

Minutes

Audit Committee

Tuesday, 20 April 2021

Meeting held VIRTUALLY - Live on the Council's

YouTube channel: Hillingdon London



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Come into effect on: Immediately (or call-in date)

Members Present:

Councillors Chesshire (Chairman)

Tony Eginton (Opposition Lead)

Duncan Flynn

Raymond Graham

Officers Present:

Sarah Hydrie, Head of Internal Audit & Risk Assurance

James Lake, Chief Accountant

Muir Laurie, Deputy Director of Exchequer Services & Business Assurance

Zac O'Neil, Head of Counter Fraud

Stephanie Rao, Internal Audit Manager

Paul Whaymand, Corporate Director of Finance

Alex Brown, Interim Head of Counter Fraud

Steve Clarke, Democratic Services Officer

Also Present:

Suresh Patel, Ernst & Young

Larisa Midoni, Ernst & Young

Tomisin Aliu, Ernst & Young

111. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Richard Mills.

112. DECLARATIONS OF INTEREST

Councillor Tony Eginton declared a non-pecuniary interest in agenda items 5, 6, 7 & 8 arising from the fact that he was a retired member of the Local Government Pension Scheme. He remained for the discussion of all items.

113. TO CONFIRM THAT ALL ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THAT ANY ITEMS MARKED PART II WILL BE CONSIDERED IN PRIVATE

It was confirmed that agenda items 1-12 were marked as part i and would be considered in public, while agenda item 13 was marked part ii and would therefore be considered in private.

114. MINUTES OF THE MEETING HELD ON 4 FEBRUARY 2021

RESOLVED: That the minutes of the meeting held on 4 February 2021 be approved as a correct record.

115. EY 2020/21 ANNUAL AUDIT PLAN & PENSION FUND AUDIT PLAN

Officers introduced the item highlighting the two plans that had been produced, one for the audit of the Council's accounts and one for the Pension Fund accounts. It was noted that the draft accounts were intended to be ready by the end of June, would be audited throughout July and August and were due to be signed off by the Audit Committee at their September meeting.

Representatives of Ernst & Young summarised both plans for the Committee. It was specifically highlighted that, due to the timing of the onset of the Covid-19 pandemic, the 2020/21 financial year was where the impact of the pandemic would start to be seen with regard to loss of income and grant funding from central government; because of this, there were additional risks within the audit plan but it was noted that these risks were not unique to Hillingdon. The major audit risks and areas of focus were outlined, and attention was drawn to where these risks differed from previous years due to the Covid-19 pandemic. It was noted that a change in auditing standards for identifying, assessing, and responding to risks around accounting estimates would likely result in an increase in the level of information requested by auditors going forward. The Committee were also informed that, with regard to audit materiality, there was no change in assessing materiality for 2020/21.

Regarding Value for Money, the Committee were informed that slight changes to the reporting criteria put more of an emphasis on financial sustainability rather than financial resilience. To this end, it was likely that additional audit work would be carried out around financial sustainability. Members were notified that regarding fees, Public Sector Audit Appointments Ltd (PSAA) were expected to determine proposals around increasing the base fee shortly and additional fees for 2019/20, which had been agreed with management, were also subject to approval by PSAA.

Members questioned the impact of the Covid-19 pandemic on the new significant risk around accounting adjustments made in the Movement in Reserves Statement; the Committee were informed that local authorities were limited in the ways in which they can direct influence over their accounts and movement in reserves was one of them, adopting this as a significant risk recognised that, as the financial impacts of the pandemic are felt, there would be more pressure to implement movement in reserves. It was also noted that, this judgement was being made across a number of local authorities for the 2020/21 financial year. The Committee were assured that accounting adjustments made in the Movement in Reserves Statement were being treated appropriately and all regulations to that regard were being followed.

Members queried whether auditors would be examining a council tax discount given to elderly residents of the Borough, eligibility to which had recently been reduced. It was confirmed that this would come onto the auditor's radar should it be deemed to have a significant impact on the Council's finances.

By way of clarification, officers informed Members that with regard to grant funding, pandemic related grants were being assessed on a case by case basis to determine whether the funding was principle or agent, and where they should be included in the Council's accounts. The rationale for this process had been discussed with Ernst & Young and work to that regard was ongoing.

The Chairman requested a correction be made to the Ernst & Young report; the report supposedly contradicted itself where it had stated "The value of secondary schools was understated by £4.2m...", the report later went on to state "The value of secondary schools was overstated by approximately £4m...". Representatives from Ernst & Young confirmed that the correction would be made.

The Committee sought assurance that the September 2021 target date for completing the annual audit would be achievable given the backdrop of the Covid-19 pandemic. Members were assured that sufficient resources had been put in place to meet this target and given the previous record of working with officers at Hillingdon, this was deemed a comfortable goal.

RESOLVED that the Audit Committee noted the content of the EY 2020/21 Annual Audit Plan & Pension Fund Audit Plan.

116. EY UPDATE ON THE 2019/20 HOUSING BENEFIT ASSURANCE PROCESS

Officers introduced the item noting that the Housing Benefit Assurance Process (HBAP) was completed by the deadline on 31 January 2021 and had resulted in only one incorrect claim being identified resulting in an overpayment of just £18. Due to the complexity and number of transactions in this area, this was considered an excellent result. The Teachers' Pension was also submitted in December 2020 and the Capital Receipts Pooling was completed by 31 March 2021; from a certification perspective, this brought all of the 2019/20 external audit work to a close.

Representatives from Ernst & Young highlighted that not many local authorities had their housing benefits claims certified by the end of January, this was seen as a testament to the collaborative working between officers and external audit. The Committee commended officers and Ernst & Young for completing this work ahead of schedule and with such an impressive result.

Members queried whether the internal audit team had assisted, or could assist, with the HBAP in an effort to bring costs down. It was noted that the Department for Work and Pensions were quite prescriptive in the work that needed to be done for the HBAP and the detailed way in which the work needed to be documented required experienced housing benefits claims assessors to carry out the work.

RESOLVED that the Audit Committee noted the contents of the report.

117. INTERNAL AUDIT PROGRESS REPORT QUARTER 4 2020/21 (INCLUDING THE QUARTER 1 2021/22 INTERNAL AUDIT PLAN)

The Head of Internal Audit & Risk Assurance introduced the item noting that good progress had been made since the previous report to the Audit Committee. All

reviews within the Internal Audit Plan were under way, eight assurance reviews had concluded, one consultancy review had been completed and five grant claims had been certified. The Committee were informed that three assurance reviews had been issued with limited assurance opinions; these were, 'Estates – Lease Management', 'Cemeteries – Bereavement Service and Ground Maintenance', and 'Education, Health & Care Plans and Local Offer'. Attention was drawn to Appendix D to the officer's report outlining the outstanding recommendations with revised implementation dates and updates from the action owners; Members were informed that the majority of recommendations had been affected by the Covid-19 pandemic but additional resources were being assigned to assist with their closure. By way of clarification for the Committee, it was explained that a significant part of the additional resource assisting with the closure of recommendations would be an Internal Audit Apprentice who had recently come to the end of their fixed term contract; however they would be staying on with the Council predominantly to assist in undertaking follow-up work and verifying whether risks identified by Internal Audit reviews had been verifiably actioned.

With regard to Internal Audit Key Performance Indicators (KPI), it was noted that seven of the nine KPIs had been met. KPIs five and six, relating to the percentage of the annual Internal Audit Plan delivered to draft and final report stage by 31 March, had seen an improvement from the previous quarter but did not meet their respective yearly targets; progress against these KPIs would be monitored in the coming year with the target being to achieve KPIs five and six. Members highlighted that the way in which KPI performance was displayed in the progress report made it difficult to delineate between follow up work on recommendations from previous reporting years and the current reporting year; officers agreed to incorporate a separate table supporting the number of recommendations raised within the current reporting year.

Members commended officers in their delivery of the Internal Audit Plan against the backdrop of the Covid-19 pandemic and saw the report as a good performance given the situation. The Committee sought clarification on the progress made with regard to risks highlighted in relation to Early Years Centres. Members were informed that the appointment of a new service manager in December 2020 was a positive move in shaping the direction of the Early Years Centres service; additionally, a planned relaunch of the service would be promoted in the community around September 2021. Members requested further information pertaining to the planned improvements to the Early Years Centres service.

The Committee queried the limited assurance opinion given to the 'Cemeteries – Bereavement Service and Ground Maintenance' service asking whether the service had been failing to comply with government legislation at the time of the review. Officers highlighted that, had the service been failing to comply with legislation, Internal Audit would have given an opinion of no assurance to the service; the primary recommendations concerned upgrading the service's record keeping practices to a predominantly electronic one, where it had previously relied on a mainly paper based system. Members asked whether the three limited assurance opinions had been given due to issues relating to the pandemic, or whether these opinions would have been given regardless. It was noted that the concerns seen, resulting in the limited assurance opinions, were longer term issues and would have been flagged outside of the pandemic environment.

Officers also confirmed that the annual review of the effectiveness of Internal Audit would be redefined so as not to be included in the operational Internal Audit Plan as an 'Assurance Review'.

RESOLVED that the Audit Committee:

- 1) Noted the Internal Audit Progress Report for 2020/21 Quarter 4; and**
- 2) Approved the 2021/22 Quarter 1 Internal Audit Plan.**

118. DRAFT INTERNAL AUDIT PLAN 2021/22

The Head of Internal Audit & Risk Assurance introduced the Draft Internal Audit Plan for 2021/22 noting that the Plan was similar to that of previous years, with the Plan adopting a risk-based approach. It was noted that there had been a 29% increase in the number of allocated Internal Audit Days from 850 in 2020/21 to 1,100 days in 2021/22; this was primarily due to the change in composition and skills mix of the Internal Audit team. Members were encouraged by the significant increase in the number of Internal Audit Days for 2021/22 and were happy with the balance of work areas within the Plan.

The Committee queried the process by which underperforming areas of the Council may come under the purview of Internal Audit. Members were informed that there were a number of avenues by which this could happen including; regular meetings between the Deputy Director of Exchequer Services & Business Assurance, the Leader of the Council and the Cabinet Member for Finance, additionally, feedback from quarterly planning meetings between Corporate Directors, Heads of Service and Senior Managers went into the Internal Audit plan presented to, and approved by, the Audit Committee each quarter.

Clarification was sought with regard to the sources of Internal Audit planning, specifically the review of team plans and what level of scrutiny is given to operational team plans when planning Internal Audit work. The Committee were informed that the review of team plans, and service improvement plans focussed mainly on a senior management level.

The Committee asked whether the Internal Audit team were in a position to give their annual audit opinion at the next meeting of the Audit Committee. Officers noted that there were 11 reviews currently outstanding and chose to hold off on giving an audit opinion for the time being.

Members touched upon the Internal Audit team structure, included as Appendix F to the officer's report, and sought assurance that the Head of Internal Audit was satisfied that appropriate resource was allocated to the work area. Officers highlighted that they were pleased with how the recent round of recruitment had gone and despite the challenges of inducting staff remotely, due to the pandemic, the Internal Audit Plan was attainable and suitable resources were in place to fulfil the 2021/22 Plan.

RESOLVED that the Audit Committee approved the Draft Annual Internal Audit Plan for 2021/22.

119. 2020/21 QUARTER 4 COUNTER FRAUD PROGRESS REPORT

Zac O'Neil, Head of Counter Fraud, introduced the 2020/21 quarter 4 counter fraud progress report. Officers highlighted that operations were impacted in quarter 4, more so than quarter 3, due to the tightening of Covid-19 restrictions in the first few months of 2021; however, the challenging conditions were not as consequential as they had previously been during the first national lockdown. Members were informed that Counter Fraud operations had delivered £262k in loss prevention savings throughout the 4th quarter meaning the 2020/21 target of £1m has been met.

Within Housing, it was noted that 11 Council housing properties had been recovered in quarter 4, this brought the total number of properties recovered throughout 2020/21 to 22. This was seen as a success considering the restrictions in place as a result of the pandemic with regard to the recovery of property through the courts; these restrictions had led to more flexible approaches in negotiating the recovery of properties. The successes of the Business Assurance Counter Fraud Team (BACFT) against the backdrop of Covid-19 were further highlighted when number of properties recovered were compared to the that of 2019/20, in which a total of 28 properties had been recovered. It was noted that within Exchequer Services, the total loss prevention savings and income were £26k for quarter 4, bringing the total for 2020/21 to £138k; this was attributed to a focus on 'Beds in Sheds' project work bringing unregistered dwellings into Council Tax generating dwellings. Within Social Care, no additional savings were made in quarter 4, meaning the total identified loss prevention savings for 2020/21 remained at £130k; however, it was noted that a significant number of investigations were ongoing with further referrals being received from that area of the Council. This was expected to lead to a good performance in quart 1 of 2021/22.

The Committee were also informed that throughout quarter 4, the Counter Fraud team had met with Directors and Heads of Service with a focus on fraud risk planning, particularly in relation to procurement to explore new areas for proactive projects going forward.

Members were informed that the hours of service received from the Home Office Immigration Enforcement Officer, embedded within the Counter Fraud Team, had been reduced in line with the reduction in referrals received; this was seen as a symptom of the Covid-19 pandemic and the hours could be increased should the situation change going forward. It was also highlighted that just over 6000 Revenues Inspections were carried out in 2020/21 and quarter 4 had shown a marked improvement in performance compared to quarters 1 to 3.

Alex Brown, Interim Head of Counter Fraud, summarised the report's Forward Look for the Committee. It was noted that the impact felt by Covid-19 restrictions would begin to have less of an impact as the lifting of restrictions was expected in line with the Government's roadmap out of lockdown. Visiting and interviewing functions would be continuing where appropriate and the BACFT would continue to support Exchequer Services in the administration of Business Grants Schemes; it was noted

that this work was likely to continue throughout quarter 1 and possibly beyond. It was highlighted that a financial target in loss prevention and financial savings across Council services had been set at £1.5m for 2021/22, the BACFT were confident that this could be achieved.

Furthermore, Members noted that there was to be a change in leadership within the BACFT following the Head of Counter Fraud's forthcoming departure. An Interim Head of Counter Fraud had been internally appointed and a decision on a permanent Head of Counter Fraud was expected in quarter 2 of 2021/22.

The Committee sought clarifications on the flexible working practices adopted in negotiating the recovery of Council housing properties during the pandemic. Officers elaborated to say that the team had been discussing the merits of returning tenancies with tenants in a more protracted manner; it was noted that lessons had been learnt for the future and where costs involved with court action could be avoided, officers would be exploring alternative means negotiation. Though it was also noted that there were occasions where court action would be deemed necessary. Officers also gave the Committee assurance that records were flagged with regard to individuals whereby the Council had stopped short of legal action but would be alerted to in future when liaising with them.

Members were encouraged by the performance of the Counter Fraud Team over what had been a challenging year and thanked officers for their hard work. The Committee wished the previous Head of Counter Fraud well in his new role and congratulated the Interim Head of Counter Fraud on his new position.

RESOLVED that the counter fraud progress report for 2020/21 quarter 4 be noted.

120. DRAFT COUNTER FRAUD STRATEGIC PLAN 2021/22

The Head of Counter Fraud summarised the draft Counter Fraud Strategic Plan for 2021/22 highlighting some key points including a strategic aim to deliver a financial savings target of £1.5m. This was deemed reasonable considering the climate. Officers outlined the ways in which they look to develop and maintain the effectiveness of the Counter Fraud Service.

One of the key aims of the plan was to embed a strong culture of fraud awareness within management and to provide a robust understanding of what's required in order to prevent fraud. Work would also be done with internal audit and risk departments on the governance arrangements for counter fraud; to this end a quarterly liaison meeting between these service areas was being established to ensure that planning will be collectively structured. Members noted that this would be a good opportunity to share best practice amongst service areas.

Officers summarised Appendix A to the draft Strategic Plan which outlined the summary of fraud risk areas including Procurement, Social Housing, Revenue Collection, Social Care and Maintained Schools. This fed into the Counter Fraud Team's Operational Work Plan (Appendix B to the draft Strategic Plan), of which key points were summarised including a continued focus on tenancy fraud and housing

investigations; this would see the BACFT conducting a housing key fob data review utilising Council data to identify any sub-letting or non-occupation of properties. A new Housing Key Amnesty project was outlined in which Council tenants and those in emergency accommodation would be able to surrender their tenancies during an amnesty period whereby no action would be taken with regard to housing fraud. Members were also informed of a programme of fraud awareness training to be delivered to maintained schools in the Borough, focussing on potential fraud risks and building a robust control environment.

The Committee queried the prospect of having investigation targets within each of the headings; it was noted that upon commencement of investigations, the duration would be largely unknown and it was difficult to judge the length of an investigation from the outset, this posed a challenge in setting annual targets. Officers agreed it would be useful to have an idea of the volume of work that could be expected in any given area rather than setting outright targets of what will be done.

With regard to the lines of communication available to residents as a means of raising concerns about fraud and corruption, the Committee were keen to see this aspect advertised to residents. Officers noted that there was proactive work that could be done in this area but it would be important to balance dedicating resources to maximum effect; it was highlighted that the fraud hotline and fraud email address were already being pushed through the Council's social media channels as well as the Council's website.

The Committee were encouraged by planned work with maintained schools and the development of a toolkit to aid in promoting fraud awareness within school structures. With regard to the key amnesty, Members queried whether officers had seen evidence of similar schemes working in other boroughs. Officers noted that other boroughs had been adopting similar schemes and it was deemed an effective tool for the recovery of properties with reduced effort on the Council's part; it was highlighted that even if uptake was lower than expected, the scheme would not have been too resource intensive and therefore the potential benefits of such a scheme would outweigh any negatives should the scheme not be successful.

RESOLVED that the Audit Committee:

- 1) Noted the Draft Counter Fraud Strategic Plan for 2021/22;**
- 2) Noted the Counter Fraud Team Operational Work Plan for 2021/22; and**
- 3) Commented on the Draft Counter Fraud Strategic Plan 2021/22 and the Counter Fraud Team Operational Work Plan 2021/22.**

121. AUDIT COMMITTEE MEMBER SKILLS MATRIX

The Deputy Director of Exchequer Services & Business Assurance introduced the item noting that officers had drafted the skills matrix attached to the report. Members would be given the opportunity to individually fill in the matrix and once the finished documents had been returned, this data would help to identify the training needs of Committee Members and aid the development of a training programme for Audit

Committee Members, whether that be individually focussed or targeted at the entire Committee.

Members agreed that the skills matrix would be a useful tool in developing a training programme going forward and queried whether there could be more of an emphasis on pensions within the skills matrix. It was highlighted that pensions would be included in a prospective financial reporting training session; however, officers would not wish to cover aspects of this which already fall under the Pensions Committee's remit. It was highlighted that, should Members wish to incorporate it, a bespoke session for Pensions Committee Members could be developed focussing on pension fund accounts.

The Committee sought assurance that distribution and completion of the skills matrix would be extended to the Committee's substitute Members and that this would take into account any prospective changes to the Committee's membership at the Council's Annual General Meeting in May. Officers confirmed that this would happen.

RESOLVED that the Audit Committee:

- 1) Approved the Audit Committee Member Skills Matrix; and,**
- 2) Commented on the Audit Committee Member Skills Matrix.**

122. AUDIT COMMITTEE FORWARD PROGRAMME 2021/22

Consideration was given to the Forward Work Programme for the Committee. It was highlighted that some of the dates within the Forward Work Programme required updating; officers confirmed that this would be actioned.

Members queried whether the annual accounts of Hillingdon First Limited should come to the Audit Committee before being formally signed off. Officers confirmed that they would establish whether the accounts were required to come to the Audit Committee and would update Members once an answer was known.

RESOLVED that the Audit Committee noted the Forward Work Programme for 2021/22.

123. 2020/21 QUARTER 3 CORPORATE RISK REGISTER

This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).

The Corporate Risk Register for Quarter 3 report was presented to Members. The report provided evidence about how identified corporate risks were being managed and the actions which were being taken to mitigate those risks.

RESOLVED: That the Committee reviewed the Corporate Risk Register for Quarter 3 as part of the Committee's role to independently assure the Council's corporate risk management arrangements.