3.2   The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's vision, strategic priorities, policies, aims and objectives. It also is designed to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3.4   Annual Opinion Statement on the Effectiveness of the System of Internal Control

3.4.1   The HIA opinion is based primarily on the work carried out by the Council's IA service during 2013/14, as well as a small number of other assurance providers. Where the work of the CFIT has identified weaknesses of a systematic nature that impact on the system of internal control, this has been considered in forming the HIA opinion.

3.4.2   The IA Plan for 2013/14 was developed to primarily provide CMT and the Audit Committee with independent assurance on the adequacy and effectiveness of the systems of internal control, including an assessment of the Council's corporate governance arrangements and risk management framework.

3.5   Basis of Assurance

3.5.1   All 2013/14 IA reviews have been conducted in accordance with the UK PSIAS which came into force on 1 April 2013. A self-assessment assurance review of the IA service conducted in May 2014 (as detailed at Appendix A) confirmed that Hillingdon's IA service has overall met the requirements of the UK PSIAS in 2013/14.

3.5.2   In line with the UK PSIAS, the HIA is professionally qualified and suitably experienced. The skills mix within the rest of the in-house IA team is currently under development, but during the year it has been supported by a partnership with Baker Tilly. As a result, the 2013/14 IA resources fulfilled the UK PSIAS requirements in terms of the combination of professionally qualified and experienced staff.

3.6   Qualifications to the Opinion

3.6.1   The Council's IA service has had unrestricted access to all areas and systems across the authority and has received appropriate co-operation from officers and members. The IA function has had sufficient resources to enable it to provide adequate coverage of the authority's control environment to provide the overall opinion (refer to para 3.12.3). Consequently, **there are no qualifications to the HIA opinion statement for 2013/14**.

3.7   Other Assurance Providers

3.7.1   In formulating the HIA overall opinion on the Council's system of internal control, the HIA has taken into account the work undertaken by other sources of assurance, and their resulting findings and conclusions which included:

- Coverage of the Corporate Fraud Investigations Team;

- The work of the Corporate Risk Management Group (refer to para 3.10);

- The work of the Corporate Governance Working Group (refer to para 3.11);

- The work of the Hillingdon Information Assurance Group;

- The Audit Committee (a review of the effectiveness of the Audit Committee was conducted in May 2014);

- External inspections i.e. Ofsted; and

- Coverage by Deloitte (External Audit) including grant claim certification i.e. Housing Benefits Subsidy.

3.8   Significant Internal Control Weaknesses

3.8.1   IA is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise during the year. **There were relatively few significant control weaknesses identified during 2013/14**. Work is ongoing to strengthen the Council's control environment in relation to the significant control weaknesses identified. These included:

1. Our May 2014 audit highlighted that there was **no regular corporate reporting of housing rent arrears** apart from what is included in the Annual Statements of Accounts. In addition, **IA was unable to provide assurance as to the accuracy of the arrears data** being produced and reported to the Head of Housing, due to the **lack of effective system of controls** to verify the accuracy and completeness of data. Furthermore, **a number of significant delays in setting up rent accounts** were revealed during this audit; IA understands there had been delays of as much as nine months. These delays in actions were occurring for a variety of reasons, but the failure in prompt and effective communication within the relevant Council teams was the main reason identified. IA notes that prompt management action was proposed and is being well progressed in this area.

2. Our assurance and consultancy coverage this year has identified a **few examples of poor contract management in relation to major contracts** that the Council has. This includes inconsistent compliance with contract standing orders, weaknesses in relation to financial reporting and a lack of monitoring and senior management oversight in relation to some major contract spend. IA is of the opinion that this has resulted in **the Council achieving poor value for money on some major contracts during 2013/14**. The Council are considering this IA finding before deciding specifically what action is required.

3. IA coverage and the Council's management have identified **a significant number of instances in 2013/14 of non adherence to Council policies and procedures**. This is partly due a large number of the Council's policies being compliance based and of a very detailed and prescriptive nature. It is also partly as a result of some of the Council's policies failing to be kept up to date with the dynamic level of organisational change that the Council is going through. The Council are considering this IA finding before deciding on specifically what action is required.

4. The majority of schools in Hillingdon are high performing and have strong governance arrangements. However the results of IA work in 2013/14 and IA's cumulative audit knowledge indicate that **there are a significant number of Hillingdon schools with weaknesses in their governance arrangements**. As part of the solution to this, from 2014/15 onwards a risk-based approach will be taken with IA assurance reviews of Hillingdon schools. In particular cross-cutting audits of themed areas will be carried out at a risk-based selection of schools. This approach will provide oversight across all Hillingdon schools of the key issues arising, whilst also providing a mechanism for sharing best practice.

5. In autumn 2013, **Ofsted carried out a joint inspection** of the Council's "Services for children in need of help and protection, children looked after and care leavers" and a "Review of the effectiveness of the Local Safeguarding Children Board (LSCB)". Ofsted concluded that there are no widespread or serious failures that create or leave children being harmed or at risk of harm. However, Ofsted stated that the Council is not yet delivering good protection and help and/ or care for children, young people and families. In addition, the LSCB was found not to be demonstrating the characteristics of good. The overall Ofsted judgement in both areas was reported as **'Requires Improvement'**. However, **work is already well under way by the Council towards making the required improvements**. An IA review to establish progress with the improvement action plan is planned for September 2014.

3.9   Internal Control Improvements

3.9.1   In addition to the action taken by senior management to address the significant control weaknesses, IA has identified during the year a number of areas where other improvements have strengthened the control environment. These include:

- The **controls surrounding the Council's core financial systems remain strong**. There is significant change planned in 2014/15 with the upgrade of the Oracle Financials system. Substantial work is ongoing in this area to safeguard the integrity of data through the transition to the upgraded system.

- The Council has been successful at continuing to **achieve transformational savings** and **improve its financial resilience**. This has been done whilst at the same time continuing to deliver a range of innovative projects to help drive forward major cultural change across the Council. The Hillingdon Improvement Programme (HIP) has been a fundamental part of this success and helped **improve the services delivered to residents** in line with the Council's vision of *'Putting Our Residents First'*.

- The Council's **response to benefit fraud and tenancy fraud has been robust** which has achieved positive results for the Council and its residents. At the same time, the CFIT's exceptional work in this area has helped develop an effective anti-fraud culture in this key area of the Council.

3.10   Risk Management

3.10.1 The IA opinion on the effectiveness of the Council's Risk Management (RM) arrangements is based on **the Chartered Institute of Internal Auditors' Risk Maturity Model**. IA has identified that there is good RM practice in some areas of the Council's operations but that there are areas where the understanding of the RM policy was poor. Further, IA's review of the Council's RM arrangements concluded that whilst the approach to RM at a strategic level was generally good, risk identification and management at a more operational level was a scattered silo based approach.

3.10.2 The RM policy and guidance was last updated in February 2013. This audit highlighted that a particularly good feature within the RM policy and guidance was the comprehensive detail as well as the clarity of roles, responsibilities and accountabilities of Members and Officers in relation to RM.

3.10.3 The Council has an established Corporate Risk Management Group (CRMG) in place which meets quarterly and discusses strategic risk issues in an effective manner. IA also noted that strategic risks are effectively monitored and reviewed by CMT as well as the Audit Committee. In addition, there are designated risk champions at SMT level for each group (Directorate) and each identified strategic risk has been delegated to a Chief Officer to own and manage.

3.10.4 However, IA's judgement was that the Council needs to improve the RM process for identifying and recording risks at an operational level. IA has concluded that risks below group level are not being treated consistently across the organisation. Specifically, operational risks are not always being adequately identified and recorded in a systematic, structured and timely manner. In addition, IA noted that the Council had not yet set and communicated a risk appetite. As a result, the IA assessment of **the Council's Risk Management maturity is** that the Council was **RISK AWARE** as at 31 March 2014.

CHARTERED INSTITUTE OF INTERNAL AUDITORS' RISK MATURITY MODEL
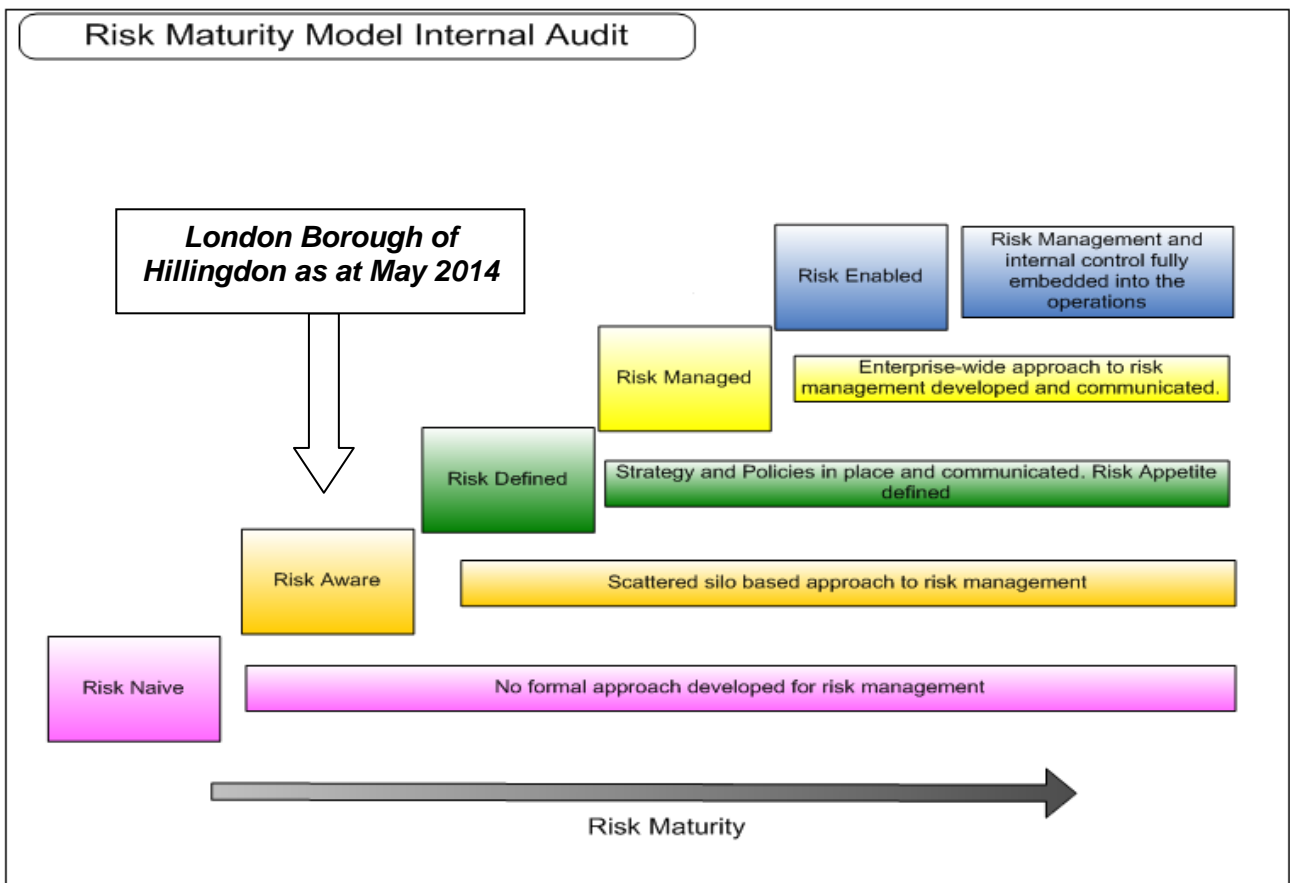
3.11   Corporate Governance

3.11.1 The 2013/14 IA opinion on the effectiveness of the Council's corporate governance arrangements is based on the **Langland's Report on 'Good Governance Standard for Public Services'**. The Langland's report contains best practice governance in the public sector and IA's assessment is highlighted in the table below:

Langland's Governance Principles	IA Assessment of Hillingdon
1. Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.	**Substantial Assurance** - The Council's vision and strategic priorities are clearly communicated and understood by officers. The Council's vision *'putting our residents first'* provides the clear direction that is required to fulfil the Council's purpose and achieve positive outcomes for residents. Even without a formal corporate business plan, the overarching strategies of the Hillingdon Improvement Programme/ Business Improvement Delivery programme and Medium Term Financial Forecast provides the steer and focus to achieve the Council's vision and strategic priorities.
2. Good governance means performing effectively in clearly defined functions and roles.	**Limited Assurance** - The Council's Constitution comprehensively sets out how the Council is governed. However, it contains outdated information relating to a number of policies. The function and role of the Cabinet is clearly defined and documented within the Council's Constitution. Further, the role and responsibilities for the HIP Steering Group and CMT could be clearer and have not been directly communicated to staff. In IA's opinion, the Council's organisational structure is fit for purpose to deliver the Council's vision and priorities. However, there is scope to improve governance arrangements to provide further clarity relating to the roles and responsibilities of officers and Members.
3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour.	**Reasonable Assurance** - The Council has a Code of Conduct in place for both officers and Members to ensure values and behaviours are upheld consistently across the Council. Member and officer relations were found to be good with no concerns. Anti-Fraud & Anti-Corruption (including Whistleblowing and Gifts & Hospitality arrangements) were generally found to be in place. IA established the Council does not maintain a Local Code of (Corporate) Governance. In IA's opinion, this would assist the Council to demonstrate that the Council adheres to the desired CG culture. It would also help improve accountability to stakeholders and allow staff to better understand the benefits of good governance.
4. Good governance means taking informed, transparent decisions and managing risk.	**Reasonable Assurance** - The Council's Cabinet operates as an effective Member decision making body which is renowned by officers for making swift decisions. IA confirmed that a Cabinet Scheme of Delegations (SD) was in place. Group SDs are in place, however, since the reorganisation of the Council's structure, separate SDs for both the 'Childrens' and 'Adults' groups have yet to be approved. This presents a risk that accountability for decisions are unclear in these groups. RM arrangements were found to be in place and have been reviewed separately by IA. The Council's AGS process was overall found to be adequate, although there is scope for improvement.

5. Good governance means developing the capacity and capability of the governing body to be effective.	**Reasonable Assurance** - The Council's Cabinet brings direction and stability to the organisation. It has demonstrated that it provides continuity of knowledge and relationships, with the same Cabinet Members reappointed into their Cabinet positions this year. There are induction, training and development arrangements in place to ensure Members have the rights skills and knowledge to perform their Cabinet duties effectively. Member performance is evaluated by their respective political groups. Officers were complimentary about the role and clear direction that the Cabinet provides.
6. Good governance means engaging stakeholders and making accountability real.	**Reasonable Assurance** - The Council engages with stakeholders using a vast array of engagement and consultation activities to make accountability real. There is clear accountability between the Cabinet and its Executive Committees. Policy Overview and Scrutiny arrangements are in place and appropriately reported. It is pleasing to report that recommendations proposed by Policy Overview Committees are fully endorsed by the Cabinet. Various mechanisms are in place to obtain feedback and engage with officers, residents and service users. Petition and consultation arrangements were also found to be in place. However, IA identified there is scope for improvement with regards to reporting of key information in relation to the Council's Vision, Strategic Priorities, Strategies, financial position, performance, achievements, outcomes and satisfaction of service users. This will improve accountability and enhance stakeholder confidence, trust and interest.

3.11.2 As a result, **Hillingdon's overall Governance arrangements were assessed by IA as Reasonable**. This IA review confirmed that the Council's vision and strategic priorities provides both officers and Members with a very clear direction. This is complimented by a strong and stable political leadership that controls and leads the organisation to achieve positive outcomes for residents. The Council's governance arrangements are underpinned by its Constitution which explains how the Council is governed and how it operates. IA also noted the Cabinet is collectively viewed as highly effective and renowned for quick decision making. In IA's opinion, although the Council's CG arrangements are not fully in line with more traditional CG models, **the outcomes the Council has achieved within a period of austerity measures and constant change are nothing short of remarkable**. This demonstrates that the overall direction and control is a good fit for the organisation at this time. It is apparent that the Council put their residents at the forefront of all activity that it engages in, maintaining a high resident satisfaction rating following the most recent residents' survey.

3.11.3 The Council exemplifies strong financial management and control that is illustrated by the healthy, currently unallocated reserves balances of approximately £36m. The centralisation of procurement activity has added to robust financial control over expenditure. The Council continues to uphold a 0% council tax increase for Hillingdon residents for the 6th consecutive year (for the over 65s, it has been frozen for 8 years). Hillingdon is the only local authority in the country that has completed their £10m library refurbishment programme, with the Council also investing £50m to improve sport and leisure facilities, £150m in the latest school building and expansion programme and a record amount of money has been spent on road resurfacing. The borough's parks and open spaces were recently awarded 24 Green Flags (the most in the country), whilst recycling services continue to improve. Nevertheless, as part of the CG review, IA has identified a number of areas where the Council could further enhance its CG arrangements. In IA's opinion these improvements could be made without having a negative impact on the strong leadership and level of control that is currently in place.

3.12   Internal Control

3.12.1 The IA opinion on the Council's internal control system is **based on the best practice on Internal Control from the Committee of Sponsoring Organisations of the Treadway Committee** (COSO). The diagram below details the elements of the COSO internal control framework.

The COSO Internal Control Framework

Monitoring

Information & Communication

Control Activities

Risk Assessment

Control Environment

The COSO Internal Control Framework

3.12.2 As expected the majority of IA recommendations related to improvements over control activities. These include recommendations relating to written procedures, authorisations, reconciliations and segregation of duties. The other component of the framework with a notable number of recommendations is information and communication. These relate to operational, financial and compliance information that is captured and communicated in an accurate and timely manner. As noted at para 3.10, there are weaknesses within the risk management process, so although there were only a few IA recommendations raised in 2013/14 that related to the risk assessment component of the COSO framework, it should not be inferred that risk assessment is robust.

3.12.3 The individual IA assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations have a bearing too. From the IA work undertaken in 2013/14, and the other sources of assurance referred to in para 3.7, **it is the HIA's opinion that overall IA can provide REASONABLE assurance that the system of internal control that has been in place at the Council for the year ended 31 March 2014 accords with proper practice**, except for the significant internal control issues referred to in para 3.8.

4. Analysis of Internal Audit Activity 2013/14

4.1   Internal Audit Assurance Work 2013/14

4.1.1   The 2013/14 IA assurance work may be summarised by the assurance level achieved (definitions of the IA assurance levels are included at Appendix B) as per the table below:

| Assurance Level	Number of IA Assurance Reports	Assurance %
Substantial	8	16%
Reasonable	35	72%
Limited	5	10%
No	1	2%
TOTAL	49	100%

4.1.2   The pie chart below depicts the levels of assurances achieved based on a percentage of the total assurance audits completed by IA in 2013/14:
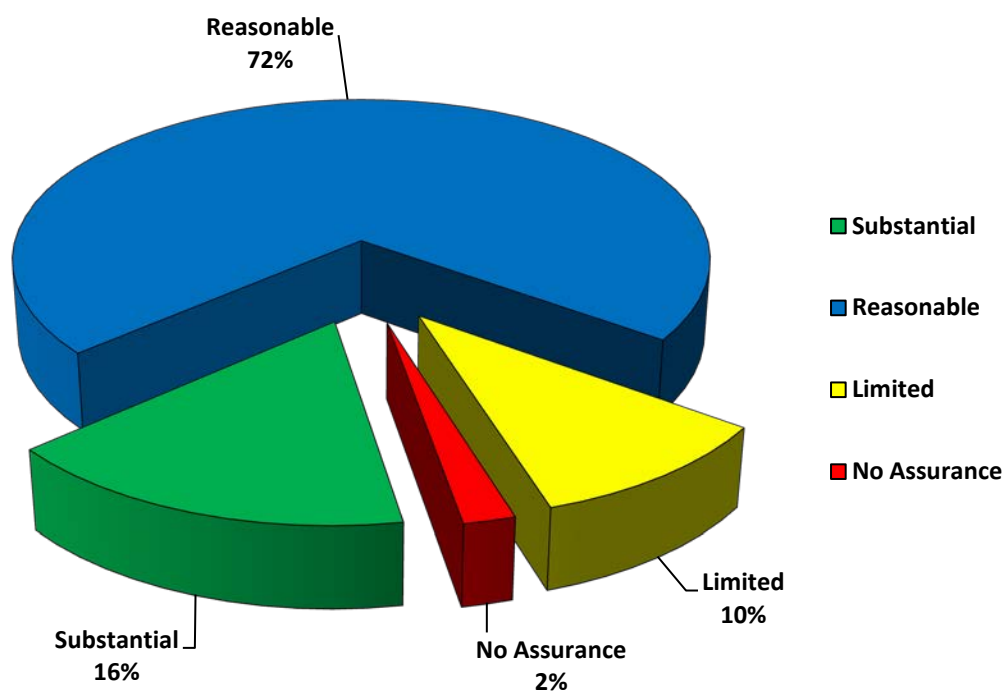
4.1.3   This chart highlights the positive news for the Council that **88%** of the areas audited in 2013/14 were assessed by IA as providing Reasonable or Substantial levels of assurance. The individual assurance audits carried out during 2013/14 are listed at Appendix A which indicates the assurance levels achieved and provides an analysis of the IA recommendations made (in accordance with the recommendation risk ratings as outlined at Appendix B). There were **315** IA assurance recommendations raised in total in 2013/14:

Risk Rating	Number of IA Recommendations	Recommendations %
HIGH	25	8%
MEDIUM	172	55%
LOW	118	37%
TOTAL	315	100%
NOTABLE PRACTICE	6	-

4.1.4   Given that a more risk based IA approach has been applied in 2013/14, it is in line with IA's expectations that **two thirds of the IA recommendations raised** are **HIGH** or **MEDIUM** risk. The breakdown of IA recommendations by risk rating (per Appendix C) is provided in the bar chart below:
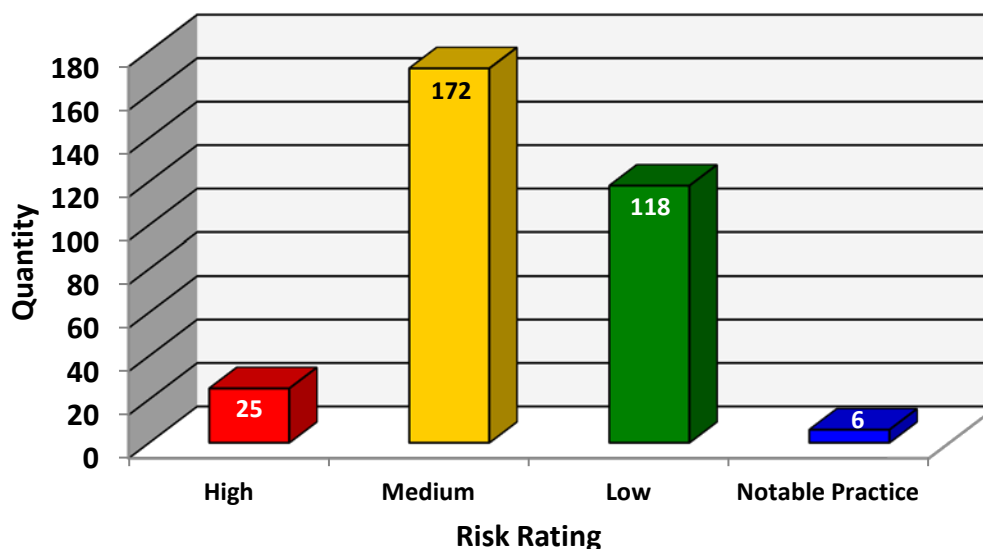
4.1.5   The bar chart at para 4.1.4 highlights that there were **only 25 HIGH** risk recommendations raised by IA in 2013/14 (79 in 2012/13). This in part reflects **an overall improvement in the Council's control environment during 2013/14**.

4.2   Internal Audit Consultancy Work 2013/14

4.2.1   During 2013/14 IA has gradually increased the amount of consultancy work that it carries out across the Council. This includes **IA staff sitting on project/ working groups**, whilst ensuring IA staff are clear about whether they are there in an assurance or advisory capacity. This type of approach is helping increase IA's knowledge of corporate developments which feeds into the risk based deployment of IA resource on assurance work. Also, participation in project/ working groups is helping individual IA staff develop, whilst at the same time increasing the value IA provides to the Council. It is also part of IA's intention to ensure that the scope of any work it carries out is closely aligned to Transformation work being carried out across the organisation.

4.2.2   Further to this, in line with the PSIAS, IA coverage this year included a range of consultancy work. IA advice included testing and certification of several grant claims including **testing of the Housing Benefits Subsidy grant claim** on behalf of External Audit (Deloitte). In addition, IA was an active member of a number corporate project groups including the Corporate Risk Management Group, Business Continuity Group, Corporate Governance Working Group (in relation to the Annual Governance Statement), Public Health Steering Group, and the Asset Management ICT Group. As part of this participation, IA aims to provide insightful, independent and informed advice in order to reduce the risk of the Council failing to achieve its objectives.

4.2.3   As detailed at Appendix A, IA also conducted **7** specific consultancy pieces of work in 2013/14. This included reviews in relation to Council garages, the Troubled Families Programme and Boiler Maintenance and Repairs.

4.3   Other Internal Audit Work 2013/14

4.3.1   Since July 2013, a significant amount of time has been spent developing and progressing the IA Quality Assurance and Improvement Programme (QAIP). The QAIP document sets out, in line with the UK PSIAS, how IA is maintaining the required quality standards and achieving continuous improvement.

5. Internal Audit Follow Up

5.1   IA continues to monitor all **HIGH** and **MEDIUM** risk recommendations raised through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. IA does not follow-up **LOW** risk recommendations as they tend to be minor risks i.e. compliance with best practice, or issues that have a minimal impact on a Service's reputation i.e. adherence to local procedures, which tend to take up a disproportionate amount of IA time to follow up.

5.2   The full definitions of the IA recommendation risk ratings are included at Appendix C. If progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, IA will implement the escalation procedure agreed with management (as set out in the updated IA Management Protocol).

5.3   Since Q3 of last year, the implementation of recommendations raised by IA has been monitored solely by one member of the IA team. Having a single point of contact has increased the effectiveness and consistency with which recommendations are followed up, whilst also enabling the rest of the IA team to focus on delivery of the IA plan. However, the introduction of e-audit software (TeamMate) for all 2014/15 IA work will replace the current manual follow up procedure, which will further streamline the process of following up IA recommendations in the future. TeamMate will also provide CMT with greater oversight of IA recommendations.

5.4   The focus of the IA work on follow-up this year has been on all the outstanding **HIGH** and **MEDIUM** risk recommendations which have reached their target date for implementation. **All IA recommendations for 2011/12 and earlier years have now been confirmed by management that control improvements are now implemented**.

5.5   As at 16 July 2014, **for 2012/13 IA assurance reviews** there are **27** IA recommendations outstanding which include:

- **6 HIGH** risk recommendations, all of which have now have agreed extended implementation dates (which are not yet due); and

- **21 MEDIUM** risk recommendations outstanding, all of which have now agreed an extended implementation date (which are not yet due).

5.6   In line with the revised 2013/14 IA Plan approved by CMT and Audit Committee, there was a total of **49** IA assurance reviews undertaken (refer to Appendix A for further details). These assurance reviews have resulted in **315** IA recommendations being raised in 2013/14 as well as **6 NOTABLE PRACTICES**.

5.7   The table below summarises the **status of IA 2013/14 recommendations** raised as at 16 July 2014:

2013/14 IA Recommendation Status as at 16 July 2014	HIGH	MEDIUM	LOW	Total	NOTABLE PRACTICE
Total No. of Recommendations Raised (per Appendix A)	25	172	118	**315**	6
No. Due for Follow-up Implementation	23	127	-	**150**	-
No. of Recommendations Implemented	23	123	-	**146**	-
No. of Recommendations Outstanding	0	4	-	**4**	-

5.8   Given that IA is taking a risk based approach at the Council, it is also a positive outcome that there were approximately **seven times as many MEDIUM risk recommendations than HIGH risk recommendations raised** in 2013/14.

5.9   Positive management action was proposed to address all **197** of the 2013/14 **HIGH** and **MEDIUM** risk IA recommendations raised. Whilst **24%** of 2013/14 **HIGH** and **MEDIUM** risk recommendations had not yet reached their target date for implementation, IA is pleased to report that **97%** of recommendations which were due for implementation have been confirmed by management as being implemented. During the year, IA has also undertaken verification testing on **HIGH** and **MEDIUM** risk recommendations to confirm and support management's assertion that recommended actions have been successfully implemented.

5.10   Of the **150** (**76%**) recommendations for 2013/14 which have reached their implementation date, only **4 (3%) MEDIUM** risk recommendations remain outstanding as at 16 July 2014. The bar chart below highlights this:
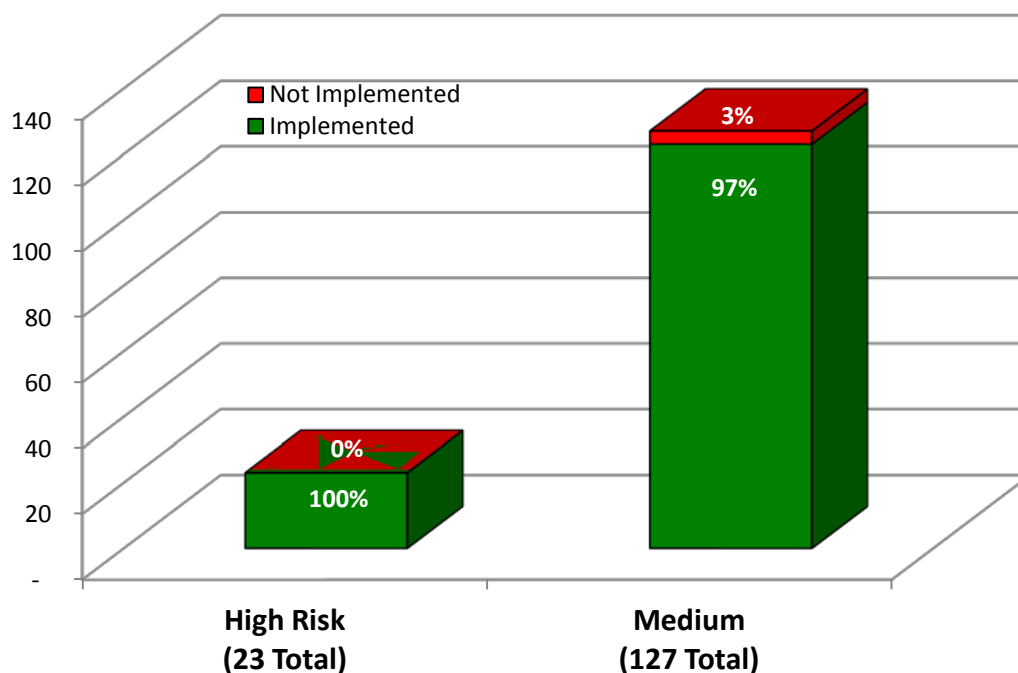
5.11   The status of outstanding IA recommendations has been discussed at CMT (on 14 May and 16 July) and good progress is being made on establishing which of these require urgent management attention and which are no longer relevant (i.e. following organisational restructure). More detailed information on any outstanding **HIGH** risk recommendations will be provided by the HIA as part of an oral update at the next Audit Committee meeting (due on 30 July 2014).

5.12   Overall and in comparison to 2012/13 (where 38% of **HIGH** risk recommendations and 22% of **MEDIUM** risk recommendations were outstanding) the results of IA's follow-up work demonstrate **a positive direction of travel** regarding the management action taken during 2013/14 in response to the IA recommendations raised. Nevertheless, there is more work for IA to do in terms of working with management to improve the timely implementation of management action to mitigate **HIGH** and **MEDIUM** risks.

6. Review of Internal Audit Performance

6.1   Delivery of Internal Audit Days

6.1.1 IA was able to complete **91%** of the revised 2013/14 IA Plan to draft report stage **by 30 April 2014**. Whilst this is significantly better than what has been achieved in previous years, it still falls some way short of the challenging targets that IA has set for itself in 2014/15 (refer to Appendix D). Clearly IA's performance needs to significantly improve to achieve the 2014/15 KPIs, but the HIA remains confident that these targets will be achieved once the improvements to the IA service become embedded.

6.1.2   After deducting a sufficient time allocation for IA planning, management review, staff training and other IA overhead time, the planned IA days for 2013/14 was 1,700. However, due to significant slippage in delivering the 2012/13 IA Plan, **the actual total days delivered on 2013/14 work was approximately 1,300 IA days**.

6.1.3   The diagram below illustrates this:
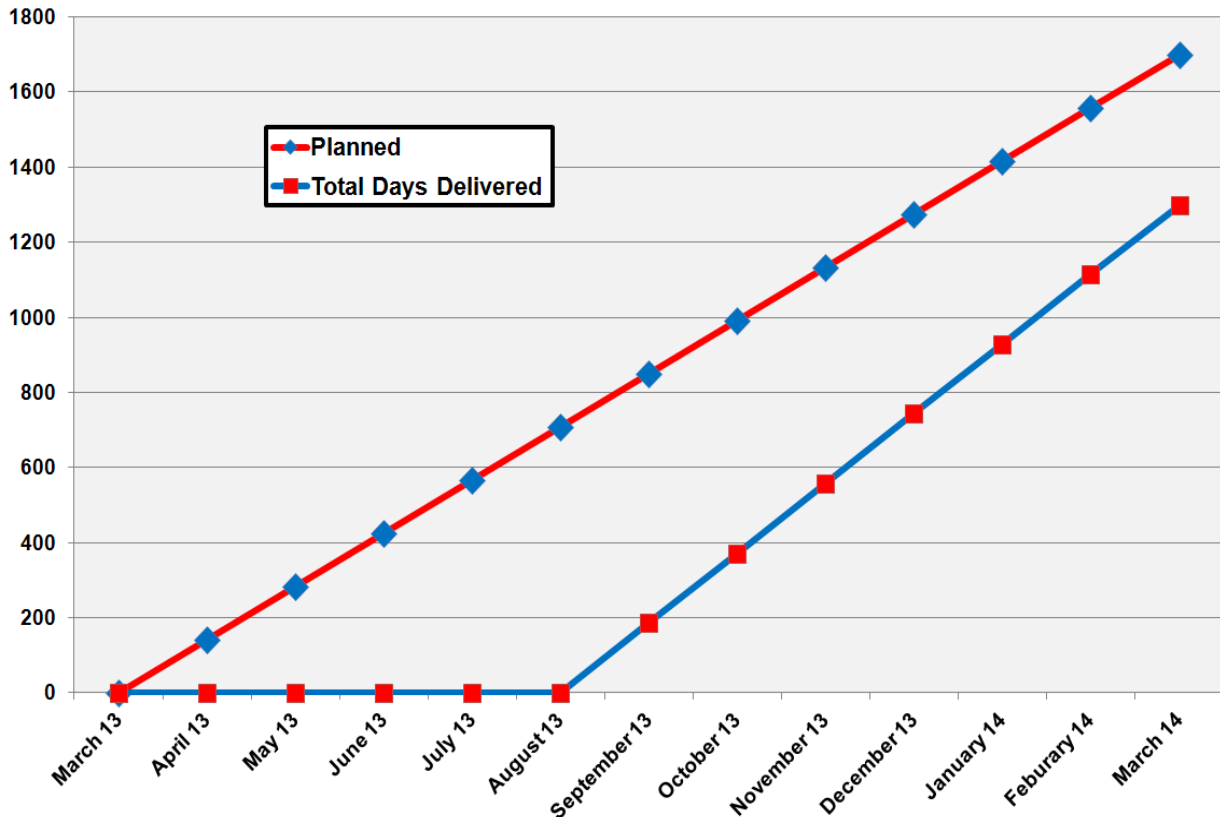
6.1.4   As previously reported to CMT and the Audit Committee, 2013/14 IA work effectively did not fully commence until August 2013 due to slippage from the previous year. Whilst this performance by the IA service could be regarded as poor, it does compare favourably with the previous two years (2012/13 audits did not fully commence until November 2012 and the first 2011/12 IA assurance audit report was not finalised until January 2012). This highlights how vital it is to the success of the IA service and Council that the IA Plan is delivered in a timely and prompt manner. It is against this backdrop that IA is pleased to report that work on the 2014/15 IA Plan commenced on 2 April 2014.

6.2   Client Feedback Questionnaires

6.2.1   As part of continuous improvement, IA introduced a new Client Feedback Questionnaire (CFQ) on 1 October 2013 which is sent out at the completion of all audit reviews to obtain formal management feedback. The **IA CFQ target** previously agreed with CMT and the Audit Committee was for IA to achieve **an overall average score of 3 or above** on each of the eight CFQ areas. As a recap on the CFQ scores:

- **4** means the clients <u>strongly agrees</u>;

- **3** is <u>agree</u>;

- **2** is <u>disagree</u>; and

- **1** is <u>strongly disagree</u>.

6.2.2   There is not an option on the CFQ for the client to indicate that they 'neither agree or disagree'. This is a deliberate decision by the HIA to enable management to form an overall opinion on the work that IA does i.e. did the audit review add value or not?

6.2.3   Inherently with any feedback mechanism such as this, there is a risk that the CFQ results can become skewed where a client is unhappy i.e. if there are large number of recommendations or a poorer assurance level than expected/ anticipated, the client may be inclined to dismiss the value of the IA work with a low CFQ score.

6.2.4   However, as can be seen from the table below, IA has exceeded its target on all eight of the CFQ areas in 2013/14. The table shows the average score from the **40 CFQs completed since 1 October 2013** (as per Appendix A):

IA CFQ Areas	Average Score
Q1. Planning: The planning arrangements for the IA review were good	3.2
Q2. Scope: The scope of the IA review was relevant	3.2
Q3. Conduct: The IA review was conducted in a highly professional manner	3.2
Q4. Timing: The IA review was carried out in a timely manner	3.1
Q5. Report: The IA report was presented in a clear, logical and organised way	3.2
Q6. Recommendations: The IA recommendations were constructive and practical	3.1
Q7. Value: The IA review added value to your service area	3.1
Q8. Overall: I look forward to working with IA in future	3.4

6.2.5   From the CFQs IA have also received a range of formal client comments on IA performance this quarter, a selection of which is highlighted below:

Harefield Junior School

- *"Firstly a thank you to the auditor, who was very professional. She also put us at ease. Only a couple of comments – it was a shame to be marked down on something which was not the fault of current school staff. I can understand why, but still sad, since we had tried our best to resolve the situation! We look forward to working with Internal Audit in the future".*

Lady Bankes Junior School

- *"The auditor was very helpful and supportive. I did not feel she was critical or judgmental, especially given the situation the school has faced for the past year. She was helpful on site as well with some suggestions and advice – very good".*

Building Control - Dangerous Structures

- *"The auditor conducted the internal audit review in a very professional and approachable manner. He took time to understand the Dangerous Structure process and asked the necessary questions when clarification was required. A pleasure to carry out the audit with."*

Creditors

- *"The audit was carried out over a short time period which really suited us as this was during a busy period for the Corporate Payments Team. The auditor was extremely polite and made some useful discoveries/recommendations."*

Staff Declarations of Interests

- *"It was a refreshing change to 'commission' work from the Internal Audit service rather than having audit thrust upon us... and I would be happy to seek this sort of support again."*

Treasury Management

- *"Only comment is in relation to planning of the audit and the communication of when access to the team and information was needed. Would have been helpful for the auditor to have gained an understanding of the key pressure times within the function and to avoid those and to have pre-arranged times to meet, rather than just turning up and expecting the team to stop what they were doing to assist."*

Staff Declarations of Interests

- *"The presentation of the report itself demonstrated a lack of understanding on the part of the auditor in terms of the different processes that exist on this subject."*

Inspections

- *"We felt that there was a lack of understanding of the area that led to some suggestions that were unrealistic given current and foreseeable resource constraints."*

Housing Benefits

- *"In this audit it took a lot of intervention from me to get the audit recommendations into a meaningful state."*

6.2.6   Whilst the HIA proactively seeks informal feedback from management on IA reviews, IA is extremely grateful to management for the formal feedback in CFQs it has received. A **100% completion rate of CFQs** since the updated CFQ template was introduced last October has exceeded the HIA's expectations and will genuinely help IA improve as a service.

7. Forward Look

7.1   There have been a number of significant changes in the IA service over the last 12 months, which CMT and the Audit Committee have been kept informed of via the IA quarterly progress reports. Some of the key developments have included implementing IA software, restructuring the IA management team, devising more meaningful IA KPIs and introducing a fully risk based approach.

7.2   As part of the new fully risk based approach, in 2014/15 IA is carrying out risk based thematic cross-cutting reviews across a number of schools at a time, rather than visiting each school on a 3 year cyclical basis. This allows IA to share the results of these reviews with all Hillingdon schools, which will help raise awareness of common risk and control issues in schools, as well as share best practice.

7.3   Looking forward to 2014/15, the IA focus will be on delivering consistently high quality value added IA reviews and work is under way on delivering the 2014/15 IA Plan. An updated IA Strategy will be presented to CMT and Audit Committee in November/ December 2014 and this will need to reflect the changing expectations of IA's key stakeholders. IA will also need to consider the skills mix that it has within the service to ensure it is right for the business needs of the Council going forward.

7.4   IA would like to take this opportunity to formally thank all those staff throughout Hillingdon Council with whom IA it had contact during the year. There has been an increased collaborative approach in IA's relationship with staff and management who have responded positively, both informally and through the formal CFQ reporting, to the comments IA has made. 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.

Muir Laurie ACCA, CMIIA
Head of Internal Audit

17 July 2014

APPENDIX A

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2013/14

Key:	
IA = Internal Audit	**NP** = Notable Practice
H High Risk	**CFQ** = Client Feedback Questionnaire
M = Medium Risk	Reasonable[1] = was Satisfactory Assurance
L = Low Risk	Substantial[2]= was Full Assurance

2013/14 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 16 July 2014	Assurance Level	Risk Rating				CFQ Received
				H	**M**	**L**	**NP**	
1463	Harefield Infant School	Final report issued 7 June 2013	Reasonable[1]	-	5	2	-	N/A
1467	Glebe Primary School	Final report issued 7 June 2013	Reasonable[1]	-	3	2	-	N/A
1464	Botwell House Primary School	Final report issued 2 July 2013	**Substantial[2]**	-	1	2	-	N/A
1465	Dr Tripletts (CE) School	Final report issued 18 July 2013	Reasonable[1]	-	6	3	-	N/A
1466	Field End Infant School	Final report issued 23 July 2013	**Substantial[2]**	-	-	2	-	N/A
1468	Grange Park Junior School	Final report issued 23 July 2013	Reasonable[1]	2	5	1	-	N/A
1471	St Andrew (CE) School	Final report issued 24 July 2013	Reasonable[1]	1	4	3	-	N/A
1470	Rabbsfarm Primary School	Final report issued 13 September 2013	Reasonable	-	5	3	-	N/A
1472	St Catherine RC Primary School	Final report issued 30 September 2013	Reasonable	-	7	5	-	N/A
1506	Treasury Management	Final report issued 10 October 2013	**Substantial**	-	-	-	-	Yes
1539	E-invoices	Final report issued 23 October 2013	Reasonable	1	3	2	-	Yes
1508	Arts Theatre Service	Final report issued 1 November 2013	Reasonable	-	3	1	-	Yes
1535	Warrender Primary School	Final report issued 13 November 2013	Reasonable	-	4	1	-	Yes
1534	Harefield Junior School	Final report issued 18 November 2013	Reasonable	2	1	1	-	Yes

APPENDIX A (cont'd)

2013/14 IA Assurance Reviews (cont'd):

IA Ref.	IA Review Area	Status as at 16 July 2014	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
1469	Highfield Primary School	Final report issued 25 November 2013	Reasonable	1	3	-	-	Yes
1533	Lady Bankes Junior School	Final report issued 27 November 2013	Reasonable	2	4	3	-	Yes
1496	Trading Standards	Final report issued 2 December 2013	**Substantial**	-	-	3	1	Yes
1537	West Drayton Primary School	Final report issued 9 December 2013	**Limited**	1	8	1	-	Yes
1536	Bishop Winnington-Ingram C of E Primary School	Final report issued 9 December 2013	**Limited**	1	6	1	-	Yes
1575	ContrOCC Security & Management Information (ICT system)	Final report issued 9 December 2013	Reasonable	-	5	3	-	Yes
1513	Childrens' Performance Licences & Chaperone Licenses	Final report issued 10 December 2013	Reasonable	1	5	2	1	Yes
1481	Recruitment Checks for Agency Staff	Final report issued 16 December 2013	Reasonable	-	1	1	-	Yes
1486	Maintenance of Bridges and Other Highway Structures	Final report issued 16 December 2013	Reasonable	-	4	1	-	Yes
1473	Building Control - Dangerous Structures	Final report issued 16 December 2013	Reasonable	1	5	2	-	Yes
1489	Access to Shared Drives	Final report issued 9 January 2014	Reasonable	-	3	1	-	Yes
1561	Employee Expenses	Final report issued 12 February 2013	Reasonable	-	1	3	-	Yes
1551	Inspection Team	Final report issued 17 February 2014	**Limited**	2	4	2	-	Yes
1582	West Drayton Primary School - Follow Up Audit	Final report issued 31 March 2014	**Substantial**	-	1	-	-	Yes
1522	Looked After Children Placed Out of Borough	Final report issued 3 April 2014	**Limited**	2	2	-	1	Yes
1542	Sheltered and Extra Care Housing	Final report issued 14 April 2014	Reasonable	-	2	1	-	Yes
1490	Events	Final report issued 17 April 2014	Reasonable	-	5	-	-	Yes
1574	Creditors	Final report issued 17 April 2014	Reasonable	-	4	2	-	Yes

APPENDIX A (cont'd)

2013/14 IA Assurance Reviews (cont'd):

IA Ref.	IA Review Area	Status as at 16 July 2014	Assurance Level	Risk Rating H	M	L	NP	CFQ Received
1555	Housing Benefits	Final report issued 23 April 2014	**Substantial**	-	-	3	1	Yes
1559	Council Tax	Final report issued 24 April 2014	**Substantial**	-	3	1	-	Yes
1585	Day Centres	Final report issued 6 May 2014	Reasonable	-	5	3	-	Yes
1507	Housing Rents	Final report issued 6 May 2014	**No**	6	5	2	-	Yes
1548	Cash Collection Services	Final report issued on 8 May 2014	Reasonable	-	4	5	-	Yes
1556	National Non-Domestic Rates	Final report issued on 12 May 2014	Reasonable	1	1	-	-	Yes
1487	Children in Care Teams 1 & 2	Final report issued on 13 May 2014	Reasonable	-	2	1	-	Yes
1558	Debtors	Final report issued on 14 May 2014	Reasonable	-	3	3	-	Yes
1573	Staff Gifts, Hospitality & Sponsorships	Final report issued on 12 May 2014	Reasonable	-	3	1	-	Yes
1512	Pensions Admin – Employees' Contributions	Final report issued on 16 May 2014	Reasonable	-	3	1	-	Yes
1587	Risk Management	Final report issued on 16 May 2014	Reasonable	-	10	10	1	Yes
1571	Capital Budget Monitoring	Final report issued on 19 June 2014	**Substantial**	-	-	1	-	Yes
1591	Effectiveness of Internal Audit	Final report issued on 24 June 2014	Reasonable	-	3	7	-	N/A
1552	Corporate Health & Safety	Final report issued on 25 June 2014	Reasonable	-	4	3	-	Yes
1588	Corporate Governance	Draft report issued on 3 July 2014	Reasonable	-	3	11	-	
1590	Effectiveness of the Audit Committee	Draft report issued on 15 July 2014	Reasonable	-	4	5	-	
1583	Anti Fraud & Anti Corruption Arrangements	Draft report issued on 16 July 2014	**Limited**	1	9	7	1	
	Total number of IA Assurance Recommendations raised in 2013/14			25	172	118	6	
	Total percentage of IA Assurance Recommendations raised in 2013/14			8%	55%	37%	-	

APPENDIX A (cont'd)

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2013/14 (cont'd)

2013/14 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 16 July 2014	CFQ Received?
1476	Council Garages	Final report issued 29 August 2013	N/A
1520	Troubled Families Programme	Final report issued 6 December 2013	Yes
1550	Boiler Maintenance and Replacement	Final report issued 31 December 2013	Yes
1568	Establishment Funds and Invoicing	Final report issued 16 January 2014	Yes
1560	Staff Declarations of Interests	Final report issued 28 January 2014	Yes
1578	Troubled Families Programme Grant Claim	Grant claim certified 28 January 2014	Yes
1577	Annual Summary of Schools Coverage	Final report issued 11 April 2014	N/A

APPENDIX B

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 C

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 D

INTERNAL AUDIT KEY PERFORMANCE INDICATORS 2014/15

KPI Ref.	Performance Measure	Target Performance
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	**LOW** risk IA recommendations where positive management action is proposed	**90%**
KPI 4	**HIGH** risk IA recommendations where management action is taken within agreed timescale	**90%**
KPI 5	**MEDIUM** risk IA recommendations where management action is taken within agreed timescale	**75%**
KPI 6	Percentage of IA Plan delivered to **draft report** stage by 31 March	**90%**
KPI 7	Percentage of IA Plan delivered to **final report** stage by 31 March	**80%**
KPI 8	Percentage of draft reports issued as a final report within 15 working days	**90%**
KPI 9	Client Satisfaction Rating	**80%**
KPI 10	IA work fully compliant with the UK **PSIAS** and **IIA Code of Ethics**	**100%**

Key:
PSIAS = Public Sector Internal Audit Standards
IIA = Chartered Institute of Internal Auditors (UK)

The **previous (2013/14) IA KPIs** were:

- KPI1 - Deliver **90%** of the agreed IA Plan to final report stage by 31 March 2014;

- KPI 2 - Deliver **95%** of the agreed IA Plan to draft report stage by 31 March 2014; and

- KPI3 - Deliver **95%** of completed audits within the agreed time allocation.