

BUSINESS ASSURANCE

Annual Report of the Audit Committee 2020/21

16th July 2021

Report Distribution

Meeting / Date

Audit Committee ~ 29th July 2021

Council ~ 9th September 2021



HILLINGDON
LONDON

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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 2020/21 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 2021 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. 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 (ToR) of the Audit Committee are attached at **Appendix A**. These were **last amended** at the Council meeting held on 11th May 2017, following an Internal Audit review of the Effectiveness of the Audit Committee. The updated ToR provides clarity and clearly outlines the different roles and responsibilities that surround the Council's wide-ranging audit and governance activities; strategy and policy (Leader/ Cabinet Members), operational/ service delivery (Officers) and review and monitoring (Audit Committee). There have been no changes required to the ToR since May 2017, but they are reviewed regularly as part of Internal Audit's work on reviewing the effectiveness of the Audit Committee.
- 2.2 **During the 2020/21 municipal year the Audit Committee met on four occasions:** 1st October 2020, 24th November 2020, 4th February 2021, and 20th April 2021. Over 2020/21 the Audit Committee continued to be chaired by John Chesshire as the independent member, with Cllr Goddard as Vice-Chairman along with Cllr Eginton as Opposition Lead and Cllr Lavery and Cllr Flynn as other committee members. Following a change to the leadership of the Council on 14th January 2021, Cllr Goddard and Cllr Lavery stepped down from Audit Committee due to their appointment to the Cabinet and were replaced by Cllr Graham and Cllr R Mills. Additionally, during the year, Cllr Morgan attended a meeting as a substitute member. Further details of 2020/21 membership and attendance of the Committee is included at **Appendix B**.
- 2.3 The current **Independent Chairman has over 20 years' relevant 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 2020/21, the Audit Committee reviewed the 2019/20 Annual Internal Audit Report and Head of Internal Audit Opinion Statement, received quarterly progress reports and operational plans, scrutinised Internal Audit performance and approved the 2020/21 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 2022/23.
- The Internal Audit Charter was last reviewed and updated then approved by the Audit Committee at its meeting on 22nd 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 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 held a private meeting with the Deputy Director of Exchequer Services & Business Assurance.

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

b) Oversight of External Audit

- The 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 EY performance.
- In November 2020, an unqualified audit opinion was provided by the external auditors on the Council's 2019/20 financial statements.
- In keeping with good governance arrangements, In November 2020, members of the Audit Committee had a private meeting with External Audit.

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) in August 2017.
- The BACFT carry out a range of criminal and non-criminal investigations, although during the 2020/21 year the BACFT undertook alternative ways of working and operational activities due to the Covid-19 restrictions in accordance with Government guidance.
- Due to the Covid-19 pandemic, officers from the BACFT undertook verification checks on local businesses who applied for one of several Covid-19 business grants, following their introduction in April 2020. By the end of 2020/21 over 7,000 verification checks had been completed in conjunction with Exchequer Services. From those checked, the BACFT has instigated recovery action recouping over £460K to date, with a further 3 verifications still under further formal investigation.
- In October 2020, a restructure was implemented in the BACFT with three new sub-teams, each led by an experienced Counter Fraud Manager: the Housing Investigations Unit, Revenues Investigations Unit and Special Investigations Unit. The new structure creates a stronger skills-mix within the BACFT together with efficiencies in case handling, enabling the service to better adapt to emerging fraud risks from the pandemic.
- 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.

- The National Fraud Initiative (NFI), is embedded in practice in the BACFT through detecting potential fraud by matching electronic data sets within and between public and private sector bodies. 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).
- A move to a risk-based approach to counter fraud activities was introduced in 2017/18 and is fully embedded across the BACFT. Counter Fraud Analysts within the team gather intelligence and risk assess any referrals before passing them to the counter fraud officers and investigators in the team for further work (where appropriate to do so).
- In 2020/21 the team achieved total loss preventions of £1.04m, against a £1m target.

The Audit Committee is satisfied with the effectiveness of the Council's counter fraud arrangements during 2020/21 and is looking forward to seeing more loss prevention work being completed in 2021/22.

d) Risk Management

- The Audit Committee reviewed the Annual Risk Management Report in October 2020 as part of the Committee's role to independently assure the Council's corporate risk management arrangements. In addition, the Council's Risk Management Policy and Guidance was updated in August 2020.
- 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 November 2020, the Audit Committee approved the Council's annual statement of accounts for 2019/20. 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 November 2020.

f) Corporate Governance

- The Audit Committee successfully oversaw the production of the Council's Annual Governance Statement (AGS) for 2019/20 and approved it as part of the Statement of Accounts in November 2020. As at 19th July 2021, the Audit Committee is in the process of providing oversight in relation to the production of the AGS for 2020/21.

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 **REASONABLE** assurance that the Committee is operating effectively. The final report was issued on 28th May 2021 and is due to be presented to the Audit Committee at its planned meeting on 29th July 2021.
- 3.2 The Audit Committee is required to submit an annual report to Council to report its activities and attendance throughout the year. It was noted that for 2019/20 this was scheduled to take place but was not carried out due to Audit Committee meetings being cancelled during the difficulties and restrictions brought on by the Covid-19 pandemic.

- 3.3 During the 2020/21 year it was identified there are potential gaps in training despite the development of a skills matrix and training development plan for all Audit Committee members during the 2018/19 year. It has been agreed that the skills matrix will be used to highlight any gaps in knowledge of the Committee's remit and training will be undertaken in 2021/22. These initiatives will enable the Audit Committee to perform its duties even more efficiently moving forward.
- 3.4 Following amendments to the Audit Committee's ToR 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 ToR do not comply fully with best practice, potentially affecting the effectiveness of the Committee.
- 3.5 However, during the 2020/21 year, the Committee is satisfied that there have been no occasions where it believes that this lack of power has hindered its effectiveness. The Audit Committee will consider its ToR and this position during each of its meetings this year.
- 3.6 It is also noted that despite the deletion of the power of the Audit Committee to require senior managers to attend meetings, Members still have the authority to request senior management attendance at meetings. The Audit Committee will consider whether to review its ToR 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

16th July 2021

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.

APPENDIX B**AUDIT COMMITTEE ATTENDANCE IN THE 2020/21 MUNICIPAL YEAR**

Audit Committee membership and attendance during the 2020/21 municipal year was as follows:

AC Member Name	AC Tenure	2020/21 Meeting Attendance
Mr John Chesshire (Independent Chairman)	2 nd November 2017 to present	100% (all 4 meetings)
Cllr Tony Eginton	5 th June 2014 to present	100% (all 4 meetings)
Cllr Duncan Flynn	16 th January 2020 to present (Elected Vice-Chairman on 4 th February 2021)	75% (3 from 4 meetings): <ul style="list-style-type: none"> • 24th November 2020; • 4th February 2021 (as Vice-Chairman); • 20th April 2021 (as Vice-Chairman).
Cllr Martin Goddard	10 th May 2018 to 14 th January 2021	100% (2 from 2 meetings): <ul style="list-style-type: none"> • 1st October 2020 (as Vice-Chairman); • 24th November 2020 (as Vice-Chairman).
Cllr Raymond Graham	14 th January 2021 to present	100% (2 from 2 meetings): <ul style="list-style-type: none"> • 4th February 2021; • 20th April 2021; • Also attended 1st October 2020 (as substitute for Cllr Flynn).
Cllr Edward Lavery	9 th May 2019 to 14 th January 2021	100% (2 from 2 meetings): <ul style="list-style-type: none"> • 1st October 2020; • 24th November 2020.
Cllr Richard Mills	14 th January 2021 to 20 th May 2021	0% (0 from 2 meetings).
Cllr John Morgan	Substitute during the 2020/21 MY	<ul style="list-style-type: none"> • Attended on 4th February 2021 (as substitute for Cllr Mills).

APPENDIX B (cont'd)

Audit Committee Attendance in 2020/21 Municipal Year by Meeting Date:

AC Meeting Date	AC Members Present	Substitutes Present
1 st October 2020	Mr John Chesshire (Independent Chairman) Cllr Martin Goddard (Vice-Chairman) Cllr Tony Eginton Cllr Edward Lavery	Cllr Raymond Graham (for Cllr Duncan Flynn)
24 th November 2020	Mr John Chesshire (Independent Chairman) Cllr Martin Goddard (Vice-Chairman) Cllr Tony Eginton Cllr Duncan Flynn Cllr Edward Lavery	Not applicable – all Members present.
4 th February 2021	Mr John Chesshire (Independent Chairman) Cllr Duncan Flynn (Vice-Chairman) Cllr Tony Eginton Cllr Raymond Graham	Cllr John Morgan (for Cllr Richard Mills)
20 th April 2021	Mr John Chesshire (Independent Chairman) Cllr Duncan Flynn (Vice-Chairman) Cllr Tony Eginton Cllr Raymond Graham	None – apologies received from Cllr Richard Mills; no substitute in attendance.