

INTERNAL AUDIT

Annual Internal Audit Report & Opinion Statement 2014/15

24th June 2015



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 (Amendments) (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 fully embraces the risk based approach which means IA 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 do not just comment on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.
- 1.1.3 The UK Public Sector IA Standards (PSIAS), which came into force on the 1st April 2013, promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement (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 all of the 2014/15 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 2014/15 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 significant reduction in IA capacity during the year, the HIA is pleased to report that **the revised 2014/15 IA plan was 96% complete to draft report stage by 31st March and 100% complete by 29th May 2015**. This is an excellent achievement for IA and the Council in comparison to previous years and highlights the continued positive direction of travel for the IA service.
- 2.2 Delivery of the IA plan for 2014/15 has been achieved in such a comparatively timely manner by **implementing a number of new initiatives**. These have included continuing to embed 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. This has included the implementation of IA software (TeamMate) which has improved the efficiency of the IA service. The HIA believes a key factor in IA's relative success this year 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 IA performance can be found at para 6.1 of this report.

- 2.3 From the 2014/15 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 31st March 2015 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 In total **73** pieces of IA work have been delivered as part of the 2014/15 IA plan. This included **7** grant claim audits, **27** consultancy reviews, **5** follow-up reviews and **34** assurance reviews. Less than a quarter of the 34 assurance reviews resulted in a **LIMITED** (12%) or **NO** (12%) assurance IA opinion. All 2014/15 **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 **eight** audits highlighted at para 2.5 below. Further analysis of the IA assurance levels issued in 2014/15 along with an analysis of the risk recommendations raised can be found at section 4 of this report.

- 2.5 The key findings from these **eight IA assurance reviews** were as follows:

(i) Chantry School – NO Assurance

- As detailed at **Appendix A**, we issued the final report for this audit on 3rd September 2014 and raised **26** recommendations including **15 HIGH** risk recommendations. As part of this review we found major control weaknesses surrounding the School's governance arrangements, financial management processes, personnel procedures (including recruitment) and ICT arrangements (including data security). However, CMT and the School's IEB responded positively to the IA findings and the vast majority of the improvement action required was promptly implemented. In fact, the IEB made great strides in improving the School's governance arrangements in a relative short period of time.
- An IA follow-up review of Chantry School was completed in quarter 3 which verified that **12 HIGH** and **7 MEDIUM** risk recommendations had been implemented. As part of this follow-up review we found that **3 HIGH** risk recommendations remained outstanding, with each evidencing partial implementation. Following our follow-up verification work the assurance level was revised from **NO** to **REASONABLE** assurance in response to the positive management action taken to address the risks identified.

(ii) Corporate Construction, Housing Repairs & Planned Maintenance - NO Assurance

- As detailed at **Appendix A**, there were 3 significant deferrals in the Residents Services Group within 2014/15 relating to Corporate Construction, Housing - Planned Maintenance and Housing Repairs. These areas were assessed as **HIGH** risk and were included in the 2014/15 IA Plan approved by CMT and the Audit Committee in March 2014. Their inclusion was following the risk based IA planning process in 2013/14 where management highlighted to IA that they were aware of serious failings in how the operations of the Housing repairs, maintenance and Construction services were functioning. Options were therefore prepared by management for major changes to the operating model, structure and processes for these services.
- Unfortunately, because of their radical nature, these changes took longer to agree than expected. As a result, the change process, which included consultation with a significant number of potentially affected staff, only commenced in quarter four. Therefore IA reluctantly accepted that the planned assurance work in these areas had to be delayed until later in 2015/16, once the changes are fully embedded. As a result, IA issued a **NO** assurance opinion to CMT and the Audit Committee on these 3 areas. The restructure consultation period has now finished and management are in the process of implementing the new processes. IA has recently begun work with management on a consultancy basis to provide advice and support in relation to the design and implementation of the new processes and procedures in these 3 areas.

(iii) Planning Applications Community Infrastructure Levy (CIL) – LIMITED Assurance

- As detailed at **Appendix A**, we issued the final report for this audit on 18th September 2014 and raised **9** recommendations including **1 HIGH** risk recommendation. As part of this review we undertook a data matching exercise comparing Commencement Notices received by Building Control (from August 2012) to all outstanding CIL leviable developments, as per Ocella (at the time of testing). The data match identified instances in which the development has commenced and the Council had not issued a subsequent Demand Notice and invoice for payment. As a result, the Council was failing in its obligation as a charging and collecting authority for the Mayoral Scheme under the CIL (Amendment) Regulations 2013. The authority is able to retain 5% of Mayoral CIL payments collected as an administrative fee. Positive management action was proposed to address the IA findings with detailed improvement action recorded. These recommendations will be followed up in due course. It is also important to note that client feedback received by IA in relation to this review was very positive with a 97% client satisfaction rating received; clearly supporting the value provided through this piece of work.

(iv) Schools Governance Arrangements – LIMITED Assurance

- Using a risk-based approach for sample selection, **7 schools** were chosen for testing as part of this thematic review. As detailed at **Appendix A**, IA raised **41 recommendations**, across the 7 schools visited as part of this audit, including **7 HIGH** risk recommendation, **21 MEDIUM** risk recommendations, **13 LOW** risk recommendations and **14 NOTABLE PRACTICE**.
- Specifically, IA identified that **6 out of the 7** schools in our sample were not complying with the requirements of the School Information (England) (Amendment) Regulations 2012, requiring Schools to publish specific information online. In addition, 4 out of the 7 schools did not have all statutory policies required by the Department for Education (DfE) in place.

(v) High Level Mileage Users – LIMITED Assurance

- As detailed at **Appendix A**, IA raised **2 MEDIUM** and **2 LOW** risk recommendations as part of this audit. IA found that whilst adequate arrangements are in place to ensure that the high level mileage aspect of the Payment of Car Allowances policy is complied with, further, requirements of management and staff are clearly documented within the Council's Conditions of Service Handbook. However, we established that these two documents contain different definitions in relation to the number of miles travelled on a weekly basis to be considered a "high mileage user".
- Specifically, we established that there is a lack of knowledge and understanding of these documents in relation to complying with the requirements for high level mileage users. This is supported by analysis of ResourceLink HR system data which identified that 10 of the 20 employees sampled were incorrectly in receipt of the high level lump sum payment, nine of which received the lump sum payment for two consecutive years. As a result, a relatively significant value of incorrect lump sum payments has been made to ineligible employees over the past two years.

(vi) Data Protection – LIMITED Assurance

- As detailed at **Appendix A**, IA raised **10 recommendations** as part of this audit including **1 HIGH** risk recommendation, **3 MEDIUM** risk recommendations, and **6 LOW** risk recommendations. Our audit highlighted that considerable improvements have been made to the Council's Data Protection (DP) arrangements in the last few years. Nevertheless, the results of our ethical probity testing highlighted that whilst regular communications to staff to promote and raise awareness and understanding of DP does occur, we have concluded that the Council's approach to DP is not yet fully established or consistently embedded across the organisation. In particular, the testing we carried out during the working day and outside of core office hours across the Civic Centre identified a significant number of potential internal breaches of data security i.e. confidential papers being left unsecured during the working day and/or overnight.

- As a result, our opinion is there is a considerable threat of the Council failing to achieve its statutory obligations in relation to DP. However, positive management action has been proposed to each of the 4 recommendations raised which will be followed up in due course.
- 2.6 Focussing dedicated IA resource to the process of **following-up recommendations** raised by IA that are due to have been implemented, has helped achieve a much improved outcome for the Council during the 2014/15 year. Specifically, as at 5th June 2015, **100%** (50) of the **HIGH** risk IA recommendations raised in 2013/14 and 2014/15 due to have been implemented; have been **confirmed by management as now in place**.
- 2.7 In addition, as at 24th June 2015, **98%** (214 out of 219) of the **MEDIUM** risk IA recommendations raised in 2013/14 and 2014/15 due to have been implemented, have been **confirmed by management as now in place**. Whilst there remains some further scope for improvement in this area, overall, these results compare extremely favourably when compared to previous years at Hillingdon and to other similar type and sized organisations. Further details of the work done on the follow-up of previous IA recommendations can be found at section 5 of this report.

3. Head of Internal Audit Opinion Statement 2014/15

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 2014/15 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 is 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 2014/15, as well as a small number of other assurance providers. Where the work of the Corporate Fraud Investigations Team (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 2014/15 was developed primarily to 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 2014/15 IA reviews have been conducted in accordance with the UK PSIAS. A self-assessment assurance review of the IA service conducted in May 2015 confirmed that Hillingdon's IA service has overall met the requirements of the UK PSIAS in 2014/15.
- 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 has been strengthened during the year and has been supported by an external contractor. As a result, the 2014/15 IA resources fulfilled the UK PSIAS requirements in terms of the combination of professionally qualified and suitably experienced staff.

3.6 Qualifications to the Opinion

- 3.6.1 During 2014/15 the Council's IA service:
- had **unrestricted access to all areas and systems** across the authority;
 - received **appropriate co-operation from officers and members**;
 - 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 2014/15.**

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 CFIT;
 - 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 April to June 2015);
 - 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.

3.8.2 **There were relatively few significant control weaknesses identified by IA during 2014/15.** Work is ongoing to strengthen the Council's control environment in relation to the significant control weaknesses identified. These included (but are not limited to):

1. The audit of the Protocol Integrated Adults' System (IAS) data quality highlighted a service user who had a **duplicate home care plan**. Upon further enquiry, a report from ICT identified an additional 91 cases of duplicate home care plans. These duplications are occurring **as a result of amendments to a service user's home care plan**, whereby a new home care plan is set up reflecting the changes, and the old care plan is not subsequently closed down by the responsible officer.

Samples of duplicate home care plans were checked on ContrOCC and we were able to identify a number of duplicate payments. This sample testing was selected from a report of current active service users who have duplicate home care plans, however, historically there could potentially be many such cases and we would urge management to investigate and examine the full extent of this issue.

2. Our assurance and consultancy coverage this year has identified a few examples of **contract management weaknesses in relation to major contracts** that the Council has. This includes inconsistent compliance with contract standing orders, weaknesses in relation to financial reporting and in some cases a lack of monitoring and senior management oversight in relation to some major contract spend. However, the results of our more recent testing clearly indicate that the Council's commissioning and category management business model is helping strengthen its contract management arrangements. We plan to undertake an audit of contract management within 2015/16 to further assist the Council in this area.
3. During 2014/15 IA and management have identified **a number of instances of non adherence to Council policies**. We believe this is partly due a large number of the Council's policies being compliance based and of a very detailed and prescriptive nature. However, it is also partly as a result of some of the Council's policies not being kept up to date with the dynamic level of organisational change that the Council is going through. IA plan to help inform the process of updating these policies during 2015/16.
4. The majority of schools in Hillingdon are high performing and have strong governance arrangements. However the results of IA work in 2014/15 and IA's cumulative audit knowledge indicate that **there are a significant number of Hillingdon schools with weaknesses in their governance arrangements**. The risk-based approach to IA assurance reviews of Hillingdon schools providing cross-cutting audits of themed areas a risk-based selection of schools provides greater 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 (at that time) that the Council was 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'**.

We have recently reviewed the Council's progress against the Ofsted Improvement Action Plan. Overall we have provided a **SUBSTANTIAL** assurance opinion and concluded that **the Council is making good progress with the required improvements**. However, the IA review also highlighted that a historical management decision had been taken to transfer the legal requirement for all Looked After Children to undertake a Personal Education Plan (PEP) to the Virtual School. This resulted in significant slippage in PEPs being completed as well as creating issues regarding the lack of effective monitoring of PEPs due to insufficient staff capacity to complete this work. Nevertheless, work is ongoing to take this issue forward.

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 2015/16 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 fraud continues to be robust** which has achieved positive results for the Council and its residents. At the same time, the CFIT's good work has helped develop a strong anti-fraud culture in the Council.

3.10 Risk Management

3.10.1 Risk Management (RM) is the process by which risks are identified and evaluated so that appropriate risk treatment measures can be applied to reduce the likelihood and impact of risks materialising. In the event a risk materialises, this could inhibit the Council to achieve its objectives and fulfil its strategic priorities.

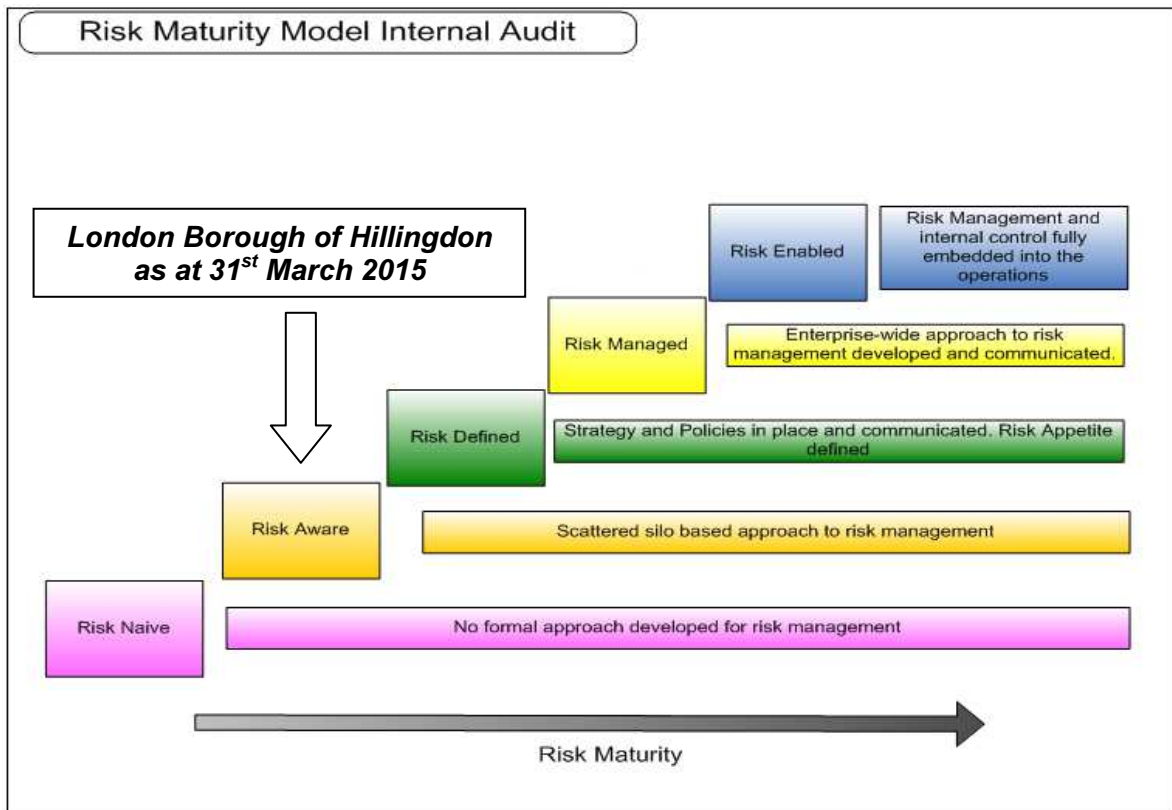
3.10.2 The IA opinion on the effectiveness of the Council's RM arrangements is based on **the Chartered Institute of Internal Auditors' Risk Maturity Model**. IA has identified that there is good RM practice in some areas of the Council's operations but that there are areas where the understanding of 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 has remained a scattered silo based approach.

3.10.2 The RM policy and guidance was updated and approved in July 2014. Our 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 a sufficient manner. IA also noted that strategic risks are monitored and reviewed by CMT as well as the Audit Committee on a quarterly basis. 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, our follow-up review of RM in 2014/15 concluded that the Council needs to further improve the process for identifying and recording risks at an operational level. In particular, IA's judgement in this area is that risks below Group level are not being treated consistently across the organisation. Further, service risk registers, whilst encouraged, are not in place for the majority of services across the Council. We have therefore concluded that the approach to managing operational risks still requires significant work if the Council is to achieve its objective of a **Risk Defined** maturity level. Also, IA noted that whilst the Council's risk appetite has been defined, it is our opinion that it is currently too vague and unclear to be able to drive forward the RM practices and processes. As a result, the IA assessment of **the Council's Risk Management maturity is that the Council was RISK AWARE** as at 31st March 2015.

CHARTERED INSTITUTE OF INTERNAL AUDITORS' RISK MATURITY MODEL



3.11 Corporate Governance

3.11.1 The 2014/15 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 |
|--|---|
| <p>1. Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.</p> | <p>SUBSTANTIAL Assurance - The Council's vision and strategic priorities are clearly communicated and understood by officers. The Council's vision <i>'putting our residents first'</i> 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.</p> |
| <p>2. Good governance means performing effectively in clearly defined functions and roles.</p> | <p>REASONABLE Assurance - The Council's Constitution comprehensively sets out how the Council is governed. However, it contains some 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 roles and responsibilities for the HIP Steering Group and CMT have strengthened during the year. As a result, it is IA's opinion, that the Council's organisational structure is fit for purpose to deliver the Council's vision and priorities. Nevertheless, there is scope to further improve understanding of governance across the Council and to provide additional clarity relating to roles and responsibilities.</p> |

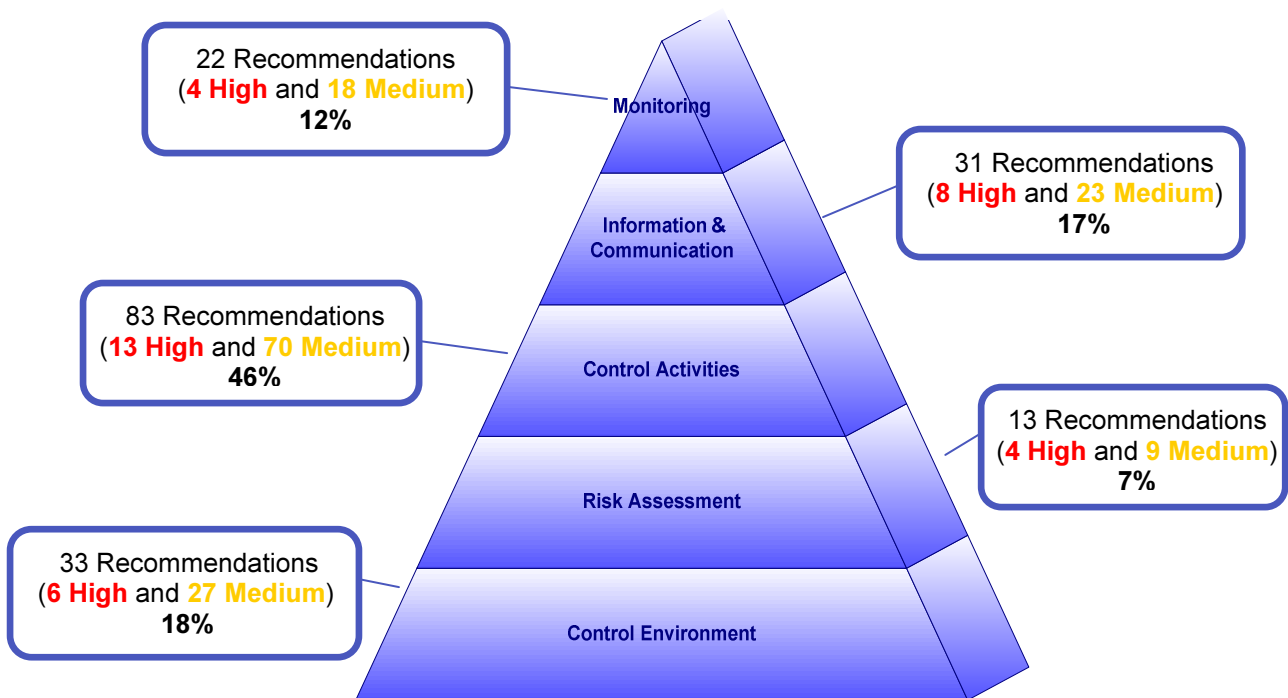
| Langland's Governance Principles | IA Assessment of Hillingdon |
|---|--|
| 3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour. | REASONABLE Assurance - The Council has a Code of Conduct in place for both officers and Members to ensure values and behaviours are upheld consistently across the Council. Member and officer relations were found to be good with no significant concerns. Anti-Fraud and Anti-Corruption policies (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 Cabinet operates as an effective Member decision making body which is known by officers for making swift decisions. IA confirmed that a Cabinet Scheme of Delegations (SD) was in place and Group SDs are in place. However, since the structural reorganisation, SDs for Residents Services, Children and Young People's Services & Adult Social Care Services have not yet been finalised. This presents a potential risk that accountability for decisions may be unclear. 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 further improving understanding across the organisation of what governance is and what it means. |
| 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 minimal change to the Cabinet Members/ roles this year. There are induction, training and development arrangements in place to help 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 positive about the role and clear direction that the Cabinet provides. There is scope to improve the take up of Member training and development sessions. |
| 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. Recommendations proposed by Policy Overview Committees are generally 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. A staff survey has been conducted. However, IA identified there is further 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**. Our 2014/15 IA review of this area again 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 exceptionally good**. This demonstrates that the overall direction and control is a good fit for the organisation at this time. It is clear that the Council put their residents at the forefront of all activity that it engages in, maintaining a high resident satisfaction rating.

3.11.3 The Council exemplifies strong financial management and control that is illustrated by the relatively healthy reserves balances. The centralisation of the 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 8th consecutive year (for the over 65s, it has been frozen for 10 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 received 28 Green Flag Awards (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

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 components of the framework have a relative proportionate share of recommendations. As noted at para 3.10, there are some weaknesses within risk management processes, so although there were only a few IA recommendations raised in 2014/15 that related to the risk assessment component of the COSO framework, it should not be inferred that risk assessment is completely 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 2014/15, 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 31st March 2015 accords with proper practice**, except for the significant internal control issues referred to in para 3.8.

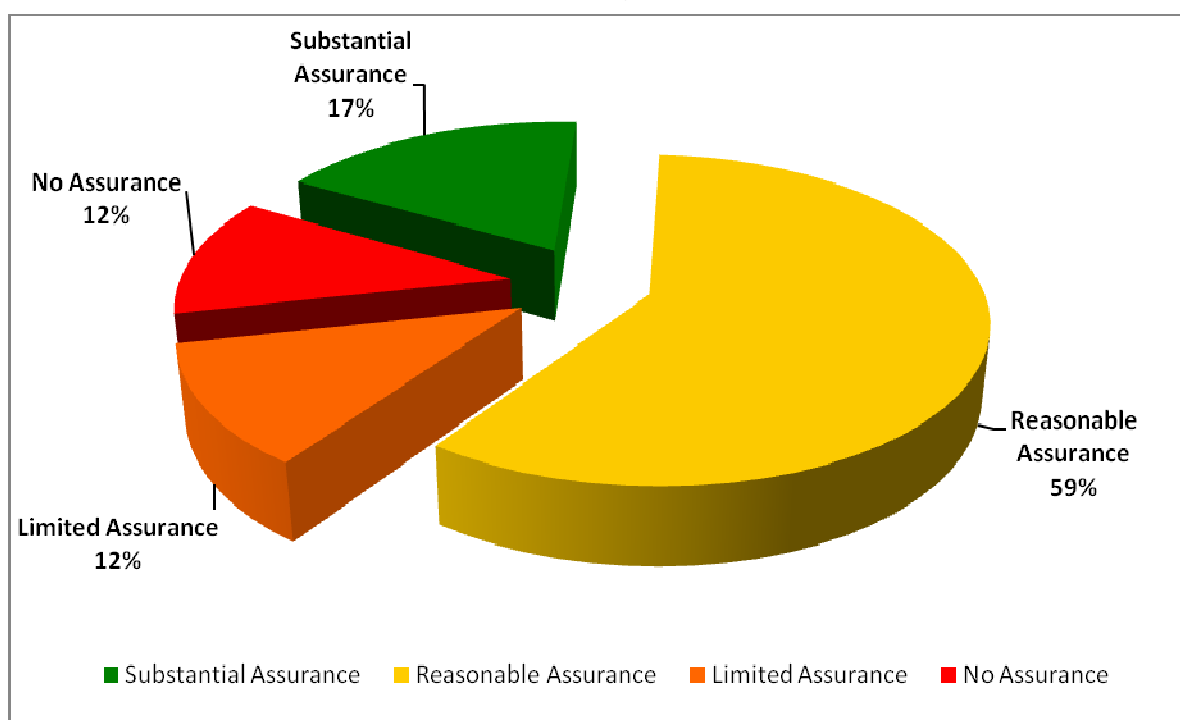
4. Analysis of Internal Audit Activity 2014/15

4.1 Internal Audit Assurance Work 2014/15

4.1.1 The 2014/15 IA assurance work is 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 2014/15 IA Assurance Reports | Percentage Split | Percentage Change from 2013/14 |
|--------------------|--|------------------|--------------------------------|
| SUBSTANTIAL | 6 | 17% | +2% |
| REASONABLE | 20 | 59% | -13% |
| LIMITED | 4 | 12% | +2% |
| NO | 4 | 12% | +10% |
| TOTAL | 34 | 100% | - |

4.1.2 The pie chart below depicts the levels of assurances achieved based on a percentage of the total 2014/15 assurance audits completed by IA:

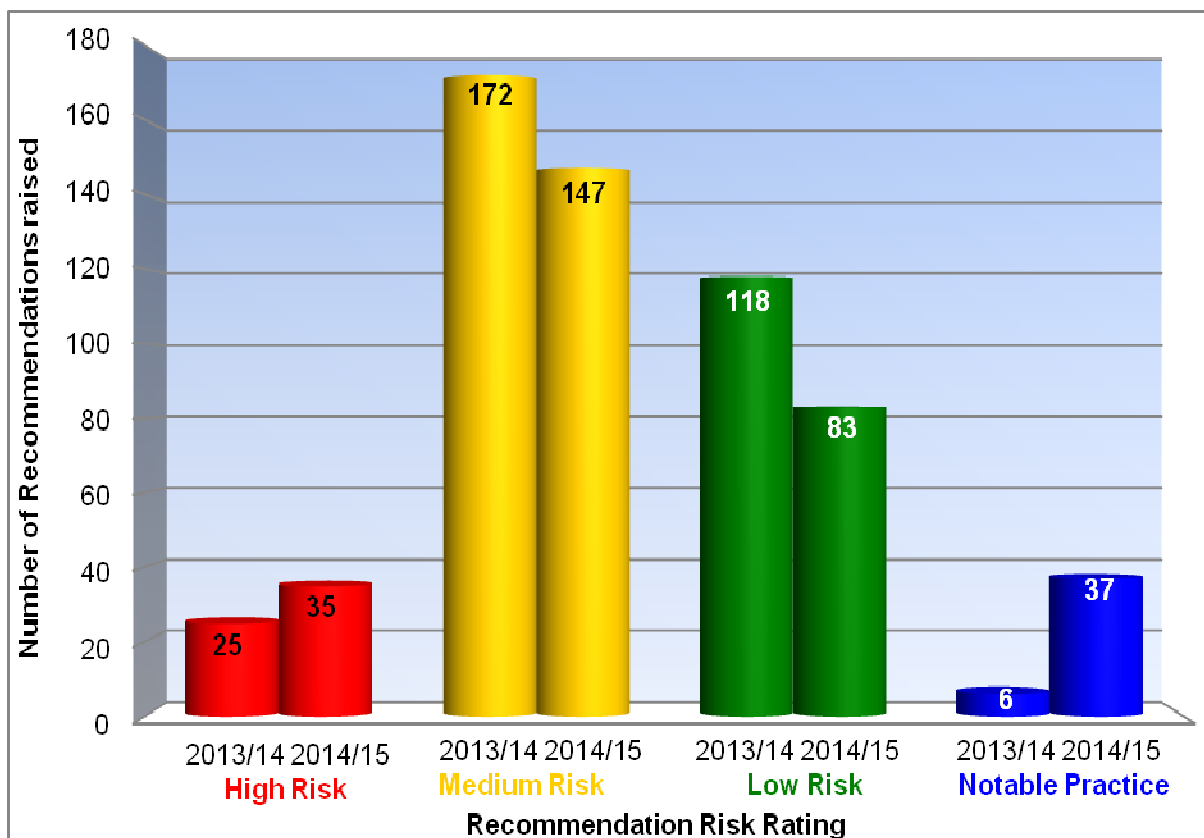


4.1.3 This chart highlights the positive news for the Council that **76%** of the areas audited in 2014/15 were assessed by IA as providing **SUBSTANTIAL** or **REASONABLE** levels of assurance. This represents a 13% reduction when compared with the results from 2013/14. However, this reduction is in line with IA's expectations given the risk based focus of IA coverage and the increased alignment of IA work to the key risks facing the Council. The individual assurance reviews carried out during 2014/15 are fully listed at **Appendix A** which indicates the assurance levels achieved (as outlined at **Appendix B**) and provides an analysis of the IA recommendations made (in accordance with the risk ratings as outlined at **Appendix C**).

4.1.4 There were **279** IA assurance recommendations raised in total in 2014/15:

| Risk Rating | Number of 2014/15 IA Recommendations | Percentage Split | Percentage Change from 2013/14 |
|-------------------------|--------------------------------------|------------------|--------------------------------|
| HIGH | 35 | 13% | +5% |
| MEDIUM | 147 | 56% | +1% |
| LOW | 83 | 31% | -6% |
| TOTAL | 265 | 100% | - |
| NOTABLE PRACTICE | 37 | - | - |

4.1.5 Given that a more risk based IA approach has been applied in 2014/15, it is in line with IA's expectations that **more than two thirds of the IA recommendations raised** are **HIGH** or **MEDIUM** risk. The breakdown of all 2014/15 IA recommendations by risk rating (as outlined at **Appendix C**), including a comparison with 2013/14 IA recommendations, is provided in the bar chart below:



4.1.6 The bar chart above highlights that there were **35 HIGH** risk recommendations raised by IA in 2014/15 (compared with **25** in 2013/14 and **79** in 2012/13). We therefore believe that in light of the above, and given the risk based approach to IA work, these results are positive and reflect **an overall improvement in the Council's control environment during 2014/15**.

4.2 Internal Audit Consultancy Work 2014/15

- 4.2.1 During 2014/15 there has been a significant increase in the volume of consultancy work, advice and guidance that IA has been asked to provide across the Council. This, in addition to the enhanced role that IA now has in helping Council services improve, is a sign of the achievement of the collaborative approach that IA strives to deliver to help services to succeed. In addition to the traditional consultancy reviews, 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.
- 4.2.2 Further to this, in line with the UK PSIAS, IA coverage this year included a range of consultancy work. This included testing/ certification of several grant claims including **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, Annual Governance Statement Group, Corporate Health & Safety Forum, and the Oracle Programme Board. 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 **12** specific consultancy pieces of work in 2014/15 in addition to formally providing consultancy advice and/or guidance on a further **15** topics. The consultancy work included reviews and/or support in relation to Primary Care Contracts, Facilities Management Invoice queries, Standby Payments and the Corporate Asset Register.

4.3 Quality Assurance and Improvement Programme 2014/15

- 4.3.1 In accordance with the UK PSIAS Attribute Standard 1300 and the IA Charter, a Quality Assurance and Improvement Programme (QAIP) has been developed by IA. This covers all aspects of IA Activity (IAA) and is designed to enable an evaluation of the IAA's conformance with the UK PSIAS and an evaluation of whether internal auditors apply the *Code of Ethics*. The QAIP also helps enable the ongoing performance monitoring of IA activity and sets out how IA is maintaining the required quality standards and achieving continuous improvement.
- 4.3.2 A significant amount of time has been spent developing and progressing the IA QAIP during 2014/15. As part of the recent IA Strategy Day the IA team reflected on the challenges ahead in 2015/16 and used this day as an opportunity to help generate ideas on how IA can further improve to help services continue to succeed. These improvement ideas have been captured in the QAIP and along with the recommendations arising from the recent annual effectiveness of IA review will be taken forward in 2015/16.

5. Internal Audit Follow Up 2014/15

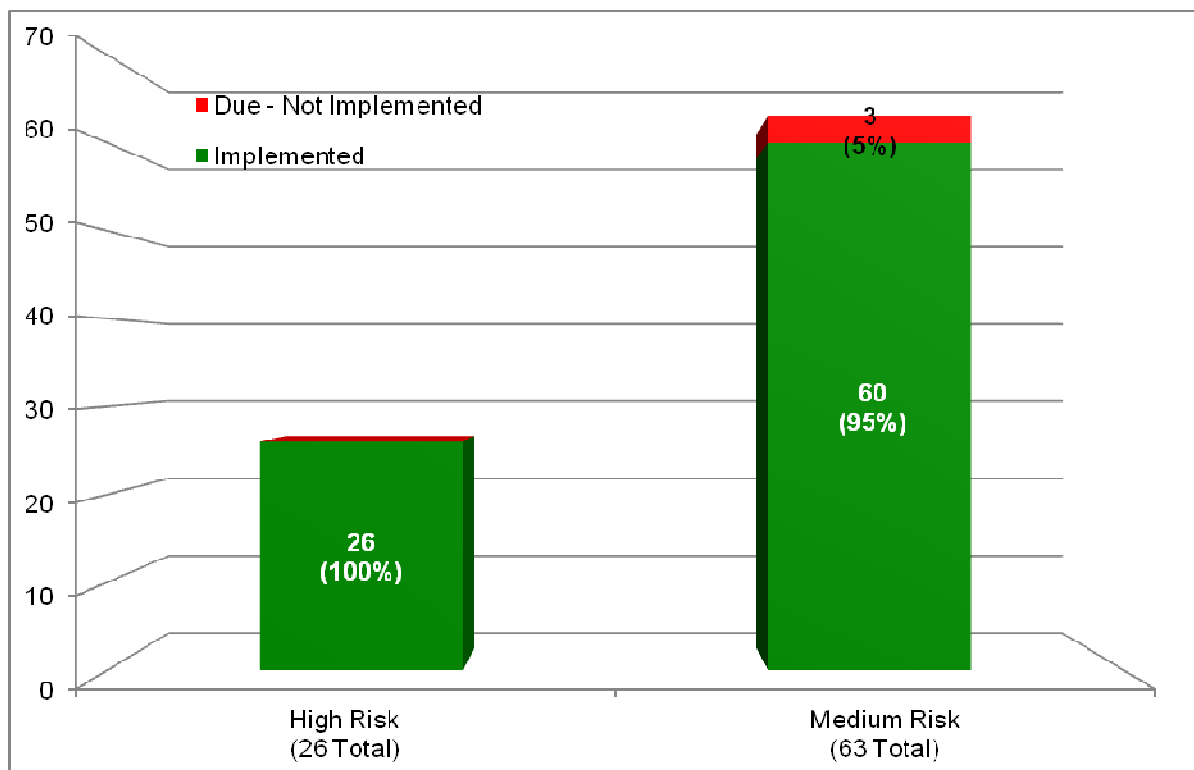
- 5.1 IA monitors all **HIGH** and **MEDIUM** risk recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. IA does not follow-up **LOW** risk IA recommendations as they tend to be minor 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.
- 5.2 It would also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations. The full definitions of the IA recommendation risk ratings are included at **Appendix C**.

- 5.3 The implementation of recommendations raised by IA continues to be monitored solely by one member of the IA team as TeamCentral (a module of the IA software TeamMate), becomes fully embedded across the Council. Having this single point of contact for this area of work allows the rest of the IA team to focus on delivery of the IA plan and will further streamline the process of following up IA recommendations in the future. TeamCentral will provide CMT and other senior managers with greater oversight and ownership of IA recommendations and the underlying risks.
- 5.4 The focus of the IA work on follow-up this year has been on **all** the outstanding **HIGH** and **MEDIUM** risk IA recommendations which have reached their target date for implementation. All **HIGH** and **MEDIUM** risk IA recommendations for 2012/13 and earlier years have now been confirmed by management that control improvements are now implemented. As at 24th June 2015, for 2013/14 IA assurance reviews there are **15 MEDIUM** risk IA recommendations outstanding, the vast majority of which have agreed an extended implementation date. There are **2 MEDIUM** risk IA recommendations outstanding in relation to 2013/14 which we are actively chasing. We will report the updated status of all these recommendations as part of the Quarter 2 IA Progress Report in September 2015.
- 5.5 IA will support and advise managers in formulating a response to the risks identified. As an organisational improvement function, IA will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways; Treat, Terminate, Tolerate, Transfer - **the 4 T's**. The full definitions of the response to risk are included at **Appendix C**.
- 5.6 The **34** IA assurance reviews have resulted in **265** IA recommendations being raised in **2014/15** as well as **37 NOTABLE PRACTICES** (refer to **Appendix A** for further details). Given that we apply a risk based IA approach to our coverage, it is a positive outcome that there were approximately **four times as many MEDIUM risk recommendations than HIGH risk recommendations raised** in 2014/15. The table below summarises the **status of IA 2014/15 recommendations** raised as at the 24th June 2015:

| 2014/15 IA Recommendation Status as at 24 th June 2015 | HIGH | MEDIUM | LOW | Total | NOTABLE PRACTICE |
|---|----------|----------|-----|------------|------------------|
| Total No. of Recommendations Raised (per Appendix A) | 35 | 147 | 83 | 265 | 37 |
| Total No. of Recommendations Risks Tolerated by Management | - | 3 | - | 3 | - |
| No. Not Yet Due for Implementation | 9 | 81 | - | 90 | - |
| No. Due for Follow-up Implementation | 26 | 63 | - | 89 | - |
| No. of Recommendations Implemented | 26 | 60 | - | 86 | - |
| No. of Recommendations Outstanding | 0 | 3 | - | 3 | - |

- 5.7 Positive management action was proposed to address **179** of the **182** 2014/15 **HIGH** and **MEDIUM** risk recommendations raised. In the three remaining cases, each relating to a **MEDIUM** risk recommendation, management have chosen to tolerate the risk (refer to **Appendix C** for risk treatment definitions). Each of these three instances was deemed acceptable by IA given that management remain accountable for the treatment and management of their risks.
- 5.8 Whilst **50%** of the 2014/15 **HIGH** and **MEDIUM** risk IA recommendations have not yet reached their target date for implementation, IA is pleased to report that **97%** of **HIGH** and **MEDIUM** risk recommendations which were due for implementation have been confirmed by management as being implemented.

- 5.9 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. Of the **89 (50%)** recommendations for 2014/15 which have reached their implementation date, only **3 MEDIUM** risk recommendations remain outstanding as at 24th June 2015. The bar chart below illustrates this:



- 5.10 The status of outstanding IA recommendations was discussed at CMT on 10th June 2015 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** and **MEDIUM** risk recommendations will be provided by the HIA as part of an oral update at the next Audit Committee meeting (due on 2nd July 2015).
- 5.11 Overall, in comparison to 2013/14 (where **0%** of **HIGH** risk recommendations and **3%** of **MEDIUM** risk recommendations were outstanding) the results of IA's follow-up work demonstrate that some additional action is required by management to ensure the effective and efficient implementation of **MEDIUM** risk IA recommendations to ensure enhancements to the control environment are achieved. There is also more work for IA to do in terms of ensuring that TeamCentral is fully embedded and operating effectively. IA will continue to work with management to improve the timely implementation of management action to mitigate **HIGH** and **MEDIUM** risks.

6. Review of Internal Audit Performance 2014/15

6.1 Key Performance Indicators

- 6.1.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. KPIs for 2015/16 have slightly been revised and are included at [Appendix D](#).
- 6.1.2 Actual cumulative IA performance for 2014/15 against its KPIs is highlighted in the table overleaf:

| IA KPI | Description | Target Performance | Actual Performance | RAG Status |
|--------|--|--------------------|--------------------|--------------|
| KPI 1 | HIGH risk IA recommendations where positive management action is proposed | 98% | 100% | GREEN |
| KPI 2 | MEDIUM risk IA recommendations where positive management action is proposed | 95% | 98% | GREEN |
| KPI 3 | LOW risk IA recommendations where positive management action is proposed | KPI Retired | | |
| KPI 4 | HIGH risk IA recommendations where management action is taken within agreed timescale | 90% | 100% | GREEN |
| KPI 5 | MEDIUM risk IA recommendations where management action is taken within agreed timescale | 75% | 95% | GREEN |
| KPI 6 | Percentage of IA Plan delivered to draft report stage by 31 March | 90% | 96% | GREEN |
| KPI 7 | Percentage of IA Plan delivered to final report stage by 31 March | 80% | 84% | GREEN |
| KPI 8 | Percentage of draft reports issued as a final report within 15 working days | 90% | 56% | RED |
| KPI 9 | Client Satisfaction Rating | 80% | 87% | GREEN |
| KPI 10 | IA work fully compliant with the PSIAS and IIA Code of Ethics | 100% | 95% | GREEN |

- 6.1.3 As highlighted above, performance against **KPI 8** is reported as **RED** for 2014/15. This is due to 15 instances (out of 34 assurance reviews) where **management responses to the draft reports were not received within the target timescales** of 15 working days. Whilst IA facilitates this process, we are reliant on timely management responses to achieve this indicator. On 5 of the 15 occasions the management responses were received within just 3 days over the 15 working days target. However, in the other 10 cases there were significant delays (between 5 and 6 weeks) before management responses were provided. Potentially this indicates that some managers are over-stretched, although we are happy to report that the time taken to finalise reports from draft stage in other reports is **on average 15 working days**. Nevertheless, **IA KPI 8 has not been achieved for 2014/15**.
- 6.1.4 Management feedback continues to be positive on our assurance coverage and particularly on our consultancy work. The actual performance against **KPI 9** has further improved to **87%** this year, showing a clear positive direction of travel regarding managements' perception of the value delivered by the IA service. This is detailed further within para 6.2 below.

6.2 Client Feedback Questionnaires

- 6.2.1 As part of continuous improvement, IA introduced a new Client Feedback Questionnaire (CFQ) in 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 3.2 (80%) or above** across the eight CFQ areas. As a recap on the CFQ scores, **4** means the client strongly agrees; **3** is agree; **2** is disagree; and **1** is strongly disagree.

- 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 dissatisfied 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 2014/15. In fact, when compared to the 2013/14 CFQ results, there is a distinctive and marked improvement on all of the 8 questions. This further supports the **positive direction of travel of IA** and also highlights the benefits arising from the IA restructures and other IA changes implemented are now being realised and recognised across the Council. The table below shows the average score from the **41 CFQs completed since 1st April 2014** (as per **Appendix A**):

| IA CFQ Areas | Average Score 2014/15 | Average Score 2013/14 | Percentage Change from 2013/14 |
|--|-----------------------|-----------------------|--------------------------------|
| Q1. Planning: The planning arrangements for the IA review were good | 3.52 | 3.2 | +8% |
| Q2. Scope: The scope of the IA review was relevant | 3.48 | 3.2 | +7% |
| Q3. Conduct: The IA review was conducted in a highly professional manner | 3.73 | 3.2 | +13% |
| Q4. Timing: The IA review was carried out in a timely manner | 3.59 | 3.1 | +12% |
| Q5. Report: The IA report was presented in a clear, logical and organised way | 3.50 | 3.2 | +8% |
| Q6. Recommendations: The IA recommendations were constructive and practical | 3.50 | 3.1 | +10% |
| Q7. Value: The IA review added value to your service area | 3.28 | 3.1 | +4% |
| Q8. Overall: I look forward to working with IA in future | 3.40 | 3.4 | 0% |

- 6.2.5 From the 41 CFQs returned in 2014/15, IA has received a range of formal client comments on IA performance, a mixed selection of which is highlighted below:

Chantry School

- *"Muir and his team were totally professional throughout. The Audit gave the IEB and staff a very clear perspective on the changes in practice that were required, whilst recognising that the staff in place had done the best they could with little or no direction from the head. It was a pleasure working with them".*

Schools Budgetary Control

- *"It was good to get confirmation that the strategies we have in place are considered effective and even in places 'examples of good practice'. The only reason I only identified 'agree' for No.8 is that all are a little fearful of an audit or inspection process. However I would say that this approach greatly reduces the tension in such a process and further, from what has been seen from completed focused reports, given significant material for future consideration".*

Schools Payroll

- "We all agree that the IA Team were very professional and did their very best not to infringe on the running of the school whilst carrying out this important role".
- "The different approach that IA now use is much more straightforward - especially as they send immediate feedback and a general overview for all schools to benefit from. The fact they concentrate on particular areas reinforces the strengths in schools and allows best practice to be shared".

Capita Income ICT System

- "As discussed with Internal Audit the original Audit review by Baker Tilly did not adequately cover the scope of an Application audit. Key areas were missed whilst other areas were focused on that were irrelevant to a software Application audit.

The auditor herself did not seem to understand the Application itself and its use within the Council even after sitting with team members in both ICT and Finance

Internal Audit did agree on this though, and a second Audit took place that revisited areas that had been missed for example user security, validation of interfaces etc - The second report provided a more accurate review of the system and its processes."

IAS Data Quality

- "I was extremely impressed with the conduct and support of the Internal Audit Team in Hillingdon, especially in comparison to other Local Authorities I have worked for. The audit carried out was very much a joint venture and outcome focussed on improvements to the business delivery and a quality of service. I look forward to working with the Internal Audit Team again in the near future".

Council Tax and NNDR Inspections

- "Carmen provided a professional service which was delivered in a way that all parties involved could comfortably contribute towards the content of the Audit. The recommendations were constructive and practical and will ensure that we maintain an efficient service to our residents. Please pass on my thanks to Carmen from me and my team".

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 **high completion rate of CFQs** will help IA continue to improve as a service.

7. Forward Look to 2015/16

- 7.1 Looking ahead to 2015/16, a **new IA Strategy** document is now fully in place that has a five-year time horizon and a road map based on the Council's overall strategy, changing stakeholder expectations, regulatory requirements and the role of the other risk and assurance functions across the Council. In line with our new strategy, the focus of the IA service will be on delivering consistently high quality value added IA reviews to help services to succeed.
- 7.2 As a result of the fast changing control environment we have introduced a **quarterly approach to IA planning in 2015/16**. Specifically, as well as providing a high-level estimation of where we expect to utilise our resources over the year, we now produce quarterly detailed operational IA Plans in liaison with management. The quarterly IA Plans are agreed by CMT and Audit Committee as part of the quarterly progress reports. This should help ensure that IA resources are directed in a more flexible and targeted manner to maximise the benefit to our stakeholders.
- 7.3 IA software (TeamMate) will continue to help **improve the monitoring, follow-up and tracking of IA recommendations** by management. After a successful pilot within the Finance Group, recommendation tracking has now been rolled out in all Groups and IA will need to ensure that these new processes become embedded across the Council.

- 7.4 Appropriate TeamMate training has been provided to the relevant Council staff and this enhanced process will allow IA and senior management to more easily monitor the progress and status of all IA recommendations and the action plans established. The new process will also place greater responsibility on management, as owners of the risks, to provide progress updates on their recommendations.
- 7.5 IA would like to take this opportunity to formally thank all staff throughout Hillingdon Council with whom it had contact during the year. There has been an increased collaborative approach in IA's relationship with staff and management who have generally responded very positively, to IA findings. 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 FCCA, CMIIA
Head of Internal Audit

24th June 2015

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15**

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

2014/15 IA Assurance Reviews:

| IA Ref. | IA Review Area | Status as at 24 th June 2015 | Assurance Level | Risk Rating | | | | CFQ Received |
|---------|---|---|-----------------|-------------|----|----|----|--------------|
| | | | | H | M | L | NP | |
| A36 | Chantry School | Final report issued 3 rd September 2014 | No | 15* | 7 | 4 | - | |
| A8 | Corporate Construction | IA assurance review not undertaken | No | - | - | - | - | N/A |
| A17 | Housing Repairs | IA assurance review not undertaken | No | - | - | - | - | N/A |
| A30 | Housing - Planned Maintenance Work | IA assurance review not undertaken | No | - | - | - | - | N/A |
| A16 | Planning Applications - Community Infrastructure Levy (CIL) (formally titled Planning Advice and Appeals) | Final report issued 18 th September 2014 | Limited | 1 | 5 | 3 | - | |
| A40 | Schools - Governance Arrangements <u>Schools visited:</u> Deansfield Primary, Grange Park Junior, Heathrow Primary, Lady Bankes Infant, Lady Bankes Junior, Whitehall Junior & William Byrd Primary. | Final report issued 23 rd April 2015 | Limited | 7 | 21 | 13 | 14 | |
| A37 | High Level Mileage Users | Final report issued 22 nd May 2015 | Limited | - | 2 | 2 | - | Not Due |
| A21a | Data Protection | Final report issued 28 th May 2015 | Limited | 1 | 3 | 6 | - | |
| A14 | Software Licensing | Final report issued 30 th July 2014 | Reasonable | - | 1 | 2 | - | |

* = Chantry School 3 **HIGH** risk recommendations raised on 23rd March 2015 were previously raised on 3rd September 2014

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Assurance Reviews (cont'd):**

| IA Ref. | IA Review Area | Status as at 24 th June 2015 | Assurance Level | Risk Rating | | | | CFQ Received |
|---------|---|---|-----------------|-------------|----|---|----|--------------|
| | | | | H | M | L | NP | |
| A1 | Schools – Safer Recruitment Harlington School, Grange Park Infant School, Grange Park Junior School, Heathrow Primary School, St. Bernadette Catholic Primary School, West Drayton Primary School. | Final report issued 3 rd September 2014 | Reasonable | 6 | 17 | - | 6 | |
| A9 | Schools - Budgetary Control <u>Schools visited:</u> Abbotsfield School, Breakspear School, Hillingdon Tuition Centre, Holy Trinity Church of England Primary School, McMillan Early Childhood Centre, Meadow High School, Minet Junior School. | Final report issued 5 th September 2014 | Reasonable | - | 5 | - | 7 | |
| A10 | Business Continuity | Final report issued 24 th September 2014 | Reasonable | - | 3 | 4 | 1 | |
| A7 | Housing - Temporary Accommodation | Final report issued 19 th November 2014 | Reasonable | - | 1 | 2 | - | |
| A18 | Schools - Payroll Arrangements <u>Schools visited:</u> Harmondsworth Primary School, Hayes Park Primary School, Hedgewood School, Hillside Infant School, St Swithun Wells Catholic Primary School, Whitehall Infant School, Whiteheath Junior School, Yeading Infant School. | Final report issued 28 th November 2014 | Reasonable | 3 | 10 | 8 | 2 | |
| A24b | Mental Health Residential Placements | Final report issued 23 rd January 2015 | Reasonable | - | 3 | 1 | 2 | |
| A24a | Learning Disabilities Residential Placements | Final report issued 29 th January 2015 | Reasonable | - | 2 | 2 | 1 | |
| A35 | Schools - Contracts & Procurement <u>Schools visited:</u> Bishop Winnington-Ingram CoE, Colham Manor Primary, Glebe Primary, Grange Park Junior, Newnham Infant, Oak Farm Infant, Oak Farm Junior, Ryefield Primary, William Byrd and Yeading Junior. | Final report issued 30 th January 2015 | Reasonable | - | 24 | - | - | |
| A20 | Capita Income ICT System | Final report issued 5 th February 2015 | Reasonable | - | 6 | 5 | - | |

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Assurance Reviews (cont'd):**

| IA Ref. | IA Review Area | Status as at 24 th June 2015 | Assurance Level | Risk Rating | | | | CFQ Received |
|---------|--|--|-----------------|-------------|----|---|----|--------------|
| | | | | H | M | L | NP | |
| A5 | IAS Data Quality (Adult Services) | Final report issued 10 th February 2015 | Reasonable | 1 | 3 | - | - | |
| CF4 | Housing Benefits | Final report issued 13 th February 2015 | Reasonable | - | 3 | 2 | 1 | |
| A38 | Chantry School (Follow-up) | Final report issued 23 rd March 2015 | Reasonable | 3* | - | - | - | N/A |
| CF7 | Council Tax and NNDR Inspections | Final report issued 13 th April 2015 | Reasonable | - | 2 | 2 | - | |
| CF5 | Budgetary Control | Final report issued 23 rd April 2015 | Reasonable | - | - | 3 | 1 | |
| A19 | Leisure Services Contract Management | Final report issued 23 rd April 2015 | Reasonable | - | 4 | 7 | - | |
| A21b | Freedom of Information | Final report issued 20 th May 2015 | Reasonable | - | 3 | 4 | - | |
| CF1 | Payroll | Final report issued 21 st May 2015 | Reasonable | - | 2 | 2 | - | Not Due |
| A34 | Risk Management (Follow-up) | Final report issued 20 th May 2015 | Reasonable | - | 2 | 2 | - | N/A |
| A33 | Corporate Governance (Follow-up) | Final report issued 27 th May 2015 | Reasonable | - | 3 | - | - | N/A |
| A15 | Members' Declarations of Interests | Final report issued 30 th July 2014 | Substantial | - | - | 1 | - | |
| A28 | Imported Food Office | Final report issued 13 th February 2015 | Substantial | - | 2 | 2 | 1 | |
| CF6 | Treasury Management | Final report issued 13 th February 2015 | Substantial | - | - | 2 | - | |
| CF10 | Capital Accounting | Final report issued 27 th March 2015 | Substantial | - | - | 1 | 1 | |
| CF8 | Pensions (Investments) | Final report issued 31 st March 2015 | Substantial | - | - | 2 | - | |
| A6 | Ofsted Improvement Action Plan | Final report issued 29 th May 2015 | Substantial | 1 | 10 | - | - | |
| CF12 | Creditors (Follow-up) | Final report issued 26 th March 2015 | N/A | - | 1 | - | - | N/A |
| CF14 | Cash and Bank (Follow-up) [formerly Cash Collection Services] | Final report issued 30 th March 2015 | N/A | - | - | 1 | - | N/A |

* = Chantry School 3 **HIGH** risk recommendations raised on 23rd March 2015 were previously raised on 3rd September 2014

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Assurance Reviews (cont'd):**

| IA Ref. | IA Review Area | Status as at 24 th June 2015 | Assurance Level | Risk Rating | | | | CFQ Received |
|---|------------------------------------|--|-----------------|-------------|------------|-----------|-----------|--------------|
| | | | | H | M | L | NP | |
| A5 | IAS Data Quality (Adult Services) | Final report issued 10 th February 2015 | Reasonable | 1 | 3 | - | - | |
| CF15 | Housing Rents (Follow-up) | Final report issued 31 st March 2015 | N/A | - | - | - | - | N/A |
| CF13 | Debtors (Follow-up) | Final report issued 22 nd April 2015 | N/A | - | 1 | - | - | N/A |
| CF3 | E-Invoices (Follow-up) | Final report issued 5 th May 2015 | N/A | - | 1 | - | - | N/A |
| Total number of IA Assurance Recommendations raised in 2014/15 | | | | 35* | 147 | 83 | 37 | |
| Total percentage of IA Assurance Recommendations raised in 2014/15 | | | | 13 | 56 | 31 | - | |

* = Chantry School 3 **HIGH** risk recommendations raised on 23rd March 2015 were previously raised on 3rd September 2014

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Consultancy Reviews:**

| IA Ref. | IA Review Area | Status as at 24 th June 2015 |
|---------|--|---|
| C1 | Domestic Violence Homelessness Process | Final IA consultancy memo issued 11 th April 2014 |
| C2 | Purchase Requisitions - Chargeable Reactive Maintenance Works under £250 | Final IA consultancy memo issued 15 th April 2014 |
| C4 | Cemeteries Process | Final IA consultancy memo issued 18 th June 2014 |
| C6 | Ruislip High School | Final IA consultancy memo issued 5 th August 2014 |
| C5 | Planning Applications - prior approvals and low fee income generation | Final IA consultancy memo issued 6 th October 2014 |
| C7 | Primary Care Contracts | Final IA consultancy memo issued 28 th October 2014 |
| CF2 | Asset Register | Final IA consultancy memo issued 9 th December 2014 |
| C17 | Transitional Arrangements (Preparation for Peer Review) | Final IA consultancy memo issued 6 th February 2015 |
| C3 | Standby Payments | Final IA consultancy memo issued 24 th February 2015 |
| C14 | SFA Mock Audit - Hillingdon Adult & Community Learning | Final IA consultancy memo issued 24 th March 2015 |
| C18 | Review of Children's Contact Centre and Residential Units | Final IA consultancy memo issued 8 th May 2015 |
| C16 | Northgate Contract Management (previously an assurance review) | Final IA consultancy memo issued 22 nd May 2015 |
| C8 | Hillingdon in Bloom Gift Vouchers content and terms and conditions | Verbal consultancy advice provided |
| C9 | Charville Children's Home – security of key safes | Verbal consultancy advice provided |
| C10 | Young People's Centres, cash collection arrangements | Verbal consultancy advice provided |
| C11 | Early Intervention Services for Children and Young People | Verbal consultancy advice provided |
| C12 | Theatre Service cash collection | Verbal consultancy advice provided |
| C13 | Journal analysis for finance | Verbal consultancy advice provided |
| C15 | IRT Supply Chain | Verbal consultancy advice provided |
| C19 | Telecare Third Party Payments | Verbal consultancy advice provided |
| C20 | Establishment Voluntary Funds | Verbal consultancy advice provided |
| C21 | Capital eSourcing | Verbal consultancy advice provided |

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Consultancy Reviews (cont'd):**

| IA Ref. | IA Review Area | Status as at 24 th June 2015 |
|---------|--|---|
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| | | |
| C22 | Implementation of system for managing DBS Checks | Verbal consultancy advice provided |
| C23 | Work Orders for Street Scene Maintenance | Verbal consultancy advice provided |
| C24 | Contact Centre Card Payments | Verbal consultancy advice provided |
| C25 | Caretaker record retention | Verbal consultancy advice provided |
| C26 | Imprest Account Signatories | Verbal consultancy advice provided |

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15 (cont'd)****2014/15 IA Grant Claim Reviews:**





| IA Ref. | IA Review Area | Status as at 24 th June 2015 |
|---------|---|---|
| GC1 | Troubled Families Grant Claim – Quarter 1 | IA memo issued 29 th April 2014 |
| GC2 | Adoption Reform Grant | IA memo issued 27 th May 2014 |
| GC4 | Troubled Families Grant Claim – Quarter 2 | IA memo issued 5 th August 2014 |
| GC5 | Bus Subsidy Grant | IA memo issued 30 th September 2014 |
| GC6 | Troubled Families Grant Claim – Quarter 3 | IA memo issued 9 th October 2014 |
| GC3 | Housing Benefits Subsidy Grant | Work for External Audit completed 17 th October 2014 |
| GC7 | Troubled Families Grant Claim – Quarter 4 | IA memo issued 12 th January 2015 |

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. |

RISK RESPONSE DEFINITIONS

| RISK RESPONSE | DEFINITION |
|----------------------|--|
| TREAT | The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action. |
| TOLERATE | The risk is accepted by management and no further action is proposed. |
| TRANSFER | Moving the impact and responsibility (but not the accountability) of the risk to a third party. |
| TERMINATE | The activity / project from which the risk originates from are no longer undertaken. |

APPENDIX D**INTERNAL AUDIT KEY PERFORMANCE INDICATORS 2015/16**

| 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 | 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 ¹ | 75% |
| KPI 8 | Client Satisfaction Rating ² | 85% |
| KPI 9 | IA work fully compliant with the UK PSIAS and IIA Code of Ethics | 100% |

All IA KPIs Target Performance for 2015/16 are the same as 2014/15, except for:

1. **KPI 7** where Target Performance for 2014/15 was 90% (**15% decrease**); and
2. **KPI 8** where Target Performance for 2014/15 was 80% (**5% increase**).

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.