

# BUSINESS ASSURANCE

## Annual Internal Audit Report & Opinion Statement 2015/16

30<sup>th</sup> June 2016



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## 1. Introduction

### 1.1 The Role of Internal Audit

- 1.1.1 Internal Audit (IA), which is part of the Council's Business Assurance (BA) service, provides an independent assurance and consultancy service that underpins good governance. This 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 proper practices.
- 1.1.2 IA gives 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 does 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 1<sup>st</sup> 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 2015/16 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 Business Assurance (HBA) [as the Council's statutory Head of Internal Audit (HIA)] to account on delivery of the 2015/16 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 HBA is pleased to report that **the 2015/16 IA plan was 91% complete to draft report stage by 31<sup>st</sup> March and 100% complete by 30<sup>th</sup> June 2016**. This is an excellent achievement for IA and the Council and highlights the continued collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Council.
- 2.2 Delivery of the IA plan for 2015/16 has been achieved in a relatively timely manner against a backdrop of continuous change and improvement for the BA service and the Council. These improvements have included continuing to embed a risk based approach to help focus IA resources, restructuring the IA team to generate greater front line capacity and enhancing the application of lean auditing principles to the IA process. This has incorporated the evolution of IA software (TeamMate) which continues to improve the efficiency of the IA service, in particular the IA follow-up process. Further details of IA performance can be found at section 6 of this report.

2.3 From the 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<sup>st</sup> March 2016 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 **77** pieces of IA work have been delivered as part of the 2015/16 IA plan. This included **33** assurance reviews, **5** follow-up reviews, **27** consultancy reviews, **6** grant claim audits, **5** investigations and **1** External Quality Assessment (EQA) review. Nearly half of the **33** assurance reviews resulted in a **LIMITED** (45%) or **NO** (3%) assurance IA opinion. Whilst this may appear concerning, this provides assurance to the Audit Committee and CMT that IA resource is focused on the right areas, often highlighted by management as known areas of concern. **All of the 2015/16 HIGH and MEDIUM risk recommendations raised by IA were accepted by management with positive action proposed to TREAT the risk, including the issues highlighted in the audits detailed at para 2.5 below**, with the exception of **1 HIGH** and **2 MEDIUM** risk recommendations where management chose to **TOLERATE** the risk [*refer to para. 2.5 for details*]. Further analysis of the IA assurance levels issued in 2015/16 along with a breakdown of the risk recommendations raised can be found at section 4 of this report.

2.5 The key findings from these **LIMITED** or **NO** assurance reviews were as follows:

(i) Home to School Transport - Safeguarding - **NO** Assurance

- Our review identified a number of significant gaps within the home to school safeguarding arrangements with **1 HIGH** and **8 MEDIUM** risk recommendations raised, as detailed at **Appendix A**. The combination of these control gaps across all scope areas reviewed, magnified the likelihood of a serious safeguarding incident occurring, which subsequently could have gone undetected, or not be dealt with and escalated in an effective, compliant and timely manner. Particular areas of concern related to monitoring systems for taxi drivers and passenger assistants, pre-employment checks, training, escalation procedures and reporting processes.
- This audit was requested by management in response to a number of safeguarding incidents. During the course of this review we noted the diligent work undertaken by management to review working practices and were encouraged by management's awareness of the fundamental issues within the service. We are also pleased to report that at the time of finalising this audit, significant progress had been made to improve processes. This is further supported by the recent IA follow-up work in this area, as reported within the 2016/17 Q1 IA Progress Report.

(ii) Music Service – **LIMITED** Assurance

- As detailed at **Appendix A**, the final report for this audit issued in June 2015 raised **14** recommendations including **8 MEDIUM** and **5 LOW** risk recommendations and **1 NOTABLE PRACTICE**. Our testing identified control weaknesses surrounding the inventory of musical instruments and gaps relating to some teachers providing tuition to pupils having not undertaken appropriate safeguarding training. Further, we identified that the designated safeguarding officer had not received advanced training (as required by the Children Act 1989 and 2004).

(iii) Deprivation of Liberty Safeguards (DoLS) – **LIMITED** Assurance

- As detailed at **Appendix A**, the final report issued in July 2015 raised **6 MEDIUM** and **2 LOW** risk recommendations. At the time of undertaking this review, we found there to be considerable staff capacity issues in the delivery of this service. This lack of staff resources had impacted upon the ability to complete the necessary paperwork at the supervisory body decision making stage. This had resulted in a bottleneck of DoLS authorisation requests awaiting a final decision as well as authorisation requests exceeding statutory timelines.

(iv) Disabled Facilities Grant (DFG) and Adaptations – **LIMITED** Assurance

- As detailed at **Appendix A**, the final report for this audit issued in September 2015 raised **13** recommendations including **8 MEDIUM**, **4 LOW** risk recommendations and **1 NOTABLE PRACTICE**. We found there were multiple internal teams involved in the process as well as external contractors and it appeared that there was a lack of effective communication between these parties. This problem was compounded due to a lack of clarity surrounding processes and procedures which was causing confusion. Further, resource changes had impacted on service delivery creating a backlog of cases which had resulted in some statutory timescales being breached.
- Management proposed to 'Treat' 7 of the 8 **MEDIUM** risk recommendations raised. The Head of Service opted to 'Tolerate' the risk arising from the current process for managing client contributions to adaptations, exploring options such as using Corporate Debtors to manage this. Our view was where additional work such as debt collection was undertaken by staff involved in the adaptations process, there was a risk of a potential financial loss, particularly as a central debt collection team already exists. However, the Head of Service view was that changing this process would unnecessarily complicate the Adaptations process; particularly given there have been no unpaid client contributions to date in the year.

(v) Corporate Procurement & Commissioning – **LIMITED** Assurance

- As detailed at **Appendix A**, we issued the final report for this audit on 3<sup>rd</sup> November 2015 and raised **10** recommendations including **1 HIGH**, **5 MEDIUM** and **4 LOW** risk recommendations. We found that whilst, in general, procurement was conducted in line with internal regulations and legislation, there were weaknesses which were impacting on the internal control environment. There were several historical non-compliant 'contracts' where formal contracts were not in place and/or spend sometimes significantly exceeded original approval levels authorised. Further, key documents sometimes contradicted each other and there was a mixed approach to training and record keeping. As a result, there was the potential for a combination of these weaknesses to have a significant impact on the objectives of corporate procurement.

(vi) Schools ICT arrangements – **LIMITED** Assurance

- From the 5 schools assessed as part of this thematic review, IA raised **16** recommendations including **4 HIGH** risk, **5 MEDIUM** risk and **7 LOW** risk recommendations as well as **4 NOTABLE PRACTICE**. The **HIGH** risk recommendation raised with 4 schools related to **the lack of statutory information** required on school websites which includes how grant monies are spent and how expenditure made a difference to the attainment of disadvantaged pupils.

(vii) Domiciliary Care (HomeCare) – **LIMITED** Assurance

- This audit was finalised in December 2015 and raised **6** recommendations including **1 HIGH** and **5 MEDIUM** risk recommendations. As part of this audit we identified several areas of contractual non compliance by providers which was having a significant impact upon the intended delivery of homecare within the Borough. We undertook substantial data analytic work including variance analysis of care visit times. This identified that several homecare providers were charging the Council on planned homecare hours instead of actual hours of care delivered. Further, our analysis identified additional concerns in relation to:
  - instances of large variances in hours indicated;
  - unsuitable care packages being commissioned;
  - care visit times being coded to incorrect unrecognised Care Package Line Item (CPLI) codes;
  - suspensions to care packages not being ended in a timely manner; and
  - cases where double up care being provided had not been commissioned.

(viii) Records Management and Document Retention Policy – **LIMITED** Assurance

- As detailed at **Appendix A**, the final report for this audit was issued on 18<sup>th</sup> February 2016 with **1 HIGH**, **4 MEDIUM** and **2 LOW** risk recommendations and **1 NOTABLE PRACTICE** raised. We found that records management at the Council was supported by an out-of-date policy and there was a lack of corporate ownership with no co-ordinated approach in relation to records management or document retention.
- It was evident that the contract in place with the external storage provider tasked with external storage for retention and destruction of Council records was not being managed effectively by the Council. We found over 1,000 boxes of unidentified records held in offsite storage with a lack of officer oversight. The lack of records management meant that records were being retained longer than necessary, potentially increasing the likelihood of data protection breaches and the cost of storage. Our audit also found a significant variation in how different services managed their document retention arrangements.

(ix) Housing Repairs – **LIMITED** Assurance

- As detailed at **Appendix A**, we issued the final report on 25<sup>th</sup> February 2016 raising **4 HIGH**, **6 MEDIUM** and **1 LOW** risk recommendations. The Housing Repairs function has been through a period of significant change since being brought back in-house in 2010, having previously been run by an arm's length management organisation. It is worth noting that this assurance review was conducted following a major transformation review. As the service was busy restructuring, the key points in our review were captured as part of a 70 point action plan which we understand is actively being monitored by the Deputy Director Development, Assets and Procurement.
- During our audit we found that the period of significant change since being brought back in-house in 2010 had resulted in some inefficient and inconsistent processes arising, including out of date documentation i.e. the tenants' handbook. Further, day to day repairs as well as void recharges were being processed in an inconsistent manner with the underlying cause for this found to be the three computer systems involved in the booking process and the varying staff knowledge regarding their functionality. This had resulted in some non recovery of recharges to tenants. Following our audit, and as part of the ongoing management improvements to the service, all recharges have been identified and Management are in the process of taking this matter forward.
- Finally, an analytical review of the Service's workload established that the department currently had a backlog of repair jobs and were unable to fully meet the demand for current repair work or clear the backlog at that time. These issues are being actively progressed by Management.

(x) Housing Needs Allocations and Assessment – **LIMITED** Assurance

- As detailed at **Appendix A**, we issued the final report for this audit in March 2016 raising **3 HIGH**, **7 MEDIUM** and **2 LOW** risk recommendations as part of this audit. We were aware that the service was in the process of a restructure and the team had been operating at a reduced staffing capacity, which had significantly affected performance and the internal control framework. The lack of governance, during a period of major reorganisation and transformation, had led to inconsistent operational process, as a result of historical insufficient succession planning and a limited staff induction process.
- During our testing we found there were many inconsistencies in relation to the recording of evidence and assessment of applications. As a result, due to a lack of quality control throughout the assessment process, the likelihood of ineligible applicants joining the Locata Register or receiving some form of housing support from the Council was increased. In addition, we found that performance management of staff and the service was not fully embedded within this area.

(xi) Officers' Scheme of Delegations – **LIMITED** Assurance

- As per **Appendix A**, we issued the final report for this audit on 3<sup>rd</sup> March 2016, raising **1 HIGH** and **1 MEDIUM** risk recommendations. Our testing identified control weaknesses concerning non-permanent members of staff undertaking financial and employment decisions in contradiction of the Council's Group Scheme of Delegations and legislation. We also concluded there are some significant gaps in the awareness and understanding of the SDs by staff in parts of the Council.

(xii) Occupational Therapy Equipment – **LIMITED** Assurance

- We issued the final report for this audit on 23<sup>rd</sup> March 2016 and raised **2 HIGH**, **6 MEDIUM** and **3 LOW** risk recommendations. Our testing highlighted improvements required in terms of defining roles and responsibilities in relation to help provide clear accountability. In addition, we highlighted issues around the lack of scrutiny and suggested improvements to ensure Mediquip invoices are checked for completeness, accuracy and validity prior to payment.

(xiii) Housing Planned Maintenance – **LIMITED** Assurance

- This audit resulted in **2 HIGH**, **5 MEDIUM** and **2 LOW** risk recommendations. Control gaps were identified in relation to updating the asset management system and full adherence to the Council's Financial Regulations in relation to compliance with the project management handbook (**1 HIGH** risk to be 'Tolerated'). It is worth noting that this assurance review was on the back of a period of major transition and was conducted at a time when the service were undergoing a restructure, implementing and embedding new ways of working and improving areas that previously had limited or no control.

(xiv) Fleet Management – **LIMITED** Assurance

- This assurance review resulted in **1 HIGH** and **8 MEDIUM** risk recommendations. The main issues were regarding the lack of procedures which provide operational guidance and direction to Fleet Management (FM) staff and internal clients, particularly around the disposal of vehicles. Further, we found there were no Service Level Agreements between client services and FM resulting in a high level of uncertainty in the understanding of roles and responsibilities between both parties. We also found significant discrepancies and inaccuracies within the information system utilised by FM in relation to vehicle records including disposals, MOT, road tax and insurance.

(xv) PerTemps Contract Management– **LIMITED** Assurance

- For the IA assurance review of PerTemps Contract Management we raised **7 MEDIUM** and **1 LOW** risk recommendations. This IA review primarily focused on compliance with the requirements stipulated within the contract agreed between both the Council and PerTemps. The key issues related to a lack of clarity over governance arrangements; in particular the roles and responsibilities of both parties. We also found several instances where changes to the contract have been agreed verbally and were not subjected to official contract variation processes in line with the contractual requirements and good practice. Further, agreed key performance indicators were not being actively enforced, reviewed or routinely monitored. Overall, we found there were opportunities for substantial improvements which could help ensure adherence with the contract and drive greater efficiencies as the contract nears its renewal date in September 2016.

(xvi) ICT Data Centre Resilience– **LIMITED** Assurance

- **1 HIGH**, **6 MEDIUM** risk recommendations and **2 NOTABLE PRACTICE** were raised as part of this audit, which highlighted that Disaster Recovery Plans have not been tested and no Recovery Time Objective for individual critical systems has been defined. A key issue identified was that back-ups of Council systems have not been tested for restorability in the event of a major incident. In addition, our review of the current back-up site (Breakspear) has highlighted significant deficiencies.

- 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 to continue to achieve a positive outcome for the Council during the 2015/16 year. Specifically, as at 30<sup>th</sup> June 2016, **100%** (8/8) of the **HIGH** risk IA recommendations raised in 2015/16 (due to have been implemented by now) have been confirmed by management as in place, or management has agreed a reasonable extension to the implementation date. IA verification work is ongoing to confirm these recommendations are embedded and operating as intended. 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 2015/16

#### 3.1 Background

- 3.1.1 The HIA opinion statement is provided partly to help 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 2015/16 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 2015/16, 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 2015/16 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 2015/16 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 2015/16. A 2016/17 review of effectiveness of the IA service is due to commence shortly as part of the Quarter 2 IA Plan.

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 with **every single member of the team either fully qualified or actively studying for a relevant professional IA qualification**. This has been supported by our external IA partner provider Mazars. As a result, the 2015/16 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 2015/16 the Council's IA service:

- had **unrestricted access to all areas and systems** across the authority;
- received **appropriate co-operation from officers and members**; and
- 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 2015/16**.

### 3.7 Other Assurance Providers

3.7.1 In formulating the HIA overall opinion on the Council's system of internal control, the HBA 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 Business Continuity Management Group;
- The work of the Hillingdon Information Assurance Group;
- The Audit Committee - an IA assurance review of the effectiveness of the Audit Committee was reported in June 2015. The 2016/17 annual review of the effectiveness of the Audit Committee is due to commence shortly as part of the Quarter 2 IA Plan.
- External inspections i.e. Ofsted; and
- Coverage by 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 a number of significant control weaknesses identified by IA during 2015/16.** 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. During 2015/16, several audits have been undertaken across Housing including Assessment and Allocation, Repairs and Planned Maintenance, all of which have resulted in a limited assurance opinion. We are aware that during 2015/16 the Housing service has undergone significant transformation. Additional resource has been provided in order to ensure improvements are made and to enhance risk management across this area.
2. As previously reported in the IA Annual Report for 2014/15, our assurance and consultancy work continues to identify some contract management shortcomings across the Council. Generally, weaknesses identified stem from a lack of clarity over strategic and operational contract management roles and responsibilities. IA recommendations have been raised with the intent of reducing ambiguity in these areas.
3. In addition to contract management, the IA review of Corporate Procurement and Commissioning identified a few historical non-compliant 'contracts' where formal contracts are not in place and/or spend sometimes significantly exceeds original approval levels authorised. Further, some key documents contradicted each other and there is a mixed approach to training and record keeping.
4. Similarly the IA review of Records Management and Document Retention concluded that, although the Council is supported by a policy, it is in need of updating and there was a lack of ownership corporately and no co-ordinated approach in this area. Again, providing greater clarity over agreed processes and defining roles and responsibilities should help to ensure future compliance in this area.
5. Following a series of safeguarding incidents, Home to School Transport was subject to an IA review in which we identified a number of control gaps in relation to monitoring systems for taxi drivers and passenger assistants, pre-employment checks, training, escalation procedures and reporting processes. Further, there were issues regarding invalid permits for vehicles used within the Transport Service. This demonstrated an overarching lack of robust processes in place.
6. With the facilitation of business continuity now falling within the remit of Business Assurance (BA), work has been undertaken which has highlighted it is an area which requires urgent attention. Specifically, initial BA work has highlighted that the Council has defined 64 services as critical (priority 1), however only 14 (22%) of the critical services have a Business Continuity Plan (BCP) in place.
7. Following the decision taken by Schools Forum in October 2015, IA no longer carries out thematic audits or cyclical reviews in local authority (LA) maintained schools. Our IA service in this area is now reduced to the statutory minimum and as a result Hillingdon maintained schools are only be subject to IA coverage where there is a known major risk. Known major risks in schools will be considered and identified with LA partners including Members, Schools Finance and the Schools Improvement Team. There of course remains an obligation for all maintained schools to appropriately manage risk and comply with their policies and financial regulations. Given that accountability for the internal control environment rests with School Management and their Governing Body, risk management, internal control and policy compliance should continue to be monitored appropriately within the existing school's governance and committee structures. However, where there are sufficient concerns raised regarding practice or risk management at a Hillingdon maintained school, the Council (via IA) retains the authority to carry out an audit of that school at any reasonable time.

### **3.9 Internal Control Improvements**

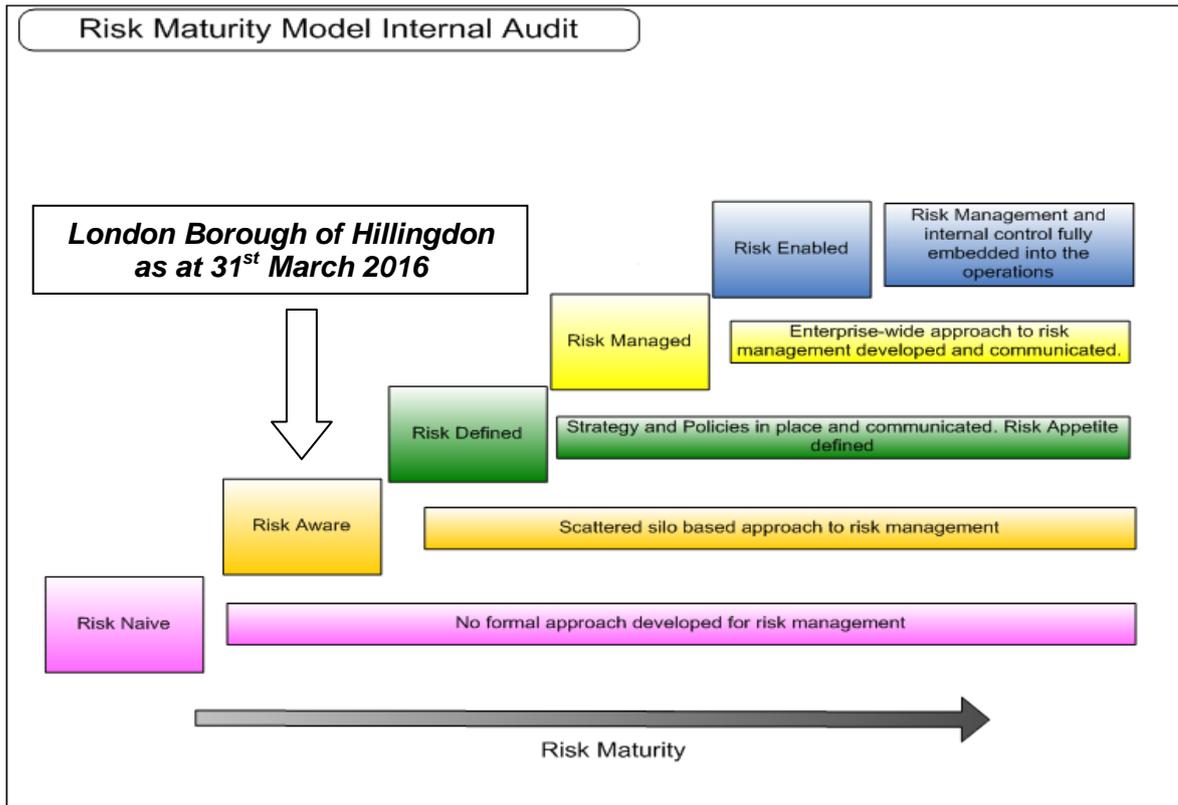
**3.9.1** In addition to the action taken by senior management to address the significant control weaknesses, IA has identified during the year a number of areas where other improvements have strengthened the control environment. These include:

- The **controls surrounding the Council's core financial systems are strong**. There was a significant change in 2015/16 relating to the upgrade of the Oracle Financials system. Substantial work in this area was undertaken to safeguard the integrity of data through the transition to the upgraded system. Assurance over the upgrade and associated changes in controls will be built into the 2016/17 plan.
- 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 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 relatively 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.
- 3.10.3 The RM policy and guidance was updated and approved in July 2014 with comprehensive detail as well as the clarity of roles, responsibilities and accountabilities of Members and Officers in relation to RM. The Council has an established Corporate Risk Management Group (CRMG) in place which meets quarterly and discusses strategic risk issues in a sufficient manner. 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, in liaison with the lead Cabinet Member.
- 3.10.4 The responsibility for the Council's RM arrangements has recently been transferred to Business Assurance with a clear action plan in place to further enhance RM practices. Further, the 2016/17 IA review of risk management arrangements is currently being undertaken by the Council's external IA partner provider (Mazars), the findings of which will be taken forward to enhance the robustness of RM throughout the Council.
- 3.10.5 However, it is our opinion 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.
- 3.10.6 Finally, 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 31<sup>st</sup> March 2016 (same as 2014/15).

**CHARTERED INSTITUTE OF INTERNAL AUDITORS' RISK MATURITY MODEL**



**3.11 Corporate Governance**

3.11.1 The 2015/16 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.	<b>SUBSTANTIAL Assurance</b> - 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.
2. Good governance means performing effectively in clearly defined functions and roles.	<b>REASONABLE Assurance</b> - 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/role of the Cabinet is clearly defined and documented within the Council’s Constitution. However, the roles and responsibilities for the HIP Steering Group and CMT have strengthened during the year. (ctd/)

Langland's Governance Principles	IA Assessment of Hillingdon
	(\ctd) 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.
3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour.	<b>REASONABLE Assurance</b> - 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 but out of date. 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.	<b>REASONABLE Assurance</b> - The Cabinet operates as an effective Member decision making body which is known by officers for usually making swift decisions. IA confirmed that a Cabinet Scheme of Delegations (SD) was in place and Group SDs are in place. However, following structural reorganisation the SD for Residents Services is in the process of being redrafted and is yet to be fully 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 remains scope for further improving understanding across the Council of what governance is and what it means.
5. Good governance means developing the capacity and capability of the governing body to be effective.	<b>REASONABLE Assurance</b> - 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.
6. Good governance means engaging stakeholders and making accountability real.	<b>REASONABLE Assurance</b> - The Council engages with stakeholders using a vast array of engagement and consultation activities to make accountability real. (ctd/)

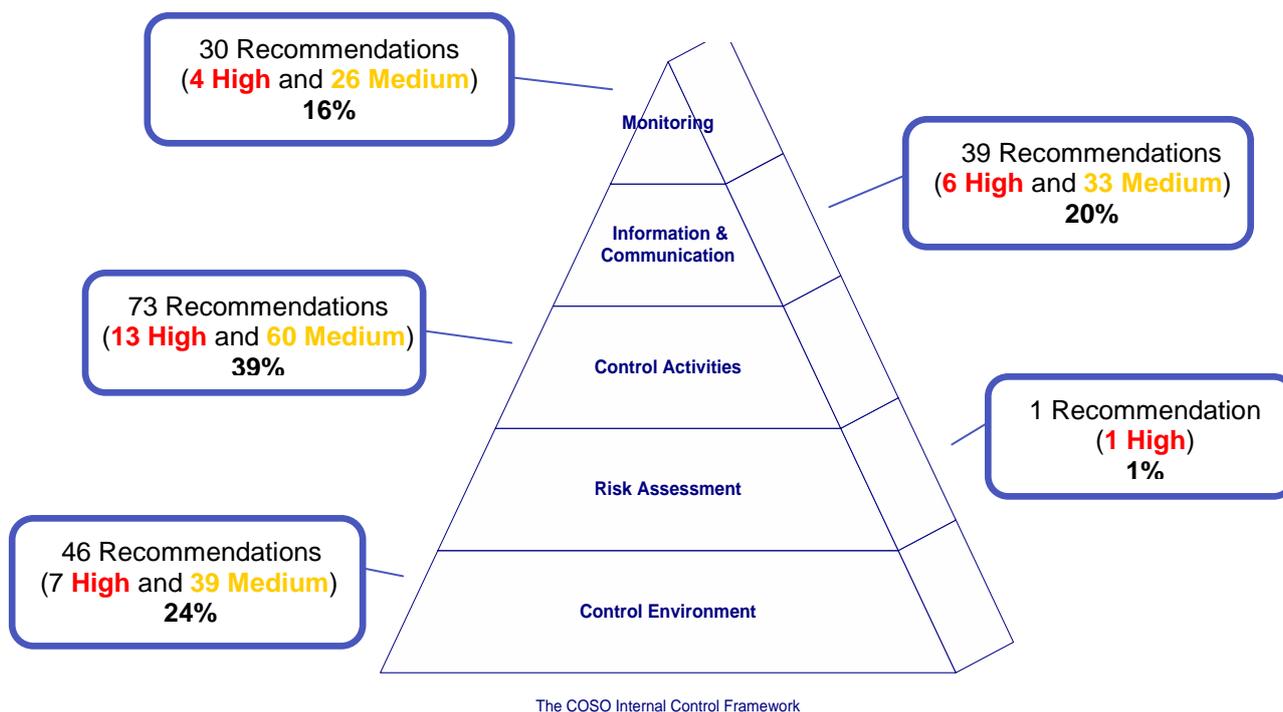
Langland's Governance Principles	IA Assessment of Hillingdon
	(\ctd) There is clear accountability between the Cabinet and its Executive Committees. Policy Overview and Scrutiny arrangements are in place and appropriately reported. The recommendations proposed by Policy Overview Committees are generally 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 during the year. 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**. 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.
- 3.11.3 IA also noted the Cabinet is collectively viewed as highly effective and renowned for generally 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.
- 3.11.4 The Council exemplifies strong financial management and control that is illustrated by the relatively healthy reserves balances. The Council continues to uphold a 0% council tax increase for Hillingdon residents for the 8<sup>th</sup> consecutive year (for the over 65s, it has been frozen for 12 years).
- 3.11.5 Hillingdon is also ensuring every child in the borough has a quality school place close to where they live and the £315 million school building and expansion programme, one of the largest in London, has expanded, built or rebuilt many primary schools in the borough. The Council's focus will now turn to secondary schools, with £145 million earmarked for new buildings, classrooms and facilities. The borough's parks and open spaces have been awarded with 34 Green Flag Awards, making it the local authority with the highest number of top-quality parks and green spaces in the UK for the third year running.

### 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)**.

3.12.2 The diagram below details the elements of the COSO internal control framework and analyses all **189 HIGH** and **MEDIUM** risk IA recommendations (per para. 5.6) raised during the 2015/16 year:



3.12.3 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 2015/16 that related to the risk assessment component of the COSO framework, it should not be inferred that risk assessment is completely robust.

3.12.4 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 2015/16, 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<sup>st</sup> March 2016 accords with proper practice**, except for the significant internal control issues referred to in para 3.8.

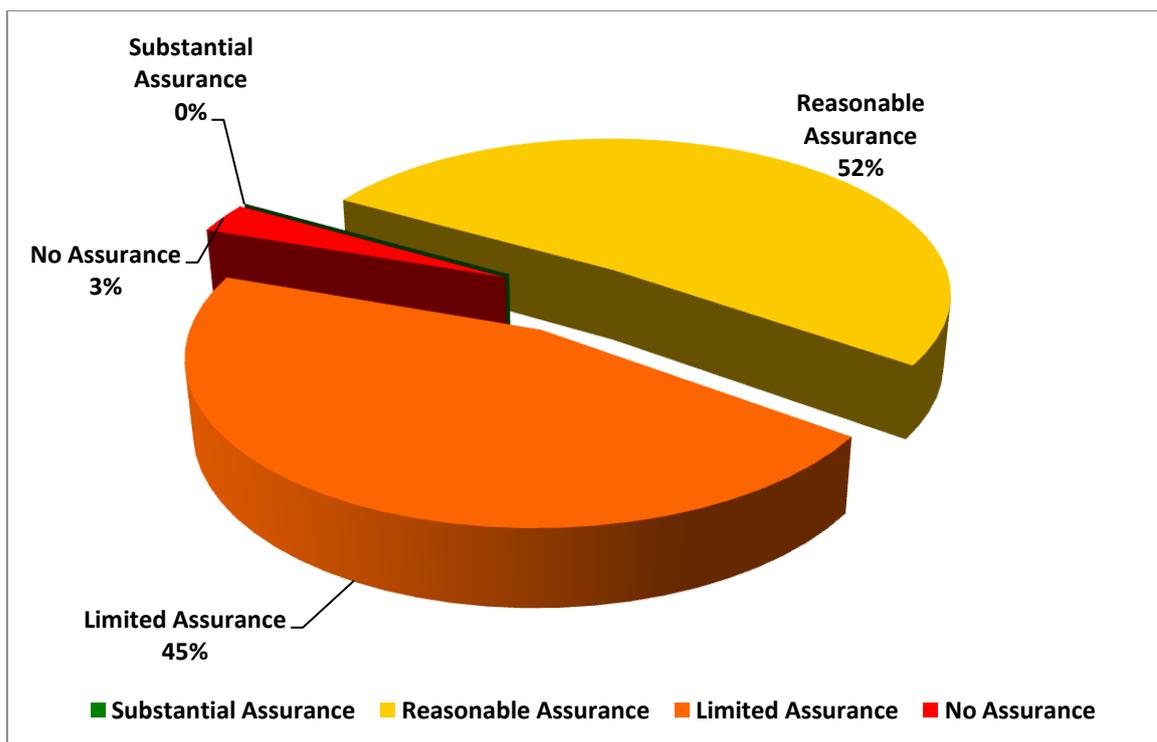
**4. Analysis of Internal Audit Activity 2015/16**

**4.1 Internal Audit Assurance Work 2015/16**

4.1.1 The 2015/16 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 2015/16 IA Assurance Reports	Percentage Split 2015/16	2014/15 Comparative
<b>SUBSTANTIAL</b>	0	0%	18% (6)
<b>REASONABLE</b>	17	52%	59% (20)
<b>LIMITED</b>	15	45%	12% (4)
<b>NO</b>	1	3%	12% (4)
<b>TOTAL</b>	<b>33</b>	<b>100%</b>	<b>100% (34)</b>

4.1.2 The pie chart below depicts the levels of assurances achieved based on a percentage of the total 2015/16 assurance audits completed by IA:



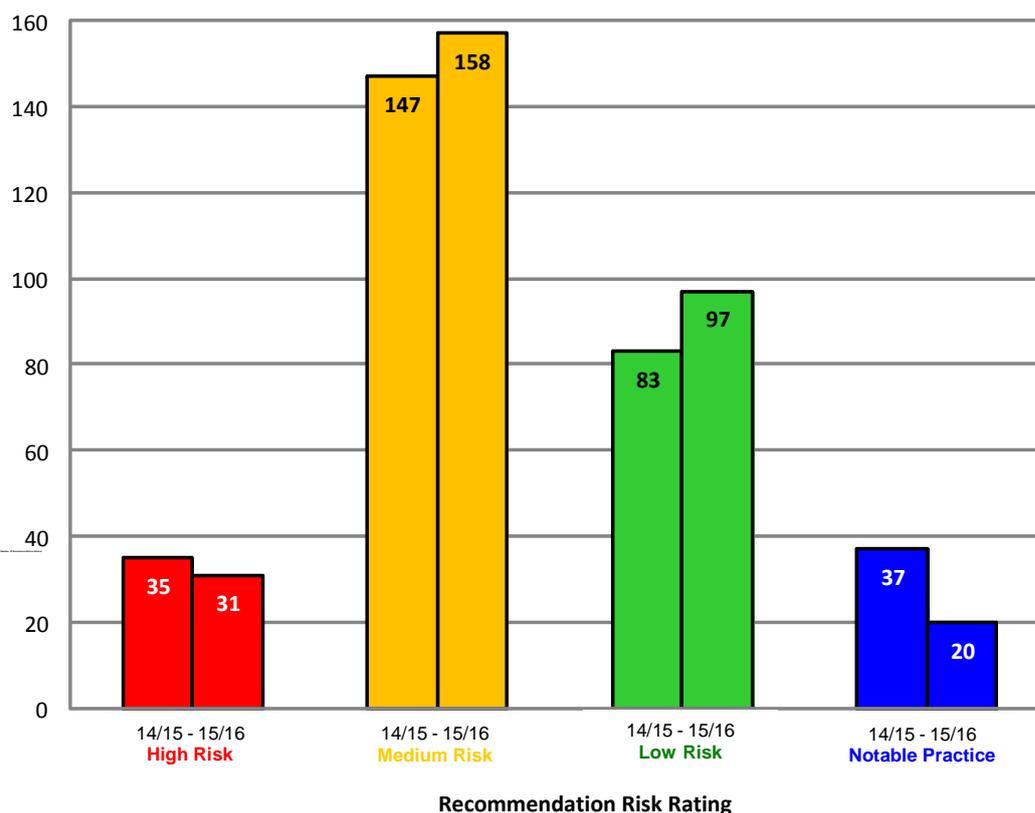
4.1.3 This chart highlights the positive news for the Council that **52%** of the areas audited in 2015/16 were assessed by IA as providing **REASONABLE** levels of assurance. This does however represent an overall 24% reduction when compared with the results from 2014/15. Nevertheless, this reduction 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 2015/16 are fully listed at **Appendix A** which highlights 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 For the **33** IA assurance reviews and **5** follow-up reviews conducted, there were **286** IA assurance recommendations raised in total in 2015/16:

Risk Rating	Number of 2015/16 IA Recommendations	Percentage Split 2015/16	2014/15 Comparative
<b>HIGH</b>	31	11%	13% (35)
<b>MEDIUM</b>	158	55%	56% (147)
<b>LOW</b>	97	34%	31% (83)
<b>TOTAL</b>	<b>286</b>	<b>100%</b>	<b>100% (265)</b>
<b>NOTABLE PRACTICE</b>	20	-	37

4.1.5 Given that an increasingly risk based IA approach has been applied in 2015/16, it is in line with IA's expectations that **two thirds of the IA recommendations raised** are **HIGH** or **MEDIUM** risk.

4.1.6 The breakdown of all 2015/16 IA recommendations (plus notable practices) by risk rating (as outlined at **Appendix C**), is provided in the bar chart over the page, including a comparison with the 2014/15 comparative data:



4.1.7 The bar chart above highlights that there were **31 HIGH** risk recommendations raised by IA in 2015/16 (compared with **35** in 2014/15 and **25** in 2013/14). We therefore believe that in light of the above, and given the risk based approach to IA work introduced during 2013/14, these results are relatively positive for 2015/16.

## 4.2 Internal Audit Consultancy Work 2015/16

4.2.1 During 2015/16 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 as well as secondments within the business 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 Management 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 **27** consultancy pieces of work in 2015/16, **5** investigations and **1** External Quality Assessment and of a peer for compliance with the UK Public Sector Internal Audit Standards (PSIAS). The consultancy work included reviews and/or support in relation to Troubled Families, Domiciliary Care Process Mapping, and Hospital Discharge.

### 4.3 Quality Assurance and Improvement Programme 2015/16

- 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 refining the IA QAIP during 2015/16, however resource implications throughout the year has restricted progression in a number of areas. The 2016/17 review of the effectiveness of Internal Audit, as well as the IA Strategy Day planned for later in the year, will enable the QAIP to be refocused and reflective of the challenges incurred within 2015/16 with this used as an opportunity to help generate ideas on how IA can further improve to help services continue to succeed. We recognise that further work is required to implement QAIP actions, along with the recommendations arising from the recent annual effectiveness of IA review, to further drive the service forward in 2016/17.

## 5. Internal Audit Follow Up 2015/16

- 5.1 IA monitors all **HIGH** and **MEDIUM** risk recommendations raised (excluding schools), 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 through TeamCentral (a module of the IA software TeamMate) which has become more embedded across the Council within the year. Whilst TeamCentral automates the follow-up process, we retain a single point of contact to facilitate this area of work which 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 provides CMT and other senior managers with greater oversight and ownership of IA recommendations and the underlying risks.
- 5.4 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**.
- 5.5 The **33** IA assurance reviews have resulted in **286** IA recommendations being raised in **2015/16** as well as **20 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 **five times as many MEDIUM risk recommendations than HIGH risk recommendations raised** in 2015/16.
- 5.6 The table over the page summarises the **status of IA 2015/16 recommendations** raised as at the 30<sup>th</sup> June 2016:

2015/16 IA Recommendation Status as at 30 <sup>th</sup> June 2016	HIGH	MEDIUM	LOW	Total	NOTABLE PRACTICE
Total No. of Recommendations Raised (per <b>Appendix A</b> )	31	158	97	<b>286</b>	20
Total No. of Recommendations Risks Tolerated by Management	1	2	-	<b>3</b>	-
No. of School recommendations (no longer followed-up by IA)	11	6	-	<b>17</b>	-
No. Not Yet Due for Implementation	12	64	-	<b>76</b>	-
No. Due for Follow-up Implementation	7	86	-	<b>93</b>	-
No. of Recommendations Implemented (or reasonable timescale extensions agreed)	7	86	-	<b>93</b>	-
No. of Recommendations Outstanding	<b>0</b>	<b>0</b>	-	<b>0</b>	-

- 5.7 Positive management action was proposed to address **186** of the **189** (31+158 above) 2015/16 **HIGH** and **MEDIUM** risk recommendations raised. The remaining 3 cases relate to **1 HIGH** and **2 MEDIUM** risk recommendations, where management have chosen to tolerate the risk [refer to para 2.5 for further details and see **Appendix C** for risk treatment definitions]. These 3 instances were deemed reasonable by IA given that management remain accountable for the treatment and management of their risks.
- 5.8 Of the 189 recommendations raised, 3 were tolerated and 17 were schools and are not followed up by IA. Of the remaining 169 **HIGH** and **MEDIUM** risk IA recommendations 76 of the 2015/16 **HIGH** and **MEDIUM** risk IA recommendations have not yet reached their target date for implementation. IA is pleased to report that **100%** (93) **HIGH** and **MEDIUM** risk recommendations which were due for implementation have been confirmed by management as being implemented or reasonable timescale extensions have been agreed (as at 30<sup>th</sup> June 2016). **This is an excellent outcome for the Council and IA, which comes directly as a result of the strong collaborative approach between IA and senior management across the organisation.**
- 5.9 IA is currently undertaking verification testing on all **HIGH** and **MEDIUM** risk recommendations to confirm and support management's assertion that recommended action has been successfully implemented and is now embedded within the control environment. Further, in 2016/17 we will be increasing the number of follow-up reviews we conduct of limited and no assurance reports issued within prior years, to provide greater assurance to senior management and the Audit Committee.
- 5.10 The status of outstanding IA recommendations was discussed at CMT on 29<sup>th</sup> June 2016 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 information on outstanding **HIGH** and **MEDIUM** risk recommendations will be provided by the HBA as part of an oral update at the next Audit Committee meeting (scheduled for 12<sup>th</sup> July 2016).

## 6. Review of Internal Audit Performance 2015/16

### 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.

6.1.2 KPIs for 2016/17, as reported within the annual IA plan presented to the Audit Committee in March 2016, have been included at **Appendix D** for information. Actual cumulative IA performance for 2015/16 against its KPIs is highlighted in the table below:

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 1	<b>HIGH</b> risk IA recommendations where positive management action is proposed.	98%	100%	GREEN
KPI 2	<b>MEDIUM</b> risk IA recommendations where positive management action is proposed.	95%	99%	GREEN
KPI 3	<b>HIGH</b> risk IA recommendations where management action is taken within agreed timescale.	90%	100%*	GREEN
KPI 4	<b>MEDIUM</b> risk IA recommendations where management action is taken within agreed timescale.	75%	100%*	GREEN
KPI 5	Percentage of IA Plan delivered to <b>draft report</b> stage by 31 March.	90%	91%	GREEN
KPI 6	Percentage of IA Plan delivered to <b>final report</b> stage by 31 March.	80%	81%	GREEN
KPI 7	Percentage of draft reports issued as a final report within 15 working days.	75%	55%	RED
KPI 8	Client Satisfaction Rating.	85%	86%	GREEN
KPI 9	IA work fully compliant with the <b>PSIAS</b> and <b>IIA Code of Ethics</b> .	100%		

6.1.3 **KPI 3** and **KPI 4** refer to whether action has been taken on **HIGH** and **MEDIUM** risk IA recommendations within agreed timescales. As highlighted in the table above\* and detailed at para. 5.8, all **93 HIGH** and **MEDIUM** risk IA recommendations have been stated as implemented by management within the TeamCentral tracking system, or a reasonable implementation timescale extension has been agreed.

6.1.4 Also highlighted above, performance against **KPI 7** is reported as **RED** with **55%** for 2015/16 (2014/15 was 56%). This is due to 17 instances (out of 38 reviews including follow-up 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.

6.1.5 It is noted that 7 of the 17 instances relate to Limited Assurance reports which have required multiple discussions of issues raised in order to move forward with the completion of the associated Management Action Plans. However, in the other cases there were significant delays (over 7 weeks in some cases) 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, these delays result in CMT and the Audit Committee not always receiving assurance from IA in a timely manner.

6.1.6 Management feedback continues to be positive on our assurance coverage and particularly on our consultancy work. This year's actual performance against **KPI 8** of 86% has remained at a constant level with the 2014/15 score (87%), showing a continued positive perception of the value of work delivered by the IA service (see section 6.2).

## 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 3.4 (85%) 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 HBA to enable management to form an overall opinion on the work that IA does i.e. did the audit review add value or not? 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.
- 6.2.3 Although there has been a reduction in scores relating to timing, value and recommendations in particular, this may be due to the more complex and higher risk areas reviewed by IA this year. In addition, despite the number of limited assurance reports issued within the year, the results show an improvement in services looking forward to working with IA again in the future when compared to the last two years. This is positive recognition of IA work across the Council.
- 6.2.4 The table below shows the average score from the **35** CFQs completed since 1<sup>st</sup> April 2015 (as per **Appendix A**):

IA CFQ Areas	Average Score 2015/16	Average Score 2014/15	Average Score 2013/14	% Change (2014/15-2015/16)
<b>Q1. Planning:</b> The planning arrangements for the IA review were good	3.41	3.52	3.20	-3.10%
<b>Q2. Scope:</b> The scope of the IA review was relevant	3.50	3.48	3.20	+0.60%
<b>Q3. Conduct:</b> The IA review was conducted in a highly professional manner	3.65	3.73	3.20	-2.20%
<b>Q4. Timing:</b> The IA review was carried out in a timely manner	3.35	3.59	3.10	-6.60%
<b>Q5. Report:</b> The IA report was presented in a clear, logical and organised way	3.47	3.50	3.20	-0.80%
<b>Q6. Recommendations:</b> The IA recommendations were constructive and practical	3.18	3.50	3.10	-9.20%
<b>Q7. Value:</b> The IA review added value to your service area	3.18	3.28	3.10	-3.20%
<b>Q8. Overall:</b> I look forward to working with IA in future	3.47	3.40	3.40	+2.10%

6.2.5 From the **35** CFQs returned in 2015/16, IA has received a range of formal client comments on IA performance, a mixed selection of which is highlighted over the page:

#### Personalised Budgets

- *"The Personalised budgets audit and subsequent report I believe has provided really beneficial feedback and recommendations that will assist Social Care in developing and implementing even more robust processes to make the delivery of true personal budgets more streamlined and robust. It is also good to see that there are noticeable practices already in place that can be shared with other service areas."*

#### Domiciliary Care

- *"I was extremely impressed with the commitment and working relationship I have formed with Audit and the findings / outcomes identified to improve my service".*

#### Corporate Procurement

- *"Long time lag in process, start to finish."*

#### Waste Services

- *"The Auditor was both friendly and professional. Asked probing questions, and took the time to go on site and 'take a look'."*

#### Child Sexual Exploitation

- *"As addressed in the questions above we found the audit process, final report and recommendations extremely helpful in building on our CSE Action Plan, identifying areas of development and highlighting good practice. We would welcome an audit review in the future."*

#### SEND Reforms - Local Offer

- *"The only reason that the review added less value was that we took part in a peer review a few weeks/months before the audit and this covered some of the same ground. However, the audit was more in depth and highlighted additional aspects that needed to be added to the action plan."*

6.2.6 Whilst the HBA 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 helps IA continue to improve as a service.

## 7. Forward Look to 2016/17

7.1 Looking ahead to 2016/17, due to the wider services incorporated into Business Assurance, the team will be helping **further develop the Council's Information Governance and Business Continuity arrangements** which will include providing quarterly assurance report to CMT, in addition to the quarterly Internal Audit and Risk Management reports. Whilst expanding the remit of Business Assurance, we will continue to focus on delivering consistently high quality value added IA reviews to help services to succeed. This will be continue to be undertaken in a way which maintains our independence and objectivity to ensure an unbiased assessment of the Council's control environment.

7.2 Local authorities must have their local external auditor appointed by 31<sup>st</sup> December 2017, as set out in the **Local Audit and Accountability Act 2014**. The Act requires that relevant bodies appoint their auditor by 31st December in the financial year before the financial year of the accounts the first audit will cover. The Act allows for flexibility in the arrangements, so authorities are able to choose which option will suit their local circumstances best. However, there are certain requirements in the appointment including operation of an Auditor Panel that need to be complied with. There may be some overlap between the Auditor Panel and the Audit Committee but there are specific issues to consider where an existing Audit Committee undertakes to fulfil the statutory Auditor Panel role.

- 7.3 The BA team will shortly be embarking upon the **recruitment of an additional Trainee Internal Auditor** who will undergo the team's study programme to become an IIA qualified Internal Auditor. With the expansion in the remit of BA, the new role will be exposed to a wide ranging sphere of activity across the Council which in turn will produce a qualified Internal Auditor with the experience and expertise LBH requires.
- 7.4 The **skill set within the Business Assurance team is set to develop further** following the recent success of two staff undertaking the ISACA Certified Information Systems Auditor qualification. Having passed the exams, these two staff are currently working alongside an ICT auditor from Mazars (our external computer IA partner provider) in conjunction with Council ICT staff. This is helping to further develop their understanding and gain experience of the Council's Information Systems environment. We are also increasing our use of Computer Assisted Auditing Tools & Techniques (CAATTs) to help us provide improved ICT IA coverage in the future.
- 7.5 During 2015/16 the IA team conducted the **External Quality Assessment (EQA)** for a peer authority within the London Audit Group (Hackney). It has now been confirmed that we will be subject to an EQA in January 2017, which is due to be undertaken by the HIA from the London Borough of Lambeth. This will consist of an independent review of our conformance with the PSIAS and areas to be reviewed include IA's purpose and positioning, structure and resources, audit execution and the impact on the organisation. The EQA will satisfy PSIAS requirements for an external, independent review of IA every 5 years. The results may provide areas of further improvement which we will then incorporate into our QAIP.
- 7.6 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 HBA needs to bring to the attention of the Council's CMT or Audit Committee at this time.

Muir Laurie FCCA, CMIIA  
**Head of Business Assurance**

30<sup>th</sup> June 2016

**APPENDIX A****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16**

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

**2015/16 IA Assurance Reviews:**

IA Ref.	IA Review Area	Status as at 30 <sup>th</sup> June 2016	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
15-A38a	Home to School Transport - Safeguarding	Final report issued 23 <sup>rd</sup> March 2016	No	1	8	-	-	✓
15-A13	Music Service	Final report issued 24 <sup>th</sup> June 2015	Limited	-	8	5	1	✓
15-CR1	Deprivation of Liberty Safeguards (DoLS)	Final report issued 28 <sup>th</sup> July 2015	Limited	-	6	2	-	✓
15-A24	Disabled Facilities Grant (DFG)	Final report issued 4 <sup>th</sup> September 2015	Limited	-	8	4	1	✓
15-A12	Corporate Procurement & Commissioning	Final report issued 13 <sup>th</sup> November 2015	Limited	1	5	4	-	✓
15-A25	Schools - ICT Arrangements	Final report issued 25 <sup>th</sup> November 2015	Limited	4	5	7	4	✓
15-A23	Domiciliary Care (HomeCare)	Final report issued 4 <sup>th</sup> December 2015	Limited	1	5	-	-	✓
15-A16	Records Management and Document Retention Policy	Final report issued 18 <sup>th</sup> February 2016	Limited	1	4	2	1	N/A
15-A27	Housing - Repairs	Final report issued 25 <sup>th</sup> February 2016	Limited	4	6	1	-	✓
15-CR3	Housing Needs - Allocations & Assessment	Final report issued 2 <sup>nd</sup> March 2016	Limited	3	7	2	-	✓
15-A10	Officers' Scheme of Delegations	Final report issued 3 <sup>rd</sup> March 2016	Limited	1	1	-	-	✓
15-A37	Occupational Therapy Equipment	Final report issued 23 <sup>rd</sup> March 2016	Limited	2	6	3	-	✓
15-A43	PerTemps Contract Management	Final report issued 24 <sup>th</sup> June 2016	Limited	-	7	1	-	Not yet due

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Assurance Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 30 <sup>th</sup> June 2016	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
15-A26	Housing - Planned Maintenance	Final report issued 29 <sup>th</sup> June 2016	Limited	2	5	2	-	Not yet due
15-A40	Fleet Management	Final report issued 29 <sup>th</sup> June 2016	Limited	1	8	-	-	Not yet due
15-A33	Data Centre Resilience	Final report issued 30 <sup>th</sup> June 2016	Limited	1	6	-	2	Not yet due
15-A6	Effectiveness of Internal Audit	Final report issued 9 <sup>th</sup> June 2015	Reasonable	-	3	6	-	N/A
15-A7	Effectiveness of Audit Committee	Final report issued 24 <sup>th</sup> June 2015	Reasonable	-	2	3	-	✓
15-A2	Schools - Pupil Premium Funding	Final report issued 26 <sup>th</sup> June 2015	Reasonable	5	1	-	3	✓
15-A4	Supply and Agency Staffing in Schools	Final report issued 22 <sup>nd</sup> July 2015	Reasonable	3	-	5	3	✓
15-A5	Absence Management	Final report issued 1 <sup>st</sup> September 2015	Reasonable	-	3	4	-	✓
15-A11	Imprest Accounts	Final report issued 9 <sup>th</sup> September 2015	Reasonable	-	1	3	1	✓
15-A14	Purchasing Cards	Final report issued 16 <sup>th</sup> September 2015	Reasonable	-	3	4	-	✓
15-A3	Personalised Budgets- Children's & Adults	Final report issued 9 <sup>th</sup> November 2015	Reasonable	-	5	8	2	✓
15-A22	Reablement Service	Final report issued 25 <sup>th</sup> November 2015	Reasonable	-	3	2	-	✓
15-CR2	Child Sexual Exploitation (CSE)	Final report issued 10 <sup>th</sup> February 2016	Reasonable	-	7	3	1	✓
15-A36	Section 117 of the Mental Health Act 1983 - Aftercare and accommodation	Final report issued 23 <sup>rd</sup> February 2016	Reasonable	-	5	1	-	✓
15-A39	Waste Services	Final report issued 8 <sup>th</sup> March 2016	Reasonable	1	3	-	-	✓
15-A30	Right to Buy (RtB)	Final report issued 10 <sup>th</sup> March 2016	Reasonable	-	2	1	-	✓
15-A29	Financial Assessments (Children's and Adults)	Final report issued 31 <sup>st</sup> March 2016	Reasonable	-	5	6	-	✓

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Assurance Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 30 <sup>th</sup> June 2016	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
15-A32	Special Educations Needs and Disability (SEND) Reforms	Final report issued 16 <sup>th</sup> May 2016	Reasonable	-	3	1	-	✓
15-A9	VAT	Final report issued 18 <sup>th</sup> May 2016	Reasonable	-	2	4	1	✓
15-A28	Capital Programme (formerly Corporate Construction)	Final report issued 29 <sup>th</sup> June 2016	Reasonable	-	5	5	-	Not yet due
15-A47	Children's Centres (Follow-Up)	Final report issued 27 <sup>th</sup> March 2016	N/A	-	5	-	-	N/A
15-A46	Planning Applications - CIL (Follow-Up)	Final report issued 30 <sup>th</sup> March 2016	N/A	-	1	-	-	N/A
15-A48	Staff Gifts, Hospitality and Sponsorship (Follow-Up)	Final report issued 31 <sup>st</sup> March 2016	N/A	-	-	5	-	N/A
15-A49	Declarations of Interest (Follow-Up)	Final report issued 10 <sup>th</sup> May 2016	N/A	-	4	3	-	N/A
15-A45	High Level Mileage (Follow-Up)	Final report issued 28 <sup>th</sup> June 2016	N/A	-	-	-	-	N/A
<b>Total <u>number</u> of IA Assurance Recommendations raised in 2015/16</b>				<b>31</b>	<b>158</b>	<b>97</b>	<b>20</b>	
<b>Total <u>percentage</u> of IA Assurance Recommendations raised in 2015/16</b>				<b>11</b>	<b>55</b>	<b>34</b>	<b>-</b>	

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Consultancy Reviews:**

IA Ref.	IA Review Area	Status as at 30 <sup>th</sup> June 2016
15-C4a	DP Policy Info Gov Policy Review	Final IA consultancy memo issued 11 <sup>th</sup> May 2015
15-C4b	Information Governance Policy Review	Final IA consultancy memo issued 11 <sup>th</sup> May 2015
15-C8	Procurement Tender Evaluation Records	Final IA consultancy memo issued 29 <sup>th</sup> May 2015
15-C3	EFA Mock Audit - Hillingdon Adult & Community Learning	Final IA consultancy memo issued 5 <sup>th</sup> June 2015
15-C10	Mortuary (previously planned to be an assurance review)	Final IA consultancy memo issued 25 <sup>th</sup> June 2015
15-C5	First Aid QA (Q1)	Final IA consultancy memo issued 28 <sup>th</sup> July 2015
15-C6	Stores Management	Final IA consultancy memo issued 30 <sup>th</sup> July 2015
15-C14	Textiles Recycling Processes	Final IA consultancy memo issued 16 <sup>th</sup> September 2015
15-C9	Whistleblowing Investigation - Skylakes	Final IA consultancy memo issued 5 <sup>th</sup> October 2015
15-C7	24+ Advanced Learning Loans Mock Audit - Hillingdon Adult & Community Learning	Final IA consultancy memo issued 13 <sup>th</sup> October 2015
15-C19	Stores Stock Check	Final IA consultancy memo issued 15 <sup>th</sup> October 2015
15-C17	Libraries Imprest Accounts	Final IA consultancy memo issued 26 <sup>th</sup> October 2015
15-C21	Security at HRD	Final IA consultancy memo issued 24 <sup>th</sup> November 2015
15-C2a	Review of Children & Young People's Services - Prepaid Cards	Final IA consultancy memo issued 26 <sup>th</sup> November 2015
15-C22	Passenger Assistants - HR File Reviews	Final IA consultancy memo issued 7 <sup>th</sup> December 2015
15-C2b	Review of Children & Young People's Services - Looked After Children (LAC) Savings	Final IA consultancy memo issued 17 <sup>th</sup> December 2015
15-C18	Schools Improvement (LAASSI)	Final IA consultancy memo issued 13 <sup>th</sup> January 2016
15-A38b	Home to School Transport - Financial	Final IA consultancy memo issued 30 <sup>th</sup> March 2016

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Consultancy Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 30 <sup>th</sup> June 2016
15-C24	Autism Guidance	Final IA consultancy memo issued 20th May 2016
15-C25	Hospital Discharge	Final IA consultancy memo issued 9th June 2016
15-C16	NFI - Single Person Discount	Verbal consultancy advice provided
15-C11	Corporate Construction	Verbal consultancy advice provided
15-C12	Housing - Planned Maintenance	Verbal consultancy advice provided
15-C13	Housing Repairs	Verbal consultancy advice provided
15-C15	Troubled Families Project Group	Verbal consultancy advice provided
15-C23	Domiciliary Care Process Mapping	Verbal consultancy advice provided
15-C25	Policy Review - Anti Fraud & Anti Corruption Policies	Verbal consultancy advice provided - further work required
15-EQA	External Quality Review of Hackney	Report passed to LAG for moderation on 8 <sup>th</sup> June 2016
15-Inv A	Investigation A	Final report issued 28 <sup>th</sup> October 2015
15-Inv B	Investigation B (i)	Outcome letter issued 3 <sup>rd</sup> February 2016
15-Inv E	Investigation E	Final report issued 8 <sup>th</sup> February 2016
15-Inv D	Investigation D	Final report issued 14 <sup>th</sup> March 2016
15-Inv C	Investigation C	Final report issued 11 <sup>th</sup> May 2016

**APPENDIX A (cont'd)****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Grant Claim Reviews:**

IA Ref.	IA Review Area	Status as at 30 <sup>th</sup> June 2016
15-GC1	Troubled Families (Q1)	Final IA memo issued 29 <sup>th</sup> May 2015
15-GC2	Bus Subsidy Grant	Final IA memo issued 22 <sup>nd</sup> September 2015
15-GC3	Housing Benefits Subsidy Grant	Final IA memo issued 18 <sup>th</sup> September 2015
15-GC4	Troubled Families (Q2)	Final IA memo issued 18 <sup>th</sup> September 2015
15-GC5	Troubled Families (Q3)	Final IA memo issued 14 <sup>th</sup> December 2015
15-GC6	Defra Repair and Renew Grant (flooding)	Final IA memo issued 14 <sup>th</sup> January 2016

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

ASSURANCE LEVEL	DEFINITION
<b>SUBSTANTIAL</b>	There is a <b>good level of assurance</b> 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 <b>positive assurance</b> that objectives will be achieved.
<b>REASONABLE</b>	There is a <b>reasonable level of assurance</b> 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 <b>some risk</b> that objectives will not be achieved.
<b>LIMITED</b>	There is a <b>limited level of assurance</b> 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 <b>significant risk</b> that objectives will not be achieved.
<b>NO</b>	There is <b>no assurance</b> 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 <b>high risk</b> 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**

<b>RISK</b>	<b>DEFINITION</b>
<b>HIGH</b> 	The recommendation relates to a <b>significant threat</b> 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. <b>The risk requires senior management attention.</b>
<b>MEDIUM</b> 	The recommendation relates to a <b>potentially significant threat</b> 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. <b>The risk requires management attention.</b>
<b>LOW</b> 	The recommendation relates to a <b>minor threat or opportunity</b> 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. <b>The risk may be tolerable in the medium term.</b>
<b>NOTABLE PRACTICE</b> 	The activity <b>reflects current best management practice</b> or is an innovative response to the management of risk within the Council. <b>The practice should be shared with others.</b>

**RISK RESPONSE DEFINITIONS**

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

**APPENDIX D****INTERNAL AUDIT KEY PERFORMANCE INDICATORS 2016/17**

The Key Performance Indicators (KPIs) for IA quarterly reporting to CMT and the Audit Committee in 2016/17 are set out below:

KPI Ref.	Performance Measure	Target Performance 2016/17
KPI 1	<b>HIGH</b> risk IA recommendations where positive management action is proposed	<b>98%</b>
KPI 2	<b>MEDIUM</b> risk IA recommendations where positive management action is proposed	<b>95%</b>
KPI 3	<b>HIGH</b> risk IA recommendations where management action is taken within agreed timescale	<b>90%</b>
KPI 4	<b>MEDIUM</b> risk IA recommendations where management action is taken within agreed timescale	<b>75%</b>
KPI 5	Percentage of IA Plan delivered to <b>draft report</b> stage by 31 March	<b>90%</b>
KPI 6	Percentage of IA Plan delivered to <b>final report</b> stage by 31 March	<b>80%</b>
KPI 7	Percentage of draft reports issued as a final report within 15 working days	<b>80%</b>
KPI 8	Client Satisfaction Rating (from completed CFQs)	<b>85%</b>
KPI 9	IA work fully compliant with the <b>PSIAS</b> and <b>IIA Code of Ethics</b>	<b>100%</b>

All IA KPIs Target Performance for 2016/17 will be the same as 2015/16.

**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.