

Annual Report of the Audit Committee 2018/19

29 July 2019

Report Distribution

Meeting / Date

Audit Committee ~ 21 October 2019

Council ~ 21 November 2019



1. Introduction

- 1.1 In line with best practice guidance, the Audit Committee is required to submit an annual report to Council, outlining the Audit Committee's activities over the previous year. This report summarises, for the Council, the work of the Audit Committee during 2018/19 and how it has undertaken its responsibilities for reviewing the key areas within its remit. Specifically these include:
- Internal Audit (including internal controls);
 - Risk Management;
 - Corporate Governance;
 - External Audit;
 - Counter Fraud; and
 - Financial reporting process of the Statement of Accounts.
- 1.2 Accordingly, in compliance with the Accounts and Audit (Amended) (England) Regulations 2015, the Audit Committee has reviewed the effectiveness of the systems of internal control by receiving regular reports from these areas above that contribute to the control framework.
- 1.3 This report provides an opportunity for Council Members to review the work of the Audit Committee and comment on its contribution and performance.

2. Key Activities of the Audit Committee

- 2.1 The Terms of Reference of the Committee are attached at **Appendix A**. These were last amended at the Council meeting held on 11 May 2017, following an Internal Audit review of the Effectiveness of the Audit Committee. The updated Terms of Reference provides clarity and clearly outlines the different roles and responsibilities that surround the Council's wide ranging audit and governance activities, namely: strategy and policy (Leader/ Cabinet Members), operational/ service delivery (Officers) and review and monitoring (Audit Committee).
- 2.2 During the 2018/19 year (1 April 2018 to 31 March 2019) the Audit Committee met on four occasions; 11 April 2018, 26 July 2018, 17 October 2018 and 6 February 2019. Membership and attendance stats of the Audit Committee comprised as follows:

Member Name	Member Appointment	2018/19 Meeting Attendance
Mr John Chesshire (Independent Chairman)	Initially appointed on 2 November 2017.	100% (all 4 meetings).
Cllr Scott Seaman-Digby (Vice Chairman to 8 May 2019)	Appointed from 12 May 2016 to 9 May 2019.	50% (2 from 4 meetings).
Cllr Martin Goddard (Vice Chairman from 9 May 2019)	Appointed on 10 May 2018.	100% since appointment (3 from 3 meetings).
Cllr Susan O'Brien	Appointed on 5 June 2014.	100% (all 4 meetings).
Cllr Tony Eginton	Appointed on 5 June 2014.	100% (all 4 meetings).
Cllr George Cooper	Appointed 13 May 2010 to 10 May 2018.	100% of available meetings (11 April 2018).

- 2.3 The current Independent Chairman has over 20 years experience in the public and private sectors working in the internal audit, risk management, business improvement and governance fields.
- 2.4 The role delegated by the Council to the Audit Committee is to provide independent assurance over the governance, risk management and the system of internal control in operation at the Council. The Audit Committee has fulfilled this role by undertaking the following key activities:

a) Oversight of Internal Audit

- The Audit Committee oversaw the activity of the Council's Internal Audit service to assist it in its role of monitoring the internal control, risk management and governance arrangements of the Council's operations. During the year, the Audit Committee has reviewed the 2017/18 Annual Internal Audit Report and Head of Internal Audit Opinion Statement, received quarterly Internal Audit progress reports and operational plans, scrutinised Internal Audit performance and approved the 2018/19 Internal Audit Annual Resources Plan.
- An assessment of the Internal Audit Service is required by the Public Sector Internal Audit Standards (PSIAS) to be completed every five years. Hillingdon's Internal Audit service was last reviewed in 2017/18 and as reported at the time to Audit Committee, Hillingdon was just one of a few Internal Audit services across London to be issued with a '**FULLY CONFORMS to the PSIAS**' independent opinion. The next External Quality Assurance review of Internal Audit is due to be carried out in 2022.
- The Internal Audit Charter was last reviewed and updated then approved by Audit Committee at its meeting on 22 July 2019 (previously April 2018).
- The Audit Committee also reviewed the key findings from Internal Audit reviews and sought explanations from the Head of Internal Audit about the recommendations emanating from 'limited' or 'no' assurance audits. It monitored the number of outstanding recommendations and was pleased to note a continued collaborative approach between Internal Audit and Management to manage identified risks appropriately.
- The Committee is satisfied that Internal Audit has embedded a more collaborative approach in working with Management to help achieve positive outcomes for the Council.
- The Committee has continued to play an important role in raising the profile of Internal Audit by supporting it in its role of assisting Management in the Council.
- In keeping with good governance arrangements, Members of the Audit Committee have had a private meeting with the Head of Internal Audit this year.

The Audit Committee is satisfied that Internal Audit is effective and adds value to the Council.

b) Oversight of External Audit

- The Audit Committee has reviewed the activity of the Council's External Auditors (Ernst & Young) to assist it in its role of monitoring the internal control, risk management and governance arrangements of the Council's operations. The Committee has received and considered the external audit plan, received progress updates and reviewed external audit performance.
- During 2018/19 an unqualified audit opinion was provided by the external auditors on the Council's 2017/18 financial statements.
- In keeping with good governance arrangements, Members of the Audit Committee have had a private meeting with External Audit this year.

c) Prevention and Detection of Fraud and Corruption

- The Council operates a zero tolerance policy towards all fraud and corruption. Responsibilities for the Council's anti-fraud and anti-corruption arrangements were transferred to the Business Assurance Counter Fraud Team (BACFT) with effect from 1 August 2017.

- The BACFT carries out a range of criminal and non-criminal types of investigations, although predominantly its focus during 2018/19 has been on tenancy fraud and proactive loss prevention projects in Social Care.
- In April 2018 a Home Office Immigration Enforcement Officer became part of the BACFT and having this service as part of the team this has helped achieve significant housing and social care cost reductions for Hillingdon taxpayers.
- The National Fraud Initiative (NFI), detecting potential fraud by matching electronic data sets within and between public and private sector bodies is co-ordinated by the BACFT. Relevant service areas across the Council review the initial data matches and then refer them to the BACFT for investigation (where appropriate to do so).
- The Audit Committee has received consolidated quarterly progress reports from the BACFT. The team has responsibility for the oversight of the effectiveness of the Council's policies and procedures to prevent and detect fraud and corruption and during the course of the 2018/19 year six investigative corporate policies were updated by the BACFT and were approved by Audit Committee. All six of these policies are in operation across the Council.
- A move to a risk based approach to counter fraud activities was introduced in 2017/18 and is now fully embedded across the BACFT. Intelligence Officers within the team analyse and risk assess any referrals and pass them to the verification and investigation officers in the team then for further work (where appropriate to do so).
- In 2018/19 total loss prevention work of £1.2M was achieved by the BACFT.

The Audit Committee is satisfied with the effectiveness of the Council's counter fraud arrangements during 2018/19 and is looking forward to seeing more loss prevention work being completed in 2019/20.

d) Risk Management

- The Audit Committee received the Annual Risk Management Report in September 2018 as part of the Committee's role to independently assure the Council's corporate risk management arrangements. In addition, the Committee agreed the Council's updated Risk Management Policy and Guidance in April 2018.
- The Committee has monitored and reviewed the Council's risk management arrangements during the year through a quarterly risk management report, including the updated Corporate Risk Register. It also sought assurances that action was being taken on risk related issues.

The Audit Committee is satisfied that these arrangements enable it to provide sufficient challenge to officers around the identification and management of the key risks to the Council.

e) Approval of Financial Accounts

- In July 2018 the Audit Committee approved the Council's annual statement of accounts for 2017/18. This included considering whether appropriate accounting policies have been followed and whether there are concerns arising from the external audit of the financial statements that need to be brought to the attention of the Council.
- The Audit Committee scrutinised the accounts in some detail and challenged the officers where appropriate. As part of this process the Committee considered the External Auditor's Annual Report to those charged with governance on issues arising from the external audit of the accounts. An unqualified opinion was provided by Ernst & Young in July 2018.

f) Corporate Governance

- The Audit Committee successfully oversaw the production of the Council's Annual Governance Statement (AGS) for 2017/18 and approved it as part of the Statement of Accounts in September 2018. As at July 2019, the Audit Committee is in the process of providing oversight in relation to the production of the AGS for 2018/19.

3. Improvements in the Audit Committee's Effectiveness

- 3.1 In line with best practice, an independent review of the Audit Committee's effectiveness has been conducted by Internal Audit. This review provided **SUBSTANTIAL** assurance that the Committee is operating effectively. The final report was issued on 14 May 2019 and was presented to the Audit Committee at its meeting on 22 July 2019.
- 3.2 During the 2018/19 year, the Deputy Director of Exchequer and Business Assurance Services, in liaison with and Democratic Services and the Audit Committee, has developed a skills matrix and training and development plan for all Audit Committee members. This has helped inform further awareness and training sessions held during the course of the year.
- 3.3 Following amendments to the Audit Committee's Terms of Reference in 2012, concern was expressed at the deletion of the power the Audit Committee had to require senior managers of Council services to attend meetings. The External Auditors have noted that it is unusual for the Audit Committee of a local authority not to have this power. As a consequence the Terms of Reference do not comply fully with best practice, potentially affecting the effectiveness of the Committee.
- 3.4 During the 2018/19 year, the Committee is satisfied that there have been no occasions where it believes that this lack of this power has hindered its effectiveness. The Audit Committee will reconsider its Terms of Reference and this position during each of its meetings this year.
- 3.5 It is also noted that despite the deletion of the power of the Audit Committee to require senior managers to attend meeting, Members still have the authority to request senior management attendance at meetings. The Audit Committee will consider whether to review its Terms of Reference again in the year ahead and propose any changes if required.

4. Conclusion

- 4.1 The Audit Committee considers that it has continued to make a significant contribution to ensuring that the key elements of the governance framework are given proper consideration and are appropriately challenged. It will continue to develop this role and contribute to strengthen internal control, risk management and governance throughout the authority.
- 4.2 I would like to thank all Members and officers who have been involved in the work of the Audit Committee throughout the past year.

Mr. John Chesshire

Independent Chairman of the Audit Committee, London Borough of Hillingdon

29 July 2019

APPENDIX A**AUDIT COMMITTEE TERMS OF REFERENCE**

The Constitution defines the Terms of Reference for the Audit Committee as:

The Audit Committee's role will be to:

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

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

Internal Audit

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

External Audit

8. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
9. Monitor management action in response to issues raised by External Audit.
10. Receive and consider specific reports as agreed with the External Auditor.
11. Comment on the scope and depth of External Audit work and ensure that it gives value for money, making any recommendations to the Corporate Director of Finance.

APPENDIX A (cont'd)

12. Be consulted by the Corporate Director of Finance over the appointment of the Council's External Auditor.
13. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.
14. Monitor arrangements for ensuring effective liaison between Internal Audit and External Audit, in consultation with the Corporate Director of Finance.

Article I. Governance Framework

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

Article II. Accounts

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

Review and Reporting

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