Public Document Pack

HILLINGDON
LONDON

A

Audit Committee

Date: **THURSDAY, 15 MARCH 2012**

Time: **5.00 PM**

Venue: **COMMITTEE ROOM 3 - CIVIC CENTRE, HIGH STREET, UXBRIDGE UB8 1UW**

Meeting Details: Members of the Public and Press are welcome to attend this meeting

Members on the Committee

John Morley (Chairman)
George Cooper
Raymond Graham
Paul Harmsworth
Richard Lewis

This agenda and associated reports can be made available in other languages, in Braille, large print or on audio tape on request. Please contact us for further information.

Published: 7 March 2012

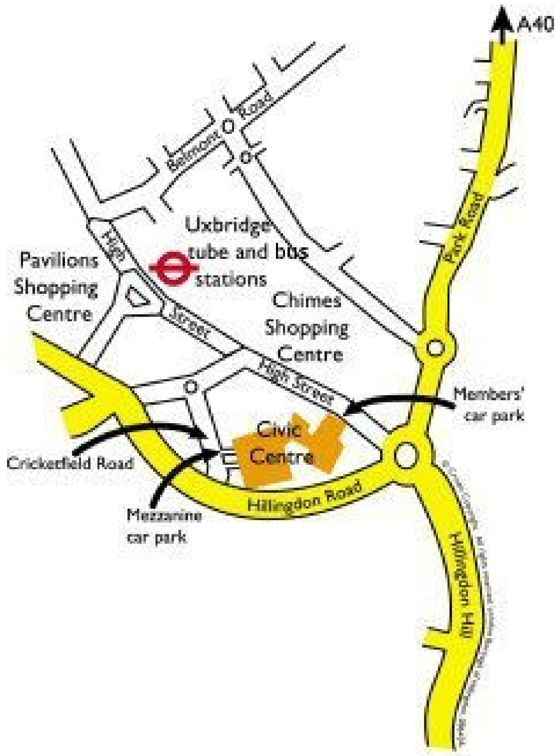
Contact: Khalid Ahmed
Tel: 01895 250833
Fax: 01895 277373
Email: kahmed@hillingdon.gov.uk

This Agenda is available online at:
http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=256&MId=1085&Ver=4

Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
3E/05, Civic Centre, High Street, Uxbridge, UB8 1UW
www.hillingdon.gov.uk

INVESTOR IN PEOPLE

Useful information



Bus routes 427, U1, U3, U4 and U7 all stop at the Civic Centre. Uxbridge underground station, with the Piccadilly and Metropolitan lines, is a short walk away. Limited parking is available at the Civic Centre. For details on availability and how to book a parking space, please contact Democratic Services

Please enter from the Council's main reception where you will be directed to the Committee Room. An Induction Loop System is available for use in the various meeting rooms. Please contact us for further information.

Please switch off any mobile telephones and BlackBerries™ before the meeting. Any recording of the meeting is not allowed, either using electronic, mobile or visual devices.

If there is a FIRE in the building the alarm will sound continuously. If there is a BOMB ALERT the alarm sounds intermittently. Please make your way to the nearest FIRE EXIT.

This Committee

This Committee will be responsible for ensuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control. This Committee will also consider risk management issues and performance reports.

Terms of Reference

The Constitution defines the terms of reference for the Audit Committee as:

Statement of Purpose

The purpose of Audit Committee is to:

- provide independent assurance of the adequacy of the Council's risk management framework and the associated control environment
- provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment
- oversee the financial reporting process.

Audit Activity

The Audit Committee will:

1. Approve but not direct Internal Audit's strategy and plans, ensuring that work is planned with due regard to risk, materiality and coverage. This will not prevent Cabinet directing internal audit to review a particular matter.

2. Review the Head of Internal Audit's Annual Report and Opinion and Summary of Internal Audit Activity (actual and proposed) and the level of assurance this can give over the Council's corporate governance arrangements.

3. Review summaries of Internal Audit reports and the main recommendations arising.

4. Review a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.

5. Consider reports dealing with the management and performance of the providers of internal audit services.

6. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.

7. Monitor management action in response to issues raised by External Audit.

8. Receive and consider specific reports as agreed with the External Auditor.

9. Comment on the scope and depth of External Audit work and ensure that it gives value for money.

10. Liaise with the Audit Commission over the appointment of the Council's External Auditor.

11. Commission work from Internal and External Audit, following a formal request by the Committee to and a joint decision from the Leader of the Council and Cabinet Member for Finance & Business Services.

12. Ensure that there are effective arrangements for ensuring liaison between Internal and External audit.

Regulatory Framework

The Audit Committee will:

1. Maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour. And, where necessary, bring proposals to the Cabinet and/or Council for their development.

2. Review any issue referred to it by the Chief Executive or a Director, or any Council body.

3. Approve and regularly review the authority's risk management arrangements, including regularly reviewing the corporate risk register and seeking assurances that action is being taken on risk related issues.

4. Review and monitor Council policies on 'Raising Concerns at Work' and anti-fraud and anti-corruption strategy and the Council's complaints process.

5. Oversee the production of the authority's Statement of Internal Control and recommend its adoption.

6. Review the Council's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.

7. Consider the Council’s compliance with its own and other published standards and controls.

Accounts

The Audit Committee will:

1. 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 auditor that need to be brought to the attention of the Council.

2. Consider the External Auditor’s report to those charged with governance on issues arising from the audit of the accounts.

Agenda

CHAIRMAN'S ANNOUNCEMENTS

1 Minutes of meeting held on 8 December 2011 **(Pages 1-8)**

2 Exclusion of the Press and Public

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.

3 Delivering the Annual Governance Statement (AGS) 2011-12 **(Pages 9-10)**

4 Deloitte - 2011/12 Annual Audit Plan **(Pages 11-58)**

5 Balances and Reserves Statement 2012/13 **(59-68)**

6 Report on the Revisions to the Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15 **(Pages 69-98)**

7 Internal Audit Progress Report **(Pages 99-146)**

8 Internal Audit Strategy **(Pages 147-150)**

9 Internal Audit Operational Plan **(Pages 151-158)**

10 Review of Internal Audit Terms of Reference **(Pages 159-164)**

11 Audit Committee Work Programme **(Pages 165-168)**

12 Changing Legislation and Current Issues

12a CIPFA - Audit Committee Update - Helping Audit Committees to be effective **(Pages 169-184)**

12b Corporate Services & Partnerships Policy Overview Committee review into the Effectiveness of the Audit Committee and its Terms of Reference

PART II

13 Risk Management Report **(Pages 185-208)**

14 Internal Audit Progress Report **(Pages 209-210)**

Minutes

Audit Committee
Thursday 8 December 2011
Meeting held at Committee Room 3 - Civic Centre, High Street, Uxbridge UB8 1UW

HILLINGDON
LONDON

	Independent Member: John Morley (Chairman) **Members Present:** Councillors George Cooper, Phoday Jarjussey, Richard Lewis and Raymond Graham. **Apologies:** Councillor Paul Harmsworth (Councillor Phoday Jarjussey substituting). **Officers Present:** Nancy Le Roux (Senior Services Manager – Corporate Finance), Helen Taylor (Head of Audit and Enforcement), Paul Whaymand (Deputy Director of Finance) and Khalid Ahmed (Democratic Services Manager). **Others Present:** Heather Bygrave (Deloitte), Jonathan Gooding (Deloitte) and Zoe Prescott (Deloitte).
26.	**DECLARATIONS OF INTEREST** Councillor George Cooper declared a Personal Interest in Agenda Item 6– Internal Audit Progress Report as his wife was a Governor of the Hillingdon Virtual School. He remained in the room and took part in discussions on the item.
27.	**MINUTES OF THE MEETING HELD ON 28 SEPTEMBER 2011** Agreed as an accurate record subject to an amendment to Minute No. 14 – Declarations of Interest and the deletion of Councillor Judith Cooper as having a Personal Interest in Agenda Item 13 – Internal Audit Progress Report, as she was not a Trustee of Groundwork Trust.
28.	**EXCLUSION OF THE PRESS AND PUBLIC** It was agreed that Agenda Item 11 – Internal Audit Progress Report be considered in private and the rest of the Agenda in public.
29.	**DELOITTE - ANNUAL AUDIT LETTER** Prior to the meeting, the Committee had met in private with Deloitte, the Council's External Auditor.

	Heather Bygrave and Jonathan Gooding from Deloitte attended the meeting and introduced the report to Members. The Annual Audit letter summarised the key matters which Deloitte had carried out in respect of the year ending 31 March 2011. Members were provided with the main messages of the letter: • The Council's Financial Statements – an unqualified opinion was issued on 30 September 2011. The recommendations from the audit were discussed in detail at the last meeting of the Audit Committee held on 28 September 2011 • The Local Government Pension Scheme Annual Report – an unqualified opinion was issued on 30 September 2011. • Value for Money Conclusion – an unqualified opinion was issued as part of the main financial statements. • Whole of Government Accounts – an unqualified statement of assurance was issued to the National Audit Office on the Council's consolidation return for the purposes of the Whole of Government Accounts • Grants Certification – This was being considered in a separate report to this Committee • Deloitte reported that a number of control observations and associated recommendations were reported at the last meeting of the Committee. The majority of these had since been implemented. Members were advised that the potential objections which had been raised in relation to the Statement of Accounts and which were reported at the last meeting of the Committee had not materialised. Reference was made to bad debt provision which had identified a judgemental misstatement relating to the provision of sundry debts. The Deputy Director of Finance reported that this had been accepted for 2011/12 and the methodology for sundry debtors would be looked at. The Committee noted that the professional fees in respect of the certification of grants earned by Deloitte should be updated to take account of the work in relation to the certification of grants. **RESOLVED –** 1. That the Annual Audit Letter be noted and staff in Finance be congratulated for their performance for this year.	**Action By:**

30.	**DELOITTE – ANNUAL GRANTS AUDIT LETTER**
	
	Members were informed that the report for this item had been distributed late because three of the grant audits had required additional testing which had delayed their completion. They had been signed off by Deloitte on 30 November. The Committee noted this explanation and agreed to consider the report.
	
	Zoe Prescott from Deloitte introduced the report. The main issues identified in the report were:
	
	• 8 grants had been certified, 7 of which were submitted and certified by the required deadline. The HRA base data was granted an extension and the grant was submitted and certified by the revised deadline.
	• As a result of errors identified during the audit, adjustments were made to 5 of the 8 grant claims prior to certification and qualification letters were issued in respect of 4 grant claims. Members were informed that the reasons for the qualifications were as follows:
	
	    • HRA subsidy base data return - the Council was unable to provide an audit trail which supported the classification of housing stock
	
	    • HRA subsidy return - in respect of two adjustments made on the return
	
	    • Teachers' pension return – officers had incorrectly classified additional payments as pensionable and thus deducted pension contributions in error. In addition, a school erroneously submitted teachers additional voluntary contributions (AVC) deductions to the Council rather than to the AVC provider and the Council then submitted to the Teachers' pension return
	
	    • Housing and council tax benefit return – initial testing of 80 cases identified errors on 13 cases, and further testing found a higher than normal level of errors on multiple cases
	
	Members were informed that Deloitte would be holding a training session with those officers responsible for the completion of grant claims to help them better understand how to complete the claims taking them through the instructions they followed when undertaking the audit. They had also agreed to deliver a specific session targeted at the Housing
		Action By:

	Benefits claim. In relation to the Teachers' return, new arrangements were being implemented in this area and this work would be transferred to the Schools Finance from Payroll, which should provide additional rigour in future. Concern was expressed at schools opting for a payroll provider based on cost rather than quality. Members were informed that the Schools' Auditor was working with the Schools' Finance Teams on details of what services they should be receiving from a payroll provider. In Housing and council tax benefits a comprehensive set of actions had been developed to address the audit findings. These included system changes to reduce transcription errors, additional guidelines and documents for Housing Benefit and Housing Needs staff, additional checking of individual calculations in a number of areas to reduce the risk of errors, regular support for staff outside of housing benefits responsible for input information for housing benefit processing and further training based on an analysis of audit findings. Reference was made to the Gateway Grant and the issues which had been identified. Officers were working closely together on this. The Deputy Director of Finance reported that grant work was an area of the Council's performance which required improvement. He informed the Committee that a great deal of joint working was taking place with Deloitte across the Council to ensure officers were fully trained. Members expressed some concern at the errors which had been identified but were encouraged at the steps that were being taken to ensure that performance in this area improved. **RESOLVED -** 1. That the Annual Grant Audit Letter be noted.	**Action By:**
31.	**INTERNAL AUDIT PROGRESS REPORT** The Head of Audit and Enforcement reported that based on the work undertaken from September 2011 to 13 November 2011, there were no significant causes for concern at this time with levels of assurance. Three audits in the current report had received limited assurance but plans had been put in place to address the weaknesses identified. Most other audits had satisfactory assurance, with three, including one school having Full assurance.	

	Members were informed that there were two additions to the planned work programme which could be accommodated from the contingency provision at this stage. The following issues were raised by Members: • Internal Audit – staffing – the Head of Audit and Enforcement updated Members on the situation regarding staffing in the Team. It was hoped that two new trainees would be appointed to enable the current plan to be completed • Facilities Management – In relation to service charges in Table B, this outstanding recommendation implementation date of 14 June 2011 had been delayed but had now been implemented. An update would be provided on the two remaining high risk outstanding recommendations at the next meeting of the Committee • Children with Disabilities – Transition - It was reported that there was to a Business Improvement Delivery review of this area which would improve procedures • Protocol Systems – Adult Social Care and Children Services – Reference was made to there being only 2 maintenance staff having access to the Council's IC and IA systems and assurance had been required on whether security checks had been carried out on them. The Head of Audit and Enforcement agreed to follow this audit up • Employability – Concern was expressed at the control improvements required in respect of security of personal files. The Head of Audit and Enforcement reported that in the future it was planned to store personal records electronically • Critical Team - Members noted the comment that the Council's Administrator was being put under additional pressures in undertaking the duties of the vacant Hillingdon Hospital's post and concern was expressed that the changes in the NHS would impact on the Council • Looked After Children (2010/11) – Reference was made to CRB checks on out of Borough staff and Members were informed that other local authorities would have the responsibility to carry checks out • Follow-up Audits – The number of high risk issues totalled 46, of which 31 had been implemented **RESOLVED-** 1. That the in year progress against the Internal Audit Plan for 2011/12 be noted and the updated position of those	**Action By:** **Helen Taylor** **Helen Taylor**

	audits undertaken in 2007-8, 2008-9, 2009-10 and 2010-11 be noted.	
32.	**TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY** Members were provided with an explanatory note on changes to the Treasury Management Strategy and Statement which were made as a result of CIPFA revisions to its Treasury Management Code and changes made by the Council. Reference was made to the Council's increase in borrowing which was due to the Housing Subsidy reform and would result in £192.8m of debt. In relation to the estimates of capital expenditure and financing, the figures detailed in the report would be updated before approval by the Council in February. The Chairman referred to the Treasury Management Policy Statement which stated that the Audit Committee was responsible with Cabinet for ensuring effective scrutiny of the treasury management strategy and policies. He suggested that this should be included in the Committee's Terms of Reference. Discussion took place on whether the Committee required an external adviser in Treasury Management to attend Committee. Officers were asked to investigate this and report back to the next meeting of the Committee. **RESOLVED –** 1. That the contents of the report be noted and changes to the Strategy and Statement be reported back to the next meeting of this Committee.	**Action By:** **Nancy Le Roux** **Nancy Le Roux**
33.	**WORK PROGRAMME 2011/12 AND DRAFT WORK PROGRAMME 2012-13** The Chairman reported that the Work Programme had been updated in consultation with the Head of Audit and Enforcement.	**Helen Taylor / Chairman**
34.	**CHANGING LEGISLATION AND CURRENT ISSUES** The Committee noted the Audit Commission publication on Protecting the Public Purse and the Department for Work and Pensions consultation paper on the Future of Local Authority Fraud Investigations **RESOLVED –**	

	1. That the information contained in the reports be noted.	
35	**INTERNAL AUDIT PROGRESS REPORT** The report on this item was included in Part II as it contained information relating to the financial or business affairs of any particular person (including the Authority holding that information) and the public interest in withholding the information outweighed the public interest in disclosing it (exempt information under paragraph 3 of Part 1 of Schedule 12 A to the Local Government (Access to Information) Act 1985 as amended. **RESOLVED –** 1. That the information contained in the report be noted and Direct Payments be added to the Audit plan.	**Action By:** **Helen Taylor**
	The meeting which commenced at 5.15pm, closed at: 7.05pm **Next meeting: 15 March 2012 at 5.00pm**	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Khalid Ahmed on 01895 250833. Circulation of these minutes are to Councillors, Officers, the Press and Members of the Public.

This page is intentionally left blank

Delivering the Annual Governance Statement (AGS) 2011-12

Contact Officer: Kevin Byrne
Telephone: 0665

SUMMARY

1. The London Borough of Hillingdon is required to prepare an Annual Governance Statement (AGS) to meet its responsibilities for safeguarding public money and managing business functions in accordance with the Accounts and Audit Regulations 2011. The Council also has a duty under the Local Government Act 2003 to conduct a continuous assessment and improvement of business functions and demonstrate Economy Efficiency and Effectiveness.

2. The Council is utilising the framework developed over the past four years to evaluate the management of internal controls, risk and control assurances across all services. This will conclude with a formal statement outlining overall performance and any measures needed to address identified weaknesses as part of the Statement of Accounts. The Corporate Governance Working Group (CGWG) will provide leadership and support to compile the 2011-12 AGS.

REASON FOR REPORT

3. To provide Audit Committee with an update on the process to be adopted and approach to be taken in compiling the Annual Governance Statement.

RECOMMENDATION

4. Members are invited to note the sources of management information and assurance used to produce the AGS.

BACKGROUND INFORMATION

AGS Requirements

5. Under regulation 4(2) of the Accounts and Audit Regulations 2011 the London Borough of Hillingdon is required to review and report annually on the effectiveness of its systems of internal control. Following the review the relevant body or committee must approve the statement

6. The AGS is the process for self-assessing the council's management of internal control systems across all services, with the publication a formal statement outlining overall performance and measures needed to address any identified risks. This framework combines assessment of governance

arrangements and risk controls, making it a holistic approach towards conducting an annual internal review that relates to the whole organisation.

Progress on the AGS 2011-12

7. The AGS will combine a broad range of management information and assurances from across the council and external sources. The key sources contributing to the AGS include:

    - Performance management & data quality
    - Risk Management processes
    - Improvement and transformation
    - Legal and regulatory assurance
    - Financial control assurances
    - Service delivery assurances from Directors and Heads of Service
    - Annual Internal Audit report and assurance
    - External inspection reports and assurances

8. The Corporate Governance Working Group will guide and oversee to guide delivery of the AGS. The group will ensure that key changes to governance arrangements and control systems are reported, review actions against control weaknesses identified in the AGS 2010-11 and highlight cross-council assurance sources.

9. Gathering assurance statements is a central component of the AGS. In discharging this accountability senior officers are responsible for putting in place proper risk management processes and internal controls to ensure proper stewardship of resources. Group Directors and Heads of Service are required to submit assurance statements by the 6th April 2012.

10. The 2010-11 AGS will be presented to the Audit Committee in June 2012 for comment and approval.

DELOITTE – 2011/12 ANNUAL AUDIT PLAN

Contact Officer: Paul Whaymand
Telephone: 01895 250353

SUMMARY

The attached document sets out the initial plans for the audit of the Statement of Accounts 2011/12 by Deloitte. The format of the plan follows that prescribed by the Audit Commission for external audit work. The plan sets out the approach to the audit and a broad timetable which should enable the whole process to be completed by early September. A separate audit plan has been produced for the pension fund audit, which is also attached.

RECOMMENDATIONS

The Committee is asked to note the report.

REASONS FOR OFFICER RECOMMENDATIONS

The Committee needs to be made aware of the plans for the audit of the 2011/12 accounts.

COMMENT ON THE CONTENT OF THE PLAN

Materiality: The expected level of materiality, calculated on the basis of gross expenditure for the full year, will be £7.8m. Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.391m.

Key Audit Risks: The plan highlights the key financial and non-financial audit risks, these being the main areas on which specific audit work will focus. They are as follows:

- Revaluations of property
- Valuation of Pension liability
- Recognition of grant income
- Bad debt provisions for sundry debt
- HRA self-financing settlement payment
- Recording of capital spend
- Accounting for schools
- Management override of key controls

In addition the auditors' have a statutory duty to provide a value for money conclusion based on two main criteria. These are that he organisation has proper arrangements in place for:

- securing financial resilience; and
- for challenging how it secures economy, efficiency and effectiveness.

COMMENT ON THE CONTENT OF THE PENSION FUND AUDIT PLAN

Materiality: Materiality is calculated on the basis of the net assets of the fund but is restricted to the materiality established for the audit of the Council's financial statements as a whole, which for 2012 is £7.8m (2011 £7.8m). Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.39m (2011 £0.39m).

Key Audit Risks: The plan highlights the key audit risks, these being the main areas on which specific audit work will focus. They are as follows:

- Contributions
- Benefits
- Financial Instruments
- Management of Key Controls

TIMETABLE

The main timetable remains unchanged with the deadline for draft accounts being 30 June and the audit opinion due by 30 September 2012.

FEES

The estimated level of fees for the 2011/12 audit is £345,150 (2010/11: £359,155) for the main audit and £36,500 for the pension fund audit (no change on last year).

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

Deloitte.

London Borough of Hillingdon

Report to the Audit Committee on the Audit for the year ending 31 March 2012

Planning Report

Issued on 28 February 2012

Contents

Executive summary

We have pleasure in setting out in this document details of our proposed audit plan for London Borough of Hillingdon for the year ending 31 March 2012. The FRC has made it clear, in its 'Update for Audit Committees – November 2010', that it expects audit committees to focus activity on assessing and communicating risks and uncertainties and reliance on estimates, assumptions and forecasts. This report will describe the work we undertake in order to support this activity.

<table>
<tr><th colspan="3">Audit scope</th></tr>
<tr><td>Our audit scope is unchanged from last year</td><td>Our audit will be carried out in accordance with the Audit Commission's Code of Audit Practice 2010. Our primary audit responsibilities are also summarised in the "Briefing on Audit Matters" paper, included at Appendix 3 to this report. In summary, under the Audit Commission's Code of Audit Practice we have responsibilities in two main areas:
the financial statements and the Annual Governance Statement; and
aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
The audit of the Council's Local Government Pension Scheme is dealt with in a separate audit plan.

We propose an audit fee of £345,150 (2010/11: £359,155) for the audit of the Council's financial statements, the assurance report on the whole of government accounts return and value for money conclusion. This is in line with the scale fee set by the Audit Commission. Further information on fees is provided in Appendix 1.</td><td>Section 1
Appendix 1</td></tr>
</table>

<table>
<tr><th colspan="3">Key audit risks</th></tr>
<tr><td>We summarise the key audit risks identified at this stage</td><td>The key audit risks which we have identified as part of our overall audit strategy are:
Revaluation of properties. Properties are normally revalued every 5 years under a rolling programme. The valuation is sensitive to judgements on key assumptions.
Valuation of the gross pension liability. This continues to be an audit risk in view of the size of the liability and sensitivity to judgements in this area.
Recognition of grant income. We see this as a continuing audit risk in view of the need for judgements on recognition to be made on a grant-by-grant basis.
Completeness of bad debt provision for sundry debt. This continues to be an audit risk in view of different judgements and assumptions used in calculating the provision for the various sub-categories of sundry debt.
Housing Revenue Account self-financing settlement payment. The payment and loan are considered to be a potential audit risk due to the size of balances involved and that it is an unusual one-off transaction where specific accounting guidance is yet to be released.
Recording of capital spend. The Council is forecasting a large capital spend in 2011/12. There is a risk that revenue and capital expenditure may be misclassified
Accounting for schools. We understand that a number of community schools are due to be awarded, or have already been awarded, academy status in the year. The accounting for these transactions is considered a key audit risk.
Management override of key controls. This is a presumed area of risk under International Standards on Auditing (UK and Ireland).</td><td>Section 2</td></tr>
</table>

Executive summary (continued)

Materiality and prior year uncorrected misstatements and disclosure deficiencies		
We have set preliminary planning materiality at £7.8 million and the threshold for reporting misstatements to you at £391,000	Our preliminary assessment of materiality for the 2011/12 audit is £7.8m (2011: £7.8 million), which is based on prior year results. We will review and update this as applicable for the actual position recorded in the 2011/12 draft financial statements. Our preliminary assessment of the level at which we report unadjusted misstatements to the audit committee is £391,000, (2011, £391,000). We will also report other adjustments that we consider to be qualitatively material. We take this opportunity to remind you of the misstatements identified in the prior period. The two judgemental uncorrected misstatements related to the valuation of fixed assets using the 'instant build' basis and overprovision for housing benefit overpayments. These uncorrected misstatements reduced cost of services by £0.3 million, reduced net assets by £2.9 million and reduced unusable reserves by £3.2 million. We would also like to remind you of the following uncorrected disclosure deficiencies identified in the prior year with a view to addressing these at an early stage of the current year reporting process: • Financial Instruments: ageing of assets. There is a requirement to provide an analysis of assets which are past due but not impaired. This requirement includes a need to disclose the ageing of such assets. • Revaluations disclosure. The Code requires a table of revaluations over the preceding five years to be presented in the notes to the accounts.	Section 1

Internal control		
We will evaluate the design and test the implementation of key controls relevant to the audit	To assist us in planning our work, we will evaluate the design and test the implementation of key controls relevant to the audit, including controls which mitigate the key audit risks we have identified. Once we have assessed whether controls are designed and implemented appropriately, we will obtain assurance from substantive testing procedures rather than performing further detailed testing on controls as we consider this approach to be the most efficient. We plan to rely on the work of the Council's internal auditors to inform our risk assessment.	Section 4

Other matters for those charged with governance		
We confirm we are independent of the London Borough of Hillingdon	We have communicated to you in our publication entitled "Briefing on audit matters", in Appendix 3 to this report, those additional items which we are required to report upon in accordance with International Standards on Auditing (UK and Ireland). The document also provides detail of the safeguards and procedures we have in place to ensure our independence and objectivity. We confirm we are independent of the London Borough of Hillingdon and will reconfirm our independence and objectivity to the audit committee for the year ending 31 March 2012 in our final report to the audit committee. A division of our firm, Drivers Jonas Deloitte, is engaged to provide services to the Council in connection with monitoring the delivery of a building contract for the expansion of six primary schools. This engagement was approved by the Audit Commission and we do not consider this engagement to affect our independence as external auditors. This was originally discussed during your Audit Committee meeting on 10 March 2011.	Appendix 3

Executive summary (continued)

New accounting and legal pronouncements		
The 2011/12 edition of the Code replaces the 2010/11 edition	The 2011/12 edition of the Code of Practice on Local Authority Accounting ("the Code") makes a number of amendments to the 2010/11 edition. The majority of changes are clarifications of, rather than revisions to, past accounting, presentation and disclosure guidance. We have summarised the most significant changes in Section 3. The main impacts are: • the requirements of FRS 30 *Heritage Assets* are included in the 2011/12; • additional disclosures required in respect of remuneration and exit packages; and • the definition of a related party has been extended to include government-related entities. Officers' provisional assessment is that these will not impact significantly on the accounts.	Section 3

Communications		
We have summarised how and when we plan to communicate to you	Section 6 sets out the form, timing and expected general content of our communications to you.	Section 6

1. Scope of work and approach

1.1 Overall scope and approach

We will conduct our audit in accordance with the Audit Commission's Code of Audit Practice 2010 and other guidance issued by the Audit Commission.

We have responsibilities in two main areas:

- the financial statements and the Annual Governance Statement; and
- aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also asked to provide an assurance statement on the Council's consolidation pack for Whole of Government Accounts purposes and to carry out procedures under instruction from the Audit Commission to certify grant claims and other returns on behalf of the Audit Commission.

1.2 The financial statements and Annual Governance Statement

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts we intend to issue will reflect the financial reporting framework adopted by the London Borough of Hillingdon, being the Code of Practice on Local Authority Accounting ("the Code") which is based on International Financial Reporting Standards ("IFRS").

For the 2011/12 financial statements we have determined a preliminary materiality of £7.8 million (2010/11: £7.8 million) based on prior year results. We will review and update this as applicable on the basis of the actual position recorded in the 2011/12 financial statements. This figure takes into account our knowledge of the Council, our assessment of audit risks and the reporting requirements for the financial statements. The concept of materiality and its application to the audit approach are set out in our "Briefing on Audit Matters" paper included in Appendix 3 to this report.

The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatements in the financial statements and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

1.3 The value for money conclusion

The Audit Commission has advised that in 2012 the auditor's statutory value for money ("VFM") conclusion will be based on the following criteria specified by the Commission:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2012
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

1. Scope of work and approach (continued)

The extent of our work, and the need to undertake specific procedures, will be determined by an initial risk assessment. This risk assessment will include, but is not limited to:

- management's own assessment of significant risks;
- review of core strategic documents including financial planning, operational and cost saving plans;
- review and consideration of the Audit Commission indicators;
- review of Cabinet, Audit Committee and Board meeting minutes; and
- review of Internal Audit findings and findings from our external audit.

We review much of this information as it becomes available throughout the year and plan to undertake the majority of our detailed work in March and April. We will report to the Audit Committee on any risks identified as part of value for money risk assessment in your June meeting.

1.4 The whole of government accounts

Whole of Government Accounts ("WGA") are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to audit and report on the Council's WGA return. Our report is issued to the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

1.5 Liaison with internal audit

The audit team, following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function, review the findings of internal audit and adjust the audit approach as is deemed appropriate. This normally takes a number of forms:

- assessment of the control environment;
- discussion of the work plan for internal audit;
- where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work; and
- liaison with internal audit.

1.6 Fees

We propose an audit fee of £345,150 (2011: £359,155) for the audit of the accounts, the assurance report on the Whole of Government Accounts and the value for money conclusion for the Council. This is in line with the scale fee set by the Audit Commission. This excludes the fee for the audit of the Local Government Pension Scheme, which is dealt with in a separate report to this Committee, and fees for the certification of grant claims. The total estimated and proposed amount for all these services for 2012 is analysed in Appendix 1.

An analysis of the actual fee will be included in our final report to the audit committee.

2. Key audit risks

Based upon our initial assessment, we will concentrate specific effort on the significant audit risks set out below:

Revaluation of properties	
Properties are normally revalued every five years under a rolling programme. The valuation is sensitive to judgements on key assumptions	The Council has a substantial portfolio of property, amounting to £980,180k at 31 March 2011, which is subject to a rolling revaluation programme. Some of the properties require the application of specialist valuation assumptions. The current and recent economic volatility has affected property values, generally, and the Council has recorded significant gains and losses over the last three years. We have identified this as a risk because of the significant value of the asset base and the fact that valuations are based on a series of assumptions and judgements. We understand the Council will be valuing community assets and investment properties in 2011/12, as well as any property assets which have been completed in-year.
Deloitte response	We will document and test the design and implementation of controls in place to value the Council's property. We will evaluate the Council's arrangements for updating market values and the qualifications, relevant experience and independence of specialists utilised to carry out valuations and review the reasonableness of key assumptions. We will also utilise our internal valuation specialists to challenge key assumptions used by the Council in valuing their property.

Valuation of the gross pension liability	
This continues to be a key audit risk in view of the size of the liability and sensitivity to judgements in this area	The pension liability relating to the pension scheme is substantial, amounting to £826,890k at 31 March 2011, and its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment. We have identified this as a risk because of the significant value of the gross liability and the fact that the valuation is based on a series of assumptions and judgements.
Deloitte response	We will document and test the design and implementation of controls in place to value the gross pension liability. We will consider the qualifications, relevant expertise and independence of the actuary engaged by the Council and the instructions and sources of information provided to the actuary. We will include a specialist from our team of actuaries within our engagement team to assist in the benchmarking and challenge of key assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries.

Recognition of grant income	
We see this as a continuing audit risk in view of the need for judgements on recognition to be made on a grant-by-grant basis	Accounting for grant income can be complex as the timing for recognising income in the accounts will depend on the stipulations made by the grant funder for each grant. There have not been any changes to accounting practice in this area, but CIPFA has clarified that the existing guidance for capital grants applies equally to revenue grants. We have identified this as a risk due to the value of grant income received by the Council and the judgements used to determine when income should be recognised.
Deloitte response	We will document and test the design and implementation of controls in place to correctly account for grant income. We will carry out detailed testing on grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled.

2. Key audit risks (continued)

Completeness of bad debt provision for sundry debt	
This continues to be a key audit risk in view of different judgements and assumptions used in calculating the provision for the various sub-categories of sundry debt	The sundry debts balance (Other entities and individuals), which was £24,002k gross of provision at 31 March 2011, includes a number of different sub-categories of debt, all of which have different methodologies for calculating the level of provision required. By nature, provisions are judgemental, but should be based on sound assumptions and robust methodologies. In the 2010/11 audit, we identified a judgemental misstatement of £1,160k relating to the overprovision of housing benefit payments.
Deloitte response	We will document and test the design and implementation of controls in place to calculate the bad debt provision for sundry debts. We will challenge the Council's methodologies and assumptions used to calculate the sundry debt provision and the evidence collected by officers to support its approach. We will consider whether provisions appropriately reflect the impact of the current economic conditions by reference to recent collection performance and trends.

Housing Revenue Account ("HRA") self-financing settlement payment	
The Council is required to make a one-off payment of £191,571k to central Government on 28 March 2012	The Council is required to make a one-off payment to central Government on 28 March 2012 as part of the move towards self financing of the HRA. In return for this payment, the Council will be able to retain surpluses on the HRA from 1 April 2012 onwards. We understand that the final determination for the payment to be made is £191,571k, which the Council plans to fund through Public Works Loan Board ("PWBL") loans. Guidance on accounting for this transaction is anticipated in a Local Authority Accounting Panel ("LAAP") bulletin from CIPFA.
Deloitte response	We will document and test the design and implementation of controls in place to correctly account for the transaction. We will perform testing on the treatment of the transaction with central Government to verify it has been recognised in accordance with the LAAP bulletin and other relevant accounting standards. We will also review the disclosures and presentation of the loan in the financial statements against the requirements of the Code. Finally we will compare the level of indebtedness at the Council against its borrowing limit.

Recording of capital spend	
The Council is forecasting significant capital spend in 2011/12	The Council is forecasting significant capital spend in 2011/12. At month 9, the forecast general fund capital programme was £52,527k and forecast HRA capital programme was £12,709k. The recording of expenditure on capital projects gives rise to the risk of misclassification of capital and revenue expenditure.
Deloitte response	We will document and test the design and implementation of controls in place to correctly account for capital spend. We will then perform detailed testing of items coded as additions to capital assets in the year.

2. Key audit risks (continued)

Accounting for schools	
Three community schools have been, or are due to be, awarded academy status in the year.	We understand that three of the Council's community schools are to be awarded, or have already been awarded, academy status during the year. The value of the land and buildings relating to these schools held in the Council's accounts at 1 April 2011 is £14,932k. There is currently limited guidance on how these transactions are to be accounted for. We have identified this as a risk due to the material value of the schools on the Council's balance sheet at 1 April 2011 and the limited guidance available.
Deloitte response	We will review the schools that have converted to academy status in the year. For those community schools that have converted to academy status in the year, we will understand how the transactions have been accounted for. We will also review the disclosures for any schools that are awarded academy status after year end.

Management override of key controls	
This is a presumed area of key audit risk within International Standards on Auditing (UK and Ireland)	Auditing standards recognise that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports. They include a presumption of a risk of management override of key controls.
Deloitte response	We will focus our work on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties. We have included the conversion of community schools to academies and the HRA self-financing settlement payment as audit risks on the basis that they are unusual transactions in the year. In testing journals, we will make use of computer assisted audit techniques to analyse the whole population of journals to identify those that have features which could be indicators of possible fraud and to focus our testing on these. Our consideration of key accounting estimates will focus on areas of significant judgement identified separately as areas of key audit risk. We will consider through our detailed planning procedures and subsequent performance of substantive procedures whether there are any transactions where the business rationale is not clear. In the event that we do identify any such transactions, we will design and perform focussed procedures.

3. New legal and accounting pronouncements

The Code of Practice on Local Authority Accounting 2011/12 ("the Code") was released in January 2011 and makes a number of amendments to the 2010/11 edition. We have summarised the main amendments relevant to the London Borough of Hillingdon and noted the potential impact these amendments may have below:

Amendment	Potential impact
The 2011/12 Code provides guidance on accounting for income from the Community Infrastructure Levy and Business Rates Supplement ("BRS").	Where a billing authority is not a levying authority, BRS income is not income of the authority and shall not be included in its Comprehensive Income and Expenditure Statement. Amounts deducted from BRS income to meet administrative expenses are a billing authority's income and shall be included in the Comprehensive Income and Expenditure Statement on an accruals basis. This is consistent with the Council's treatment in 2010/11.
The 2011/12 Code requires additional disclosures in respect of remuneration and exit packages. The Code has introduced a requirement to disclose the number and cost of exit packages agreed.	The Council is required to disclose the number of exit packages agreed (grouped in rising bands of £20,000 to £100,000, and bands of £50,000 thereafter), analysed between compulsory redundancies and other departures. The Council shall disclose the total cost of packages agreed in each band. Bands shall be combined where necessary to ensure that individual exit packages cannot be identified. Exit packages include compulsory and voluntary redundancies costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. This is a new disclosure required by the Council in 2011/12. In 2010/11 there was a total termination benefits liability of £2,309k.
The 2011/12 Code introduces a requirement that, within the annual governance statement, an authority includes a specific statement on whether the authority's financial management arrangements conform to the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.	The Council is required to include a specific statement on whether the authority's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework; and, where they do not, an explanation of how they deliver the same impact. This is an additional requirement on 2010/11.
The 2011/12 Code amends the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities. Additional guidance on the definition of a related party is also included.	The 2011/12 Code's definition of a related party now includes government-related entities, defined as an entity that is controlled, jointly controlled or significantly influenced by a government. For central government departments, government agencies, NHS bodies and other local authorities, the Council is required to disclose the name of the government (i.e. UK Government) and the fact that the government exerts significant influence through legislation and grant funding; the nature and amount of each individually significant transaction; and for other transactions that are collectively, but not individually significant, a qualitative or quantitative indication of their extent. A number of these disclosures were made in the 2010/11 financial statements.
The 2011/12 Code incorporates the effect of regulations and statutory guidance introduced to mitigate the impact of the transition to IFRS on the General Fund.	The impact of these regulations and statutory guidance were incorporated by the Council in the 2010/11 financial statements.

3. New legal and accounting pronouncements (continued)

Amendment	Potential impact
The 2011/12 Code adopts the requirements of FRS 30 *Heritage Assets*. Heritage assets are carried at valuation where possible and additional disclosures are required.	The Council is required to account for tangible heritage assets in accordance with FRS 30 *Heritage Assets*. This is because there is no IFRS that deals with tangible heritage assets and paragraphs 9 to 12 of IPSAS 17 *Property, Plant and Equipment* provide only limited guidance. Intangible heritage assets are to be accounted for in accordance with IPSAS 31 *Intangible Assets*. A tangible heritage asset is a tangible asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Examples include historical buildings, archaeological sites, military and scientific equipment of historical importance, historic motor vehicles, civic regalia, orders and decorations (medals), museum and gallery collections and works of art. Community assets (including parks, cemeteries, crematoria and allotments) are not heritage assets. Where the Council has information on the cost or value of the heritage asset, the Council shall recognise the asset. Where information on the cost or value of the heritage asset is not available, the assets shall not be recognised in the balance sheet but disclosures should be made in respect of these assets. These disclosures include why the asset is not recognised and explain the significance and nature of these assets not reported in the balance sheet. We understand the Council has performed an exercise to identify potential heritage assets and has concluded that it does not currently hold and assets that fall in to this category.
The 2011/12 Code clarifies that financial instrument disclosures are required in respect of leases and PFI, PPP and similar schemes.	Section 7.1 of the Code clarifies that the disclosure requirements for financial instruments apply to the payables under PFI and similar schemes and derivatives embedded in leases, PFI and similar schemes. The Council's PFI arrangement was included in the financial instruments disclosures in the 2010/11 financial statements.
The 2011/12 Code incorporates minor changes to the disclosures of the nature and extent of risks arising from financial instruments. Additional disclosures are also required where the level of soft loans granted by an authority is material.	Section 7.4 of the Code includes the minor changes to the disclosures of the nature and extent of risks arising from financial instruments. Soft loans, where material, are required to be disclosed separately from loans and receivables. In addition, a reconciliation is required between opening and closing carrying amounts of soft loans.
The 2011/12 Code also clarifies the requirements in a number of areas of uncertainty was identified in the 2010/11 Code.	This covers a number of areas including: fair value of surplus assets; adaption's of IAS 20 *Government Grants* apply equally to capital and revenue grants; combination of public sector bodies; non-cash items in the Collection Fund; treatment of irrecoverable VAT in the cost of an asset; presentation of the financial statements and HRA statement; statutory accounting requirements in respect of HRA and Major Repairs Reserve; criteria to be used in classifying leases; guidance in respect of changes to lease terms; disclosure in respect of investment properties; recognition of leased intangible assets; and disclosure and presentation of discontinued operations and disposals of non-current assets.

4. Consideration of fraud

4.1 Characteristics

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We are aware that management has the following processes in place in relation to the prevention and detection of fraud:

- fraud and corruption strategy;
- code of conduct for employees; and
- whistle blowing procedures.

4.2 Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

4.3 Fraud inquiries

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments Management's process for identifying and responding to the risks of fraud in the entity Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity Management's communication, if any, to employees regarding its views on business practices and ethical behaviour Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity	Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud	How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity

We will make inquiries of others within the Council as appropriate. We will also inquire into matters arising from your whistle blowing procedures.

4. Consideration of fraud (continued)

4.4 Process and documentation

We will gather this information through meetings and review of the relevant documentation, including meeting minutes.

4.5 Concerns

As set out in Section 2 above we have identified the risk of fraud in grant income recognition and management override of controls as a key audit risk for your organisation.

4.6 Representations

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

5. Internal control

Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters", included at Appendix 3 to this report, our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D & I”). Our audit approach consists of the following:

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered. At this stage, we do not propose to carry out tests on the operating effectiveness of controls and will obtain our assurance wholly from substantive testing procedures. We have selected this approach as the most efficient.

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Council, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

6. Communications timetable

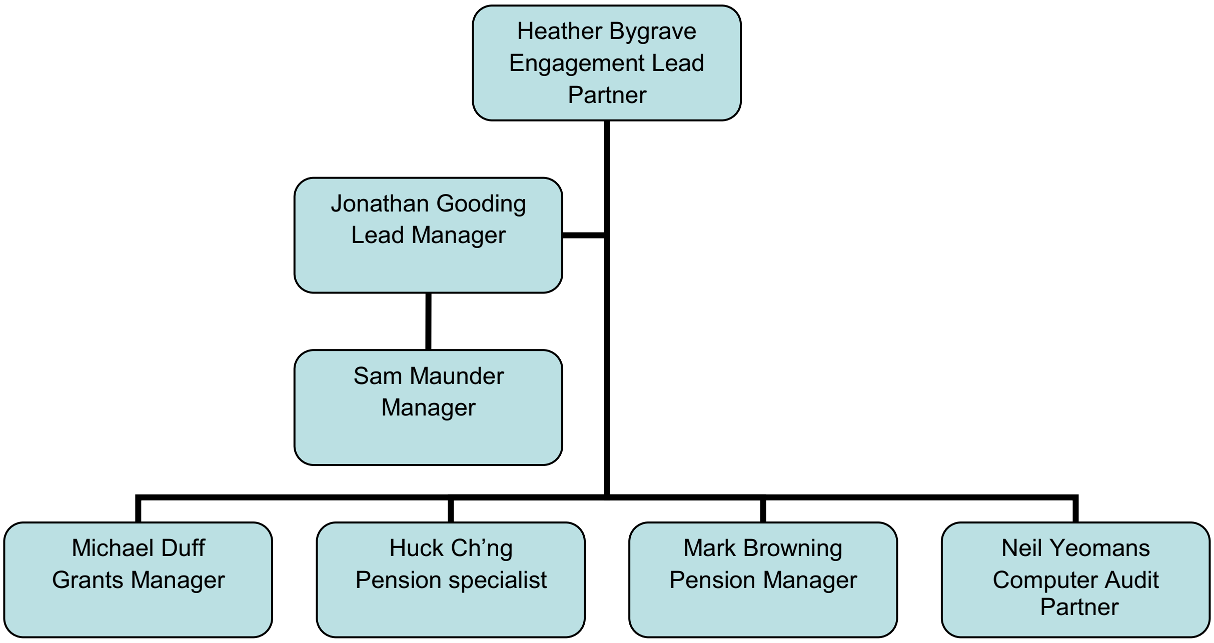
Set out below is the approximate expected timing of our reporting and communication with the audit committee.

Planning	Pre-year end fieldwork	VFM work	Year end fieldwork	Reporting	Post reporting activities
Meetings with management to: • confirm risk assessment; and management response and • agree on key judgemental accounting issues. Presentation of the audit plan to the audit committee Agreement of audit fees Early discussion on areas to improve financial statements and audit process	Update understanding of systems and controls, including IT systems Review relevant internal audit work Review of interim financial information for preliminary analytical review purposes Report results of controls work to management Performance of substantive testing procedures in areas that which can be advanced from the final audit visit	Performance of procedures specified by the Audit Commission	Performance of substantive testing Performance of specified procedures in relation to the audit of the WGA consolidation pack Audit issues meetings	Review of annual report and financial statements Presentation of final report to the audit committee on the findings of the audit Issuance of audit report on financial statements Issuance of value for money conclusion Issuance of assurance report on WGA consolidation pack	Audit feedback Issue of annual audit letter and presentation to the audit committee
January – March 2012	**March – April 2012**	**March – April 2012**	**June – August 2012**	**July – September 2012**	**Nov 2012 – Jan 2013**

Ongoing communication and feedback

7. Client service team

We set out below our audit engagement team:



8. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters", included at Appendix 3 to this report, and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the board and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members of the London Borough of Hillingdon, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Deloitte LLP.

Deloitte LLP

Chartered Accountants
St Albans

28 February 2012

Appendix 1: Analysis of audit and grant certification fees

We summarise below our proposed audit fees as discussed with officers:

	2011/12 £	2010/11 £
Fees payable to the auditors for the audit of the London Borough of Hillingdon's annual accounts, assurance report on the whole of government return and value for money conclusion	345,150	359,155
Fees payable to the auditors for the audit of the London Borough of Hillingdon's pension scheme annual report	36,500	36,500
	381,650	395,655
Fees payable to the auditors for the certification of grant claims (**Note 1**)	210,071	210,071
Total fees for audit services (excluding VAT)	591,721	605,726
Non-audit fees:		
Drivers Jonas Deloitte contract monitoring engagement (**Note 2**)	177,808	-

Note 1 Our fees for grant certification work are billed on the basis of time spent by different grades of staff using scale fees advised by the Audit Commission. The level of fees charged in a given year is dependent on the grant schemes falling within the audit requirement, the scope of procedures agreed between the Audit Commission and the grant paying body and the quality of working papers provided to us and the timeliness with which audit queries are resolved. The above figure is our current estimate for 2011/12 based on the actual figure for 2010/11.

We expect grant certification fees to reduce in 2011/12 as a result of a number of qualifications raised in 2010/11 that are likely to be addressed through the training to be provided to Council staff at the end of March. In addition, Internal Audit has included 60 days in their Internal Audit Plan to assist with the testing of the Housing Benefits Claim this year.

Note 2 In our final report on the audit for the year ended 31 March 2011 presented to you in September 2011, we informed you the one of our divisions, Drivers Jonas Deloitte, was successful in its proposal to monitor the delivery of a building contract for the expansion of six primary schools.

We do not consider this to compromise our independence as external auditors to the Council. We have also received approval from the Audit Commission to undertake this work. This was originally discussed during your Audit Committee meeting on 10 March 2011.

The total fees payable for 2011/12 in respect of monitoring the delivery of the building contracts is £242,231. Of this, £177,808 is retained by Drivers Jonas Deloitte with £64,423 being paid to subcontractors.

In setting the audit fee we have assumed:

- you will inform us of significant developments impacting on our audit;
- there are no additional audit risks to those set out in section 2 of this report;
- Internal Audit meets the appropriate professional standards and undertakes the audits set out in their agreed plan with testing covering the whole of the financial year;
- management will provide good quality working papers and records to support the financial statements by the agreed start date for the audit;

Appendix 1: Analysis of audit and grant certification fees (continued)

- management will provide draft financial statements for the agreed start date of the audit which are complete and of a good standard;
- management will provide the draft pension scheme annual report by the agreed start date for the accounts audit to enable the work on that to be carried out contemporaneously with the audit work on the pension scheme information in the statement of accounts;
- management will provide a consolidation pack for WGA purposes with an audit trail for mapping to the statutory accounts and is properly prepared in accordance with Treasury guidance;
- management will provide requested information within three working days unless indicated that the request is more complex or time consuming;
- management will provide prompt responses to draft reports;
- management will provide a detailed commentary on status of recommendations together with supporting documentation; and
- a self assessment will be prepared for the use of resources assessment, including compilation of supporting documentation.

Where these requirements are not met or our assumptions change, we may be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2: Prior year uncorrected misstatements and disclosure deficencies

Uncorrected misstatements

We are required to communicate to you the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The following uncorrected misstatements were identified during the course of our prior year audit:

		Charge / (credit) to current year Comprehensive Income & Expenditure Statement £'000	Increase / (decrease) in Net Assets £'000	Decrease / (increase) in Reserves £'000
Judgemental Misstatements				
Fixed assets – instant build	**Note 1**	839	(4,083)	3,244
Housing benefit overpayment provision	**Note 2**	(1,160)	1,160	-
Total		**(321)**	**(2,923)**	**3,244**

Note 1 The Code states that fixed assets valued using the depreciated replacement cost ("DRC") should be undertaken on an 'instant build' basis. LAAP bulletin 88 states that 'the instant build approach means that finance costs are excluded from the valuation'. The Council included finance costs in DRC valuations of buildings.

Note 2 The Council currently provides for 100% of the housing benefit overpayment debt relating to former tenants. From work we have performed we have seen that in the last 2 years the Council has, on average, recovered 27% of this debt per annum and so we estimate that the provision is overstated by this amount.

Uncorrected disclosure deficencies

Disclosure	Detail
Financial Instruments: ageing of assets	There is a requirement to provide an analysis of assets which are past due but not impaired. This requirement includes a need to disclose the ageing of such assets. This is relevant to debtors where an ageing analysis is considered to be appropriate. The Council did not make this adjustment on the basis that it would be onerous to prepare and that some debtors systems cannot currently produce an aged analysis.
Revaluation losses disclosure	The Code requires a table of revaluations over the preceding five years to be presented in the notes to the accounts. The Council did not make this disclosure as it considered the current narrative to be reasonable.

Appendix 3: Briefing on audit matters

Published for those charged with governance

This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB"). Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the members on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with the Code;

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine planning materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

Appendix 3: Briefing on audit matters (continued)

Materiality (cont'd)

We determine planning materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to members and create value for management and the Board whilst minimising a "box ticking" approach.

Our audit methodology is designed to give directors and members the confidence that they deserve.

For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D & I"). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures

Appendix 3: Briefing on audit matters (continued)

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
210	Terms of audit engagements
240	The auditor's responsibility to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
315	Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement
320	Audit materiality
545	Auditing fair value measurements and disclosures
550	Related parties
560	Subsequent events
570	Going concern
580	Management representations
720 (revised)	Section A: Other information in documents containing audited financial statements Section B: The auditor's statutory reporting responsibility in relation to directors' reports

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.

Appendix 3: Briefing on audit matters (continued)

Safeguards and procedures (cont'd)

- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Department (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies.

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any closely-related person) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any closely-related person) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any closely related persons) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Revised Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

Deloitte.

London Borough of Hillingdon

Report to the Pension and Audit Committees

Audit Plan for the Year Ended 31 March 2012
Pension Fund Annual Report Audit

February 2012

Deloitte.

Contents

Executive summary

We have pleasure in setting out in this document details of our proposed audit scope for the London Borough of Hillingdon Pension Fund for the year ending 31 March 2012.

Audit scope		
Our audit scope is unchanged from last year	Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance. Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund. The pension fund accounts remain part of the accounts of the Authority as a whole. The LGPS Regulations require administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts. Our audit report on the Authority accounts will continue to cover the pension fund section of that document. In addition, we are asked by the Commission to issue an audit report for inclusion in the annual pension fund report.	Section 1

Key audit risks		
We summarise the key audit risks identified at this stage	The key audit risks which we have identified as part of our overall audit strategy are: **1. Contributions** – In view of the complexity arising from the participation of different admitted bodies within the fund, together with the fact that members may pay different rates depending on their pensionable pay, we have included the calculation and payment of contributions as an area of audit risk. 2. **Benefits** – There are a number of complexities to the calculation of both benefits in retirement and benefits paid on ill health and death, we have identified benefits payable as an area of audit risk. 3. **Financial Instruments** – In the past the pension fund has invested in private equity and derivative financial instruments. Such investments can give rise to complexities in accounting, disclosure and measurement; accordingly we will treat the appropriateness of the accounting, measurement and disclosure for these investments as an audit risk. 4. **Management override of key controls** - This is a presumed area of risk within auditing standards. As consistent with previous years the presumed risk of revenue recognition continues to be rebutted for the pension fund.	Section 2

Timetable		
Our work will be carried out at the same time as our audit of the Authority	The timetable is set out in Section 5. The fieldwork will be carried out at the same time as our work on the Authority's financial statements in order for us to have completed the audit of the financial statements in time for inclusion in the Authority's annual report.	Section 5

Executive summary (continued)

Materiality and prior year uncorrected misstatements and disclosure deficiencies		
Planning materiality set at £7.8m **Reporting threshold set at £0.39m**	We calculate materiality on the basis of the net assets of the fund, but have restricted this to the materiality established for the audit of the Authority's financial statements as a whole. We estimate materiality for the year to be £7.8 million (2011: £7.8 million). We will report to the Pension and Audit Committees on all unadjusted misstatements greater than £0.39 million (2011: £0.39 million) and smaller adjustments that are qualitatively significant. Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Authority's financial statements.	

Prior year uncorrected misstatements and disclosure deficiencies		
No prior year issues	There were no significant unadjusted misstatements or uncorrected disclosure deficiencies reported to you in respect of the 2010/11 accounts.	

Independence		
We reconfirm our independence	Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in the "Independence policies and procedures" section included at Appendix 1. We will reconfirm our independence and objectivity for the year ending 31 March 2012 in our final report to the Pension and Audit Committees. We have discussed our relationships with the Authority in our separate audit plan for the audit of the Authority's financial statements.	Appendix 1

Fee		
Fee in line with prior year	We propose a fee of £36,500 excluding VAT (2010/11: £36,500) which is in line with the fee scale advised by the Audit Commission.	

Engagement team		
Continuity in the team	Heather Bygrave will continue to lead the audit and will be supported by Mark Browning who will be the day to day contact on the engagement.	

Matters for those charged with governance		
Briefing on audit matters	We have attached at Appendix 1 our "Briefing on audit matters" which includes those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements.	Appendix 1

1. Scope of work and approach

Overall scope and approach

Audit objectives are explained in more detail in our "Briefing on audit matters" document attached as Appendix 1.

Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.

Local LGPS funds administered by administering authorities are not statutory bodies in their own right. Therefore, it is not possible for separate audit appointments to be made for LGPS audits. We are therefore appointed to the audit of the LGPS through the existing Audit Commission appointment arrangements.

Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund.

Our audit objectives are set out in our "Briefing on audit matters" document attached as Appendix 1.

The audit opinion we intend to issue as part of our audit report on the Authority's financial statements will reflect the financial reporting framework adopted by the pension fund. This is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the "Code of Practice").

For pension fund statements, we have initially considered the net assets of the fund as the benchmark for our materiality assessment as this benchmark is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. However, we have restricted our estimate of materiality to the amount set for the Authority's financial statements as a whole, which is £7.8 million. Our separate audit plan for the audit of the Authority's financial statements includes further information on how we derived this estimate. The concept of materiality and its application to the audit approach are set out in our Briefing on audit matters document. The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatement in the financial statements.

The Audit Commission has also determined that auditors should give an opinion in accordance with auditing standards on the financial statements included in the pension fund annual report. This entails the following additional work over and above giving an opinion on the pension fund accounts included in the statement of accounts:

- Comparing the accounts to be included in the pension fund annual report with those included in the statement of accounts.
- Reading the other information published within the pension fund annual report for consistency with the pension fund accounts.
- Where the pension fund annual report is not available until after the auditor reports on the financial statements, undertaking appropriate procedures to confirm that there are no material post-balance sheet events arising after giving the opinion on the pension fund accounts included in the financial statements.
- The financial statements included in the pension fund annual report are prepared on the basis of the same proper practices - the Code of Practice - as the financial statements included in the statement of accounts.
- Consider whether the annual report has been prepared in accordance with the Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

2. Key audit risks

Based upon our initial assessment we will concentrate specific audit effort in 2011/12 on the following areas:

Contributions

Tiered contribution rates increase complexity

Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS. However, this remains a material income stream for the pension fund and in view of the complexity introduced by the participation of more than one employer in the fund and tiered contribution rates, we have identified this as a key risk.

Deloitte response

We will perform the following procedures to ascertain whether employer and employee contributions have been calculated, scheduled and paid in accordance with the schedule:

- Review the design and confirm the implementation of key controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly.
- Recalculate contributions for a sample of individual members to ensure they are calculated in accordance with the schedule of rates.
- Perform analytical review procedures to gain assurance over the total contributions received in the year.
- Reconcile the membership movements in the year to the Financial Statements, ensuring that these include members from the admitted bodies.

We note that the Authority is not responsible for the calculation of contributions and will therefore perform such tests with the assistance of the other scheduled and admitted bodies.

Benefits

There are a number of complexities to the calculation of both benefits in retirement and ill health and death benefits.

Changes were made to the local government pension fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and benefits paid on ill health and death.

In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008. The calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Also individuals now enjoy greater flexibility in their choice of the mix of pension and lump sum.

In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Some employers may not have retained all the necessary records.

The Government has also completed the process to amend the revaluation and index factors for statutory minimum uplift from the Retail Price Index to the Consumer Price Index. This change has further increased the complexity of benefit calculations. This change is being appealed through the courts but as it stands the amendment is in force.

Deloitte response

We will perform the following procedures to ascertain whether benefits payable have been calculated correctly in accordance with the fund rules.

- Review the design and confirm the implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits.
- Test a sample of new pensioner calculations and other benefits paid by tracing to supporting documentation and reviewing the calculation, to ensure it is in line with the relevant rules.
- Perform analytical review procedures over the pensions paid in the year based on prior year audited numbers adjusted for changes in pensioner numbers and any pension increases.

2. Key audit risks (continued)

Financial instruments	
Private equity and derivatives are complex to value	The pension fund makes some use of investments in private equity and derivative financial instruments. Private equity funds are complex to value and include an element of judgement on the part of the investment manager. Given that these funds form a material balance within the pension fund accounts, we have identified the valuation of these funds as a key risk. The fund also makes use of derivatives which can be complex in terms of accounting, measurement and disclosure requirements.
Deloitte response	For the private equity investments we will seek to understand the approach adopted in the valuation of such investments and inspect supporting documentation such as cash flow reports, quarterly investment advisor reports and audited financial statements. We will tailor further procedures depending on the outcome of that work and our assessment of the risk of material error taking into account the fund's investment holding at the year end. We will update our understanding of the rationale for the use of the derivatives and then test compliance with the accounting, measurement and disclosure requirements of the Code of Audit Practice on Local Authority Accounting. We will consult with our internal specialists and where considered necessary ask them to perform tests of these balances through re-calculation of the value attributable to them.

Management override of controls	
Audit guidance includes a presumed risk of management override of key controls.	Auditing standards recognise that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports. They include a presumption of a risk of management override of key controls.
Deloitte response	We will focus our work on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties.

3. Consideration of fraud

3.1 Characteristics

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We are aware that management has the following processes in place in relation to the prevention and detection of fraud which include:

- Anti-fraud and corruption policy
- Codes of conduct
- Whistle-blowing procedures

3.2 Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

3.3 Fraud inquiries

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments; Management's process for identifying and responding to the risks of fraud in the entity; Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; Management's communication, if any, to employees regarding its views on business practices and ethical behaviour; and Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.	Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.	How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks; and Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.

3. Consideration of fraud (continued)

We will make inquiries of others within the Authority as appropriate. We will also inquire into matters arising from your whistling blowing procedures.

3.4 Process and documentation

We will gather this information through meetings and review of relevant documentation, including meeting minutes.

3.5 Representations

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
    - officers;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

4. Internal control

Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters" (Appendix 1), our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D & I”). Our audit approach consists of the following:

- Obtain and refresh our understanding of the entity and its environment including the identification of relevant controls
- Identify risks and any controls that address those risks
- Carry out 'design and implementation' work on relevant controls
- If considered necesary, test the operating effectiveness of selected controls
- Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered. At this stage, we do not propose to carry out tests on the operating effectiveness of controls and will obtain our assurance wholly from substantive testing procedures. We have selected this approach as the most efficient.

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Authority, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

5. Timetable

		2012								
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Management	Prepare plan based on discussions with management									
	Early discussion of Authority's approach to risks areas									
	Performance of detailed audit planning fieldwork									
	Audit fieldwork/audit issues meetings									
	Review of pension fund annual report									
	Preparation of our report on the 2011/12 audit									
Pensions and Audit Committees	Audit plan									
	Report to the Pension and Audit Committees on the 2011/12 audit									

Our work during these visits will be closely co-ordinated with the work carried out on other parts of main audit of Hillingdon.

6. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" attached at Appendix 1 and sets out those audit matters of governance interest which came to our attention during the audit to date. Our audit was not designed to identify all matters that may be relevant to members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

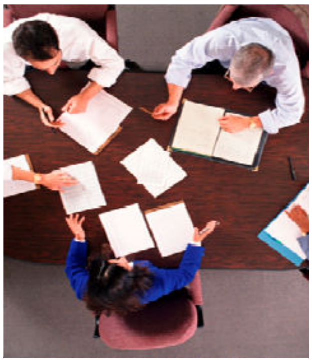
This report has been prepared for the Members of Hillingdon, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP
Chartered Accountants

St Albans
24 February 2012

Appendix 1: Briefing on audit matters

Published for those charged with governance



This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB"). Our statutory audit objectives are:

- To express an opinion in true and fair view terms to the members on the financial statements;
- To express an opinion as to whether the accounts have been properly prepared in accordance with the relevant financial reporting framework; and

Other reporting objectives

Our reporting objectives are to:

- Present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations.
- Provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Appendix 1: Briefing on audit matters (continued)

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements. We use a different materiality for the examination of the summary contributions to that used for the financial statements as a whole.

We determine materiality to:

- Determine the nature, timing and extent of audit procedures.
- Evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

The materiality in relation to the audit of the pension scheme's financial statements will not necessarily coincide with the expectations of materiality of an individual member of the scheme in relation to his or her expected benefits. Our judgments about materiality are made in the context of the financial statements as a whole and the account balances and classes of transactions reported in those statements, rather than in the context of an individual member's designated assets, contributions or benefits.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Appendix 1: Briefing on audit matters (continued)

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to trustees and create value for management and those charged with governance whilst minimising a “box ticking” approach.

Our audit methodology is designed to give trustees the confidence that they deserve.

For controls considered to be ‘relevant to the audit’ we evaluate the design of the controls and determine whether they have been implemented (“D & I”). The controls that are determined to be relevant to the audit will include those:

- Where we plan to obtain assurance through the testing of operating effectiveness;
- Relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);
- Where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- To enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor’s responsibilities relating to fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor’s report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor’s report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor’s responsibilities relating to other information in documents containing audited financial statements

Appendix 1: Briefing on audit matters (continued)

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectiv which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge of key decisions takes place by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner and, where appropriate, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual entities.

Appendix 1: Briefing on audit matters (continued)

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- State that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- Require that professional staff may not work on assignments if they (or any immediate family member) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- State that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates;
- Prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- Provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Revised Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- Maintaining integrity, objectivity and independence;
- Financial, business, employment and personal relationships between auditors and their audited entities;
- Long association of audit partners and other audit team members with audit engagements;
- Audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- Non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Member of Deloitte Touche Tohmatsu

This page is intentionally left blank

BALANCES AND RESERVES STATEMENT 2012/13

Contact Officer: Paul Whaymand
Telephone: 01895 566071

SUMMARY

The budget reported to Cabinet and Council in February 2012 contained an extract from the Balances and Reserves Statement 2012/13 which summarised the recommended range for unallocated balances. This Balances and Reserves Statement provides further detail on the Council's approach to the management and measurement of these, outlining technical accounting guidance used and analysis of specific risks that lead to a determination of a prudent reserves and balances range.

RECOMMENDATIONS

That the contents of the report are noted.

REASONS FOR OFFICER RECOMMENDATIONS

The balances and reserves statement has been produced based on an assessment of key risks and requirements for which balances and reserves need to be held by the Council, as part of exercising the Section 151 officer's professional duties with regard to budget setting.

INFORMATION

1 The Chief Finance Officer, as the Council's Section 151 officer has a legal duty to comment on the robustness of budget estimates for the forthcoming year including the adequacy of the Council's reserves as part of the statutory annual budget setting process. This duty stems from the financial governance framework established under the Local Government Act 2003.

2 For Hillingdon, this duty is exercised through an extract of the Budget Report to Cabinet and Council in February of each year. This statement expresses a prudent level of unallocated General Fund balances that the Council should hold as a range based on assessment of the key strategic, operational and financial risks faced by the Council.

3 In the 2012/13 budget report, the recommended range for unallocated General Fund balances to be set at £12m to £26.5m. The lower limit remains the same as that set for the last two years with the upper limit raised by £2.5m to reflect potential financial risk associated with medium term impact of Government proposals surrounding future financing streams for Local Authorities.

4 The attached Balances and Reserves Statement contains an underlying assessment against CIPFA criteria considering both internal and external financial risks to determine an identifiable recommended range for unallocated balances contained within the Budget Report.

LEGAL IMPLICATIONS

Decisions made by the Cabinet or a Cabinet Member must be 'Wednesbury' reasonable, i.e. Council officers need to present all the facts that are relevant to Members before they make a decision - otherwise decisions can be open to legal challenge.

BACKGROUND PAPERS

General Fund Revenue Budget and Capital Programme 2012/13 - report to Cabinet and Council February 2012

Local Authority Accounting Panel (LAAP) Bulletin 77 –Local Authority Reserves and Balances (November 2008)

STATEMENT ON 2012 ANNUAL REVIEW OF RESERVES

SUMMARY

The Council's Chief Finance Officer has a duty under the Local Government Act 2003 to comment on the robustness of the Council's budget for the coming year. This comment is also required to consider the adequacy of the Council's reserves and balances. The Chief Finance Officer has recommended that based on the 2012/13 budget an appropriate level of unallocated balances for the authority is in the range from £12m to £26.5m.

1. BACKGROUND

1.1 Under the Local Government Act 2003 the Chief Finance Officer has a duty to recommend to Cabinet the level of reserves and balances required by the Council. This requirement is met through the inclusion each year in the Budget Report to Cabinet and Council the results of a review of reserves and balances. This is done in line with current CIPFA guidance, which states that when reviewing the Medium Term Financial Forecast and budget the Council should consider the establishment and maintenance of reserves. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements – earmarked reserves are accounted for separately but remain legally part of the General Fund.

1.2 When assessing the appropriate level of reserves the Chief Finance Officer considers that the reserves are not only adequate but also necessary.

1.3 To do this, the strategic, operational and financial risks facing the Council are taken into account. The Council should retain adequate reserves to cover unexpected expenditure, allow contingency against implementation of major funding cuts and to cushion the potential impact of proposed changes to funding regimes. Equally the Council should seek to utilise the maximum resources available to achieve its objectives and to ensure that current resources are used for the benefit of the current tax payer. CIPFA do not recommend a stated amount or percentage of budget to be set as a reserve level recognising the many factors involved when considering an appropriate range can only be assessed locally.

1.4 Over the years, the Council has improved its level of reserves to an appropriate level from a relatively low base. However it still has a fairly low level of total reserves due to the relatively limited number and value of earmarked reserves compared with many councils.

1.5 Each earmarked reserve is subject to its own review of adequacy and a listing of these are detailed within the Statement of Accounts.

2. ADEQUATE LEVEL OF UNALLOCATED GENERAL FUND RESERVES

2.1 To determine the recommended level of reserves the Council has assessed risks it currently faces. Criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 77 (November 2008) have been followed for this purpose, alongside more recently indentified financial risks arising in the medium term as a result of government proposals. Details of which are shown in Appendix 1 and include:

- The robustness of the financial planning process (including treatment of inflation and interest rates and timing of capital receipts)
- How the Council manages demand led service pressures
- The treatment of planned savings / productivity gains and implementation of the Council's BID programme
- The financial risks inherent in any major capital project, outsourcing arrangements or significant new funding changes
- The strength of the financial monitoring and reporting processes
- Cash flow management and the need for short term borrowing
- The availability of reserves, Government grants and other funds to deal with major contingencies
- The general financial climate to which the Council is subject to and its previous record in budget and financial management.

2.2 The assessment, although based on the Council's procedures and structures, does necessarily have an element of subjectivity. In acknowledging this, the optimum level of reserves incorporates a range. The recommended range for 2012/13 is £12m to £26.5m. The upper end of this range represents the highest level of unallocated balances that the Council could reasonably justify holding. If balances were above the upper level, the Chief Finance Officer would recommend that plans were developed to use the excess balances towards enhancing the delivery of the Council's strategic objectives in the current year. The equivalent figures recommended at the time of budget setting for 2011/12 were £12m to £24m.

2.3 The array of risk factors that determine the need to hold balances and reserves has changed since last year's budget setting process to include the forthcoming changes to local government finance, which include the ability to retain growth in Business Rates and the localisation of support for Council Tax, both changes effective from 1 April 2013. As a result of the review of these risk factors the assessment of the maximum level of balances has increased. Appendix 1 shows the adjustments in the level of General Fund reserves from 2011/12 to 2012/13, analysed across the criteria detailed above. The principle determining factor for the change is the general financial climate and the need to hold balances to manage the impact of significantly reduced Government grants and forthcoming legislative changes.

2.4 In summary, there is a broad spread of balances held against the key issues listed in paragraph 2.1. Therefore most of the Council's balances are held to deal with the common risks that most local authorities need to manage on an ongoing basis. However there are a number of key issues for Hillingdon that drive the need to hold additional balances. Firstly, the unique circumstances surrounding the presence of Heathrow Airport within the boundaries of the Council. In particular this is the driver of the Council's exceptional asylum caseload, which has a fragile, unpredictable and inadequate funding stream attached to the support for care leavers. Secondly, along with all other local authorities, the Council is implementing a significant transformation programme following the reduction to its funding as a result of the Comprehensive Spending Review announced in October 2010. As a result, savings of £26.2m were required in 2011/12 and the budget for 2012/13 contains savings proposals of £17.7m. Total savings as a result of the Spending Review will amount to £69.1m over this period.

2.5 In addition to these, over the medium term there are significant uncertainties in relation to both the funding of local Government and new burdens which may become the responsibility of local Government which make forecasting beyond 2012/13 difficult.

2.6 The most significant issues are in relation to the review of local Government funding. Following several consultations during 2011, the government announced in the Local Government Finance Bill that it will enable councils to retain a portion of the business rates generated locally to replace formula grant and that it would also localise support to council tax.

2.7 Retention of business rates would commence from April 2013, to align with the next two year local government finance settlement. Whilst it is too early to calculate the impact of the proposals, as much of the detail of the system has yet to be announced, initial analysis has highlighted a few key issues which could have a significant impact on the council's future funding. The most significant are that there will be no growth in the first 2 years, future growth will only be possible between resets (every 10 years) which will make long term planning difficult and the tariff (and top-up) will be uprated by RPI each year, which could be a disincentive to growth.

2.8 A further major issue relates to the reform of the benefits regime. Whilst Housing Benefit will be absorbed into the new universal benefit, Council Tax Benefit (CTB) will be abolished and replaced with a local support scheme with effect from April 2013. Each council will have to design, administer and run a local scheme, and do so with an immediate 10 per cent reduction in funding. The scheme will be funded through a specific grant from central government. Certain groups (such as pensioners) will be protected from any reduction in the level of benefits. The initial estimate of the funding shortfall to Hillingdon is £2.21m.

2.9 In addition, on 15 July 2011 the Department of Health confirmed the intention to transfer Public Health services from PCT's to local government with the intention of providing a service which focus on the prevention of illness. A ring fenced grant will be transferred from the NHS in April 2013, with shadow budget allocations due to be published shortly. Currently Hillingdon PCT has around £20m in resources to support public health activity.

2.10 Consideration of these risk factors have resulted in the upper end of the recommended range of reserves to be increased from £24m to £26.5m representing just 3% of gross expenditure and 6% of controllable expenditure if Schools budget and Housing Revenue Account are excluded.

2.11 The budget for 2012/13 includes a payment into balances of £2.2m. Balances are forecast to be at £21.3m as at 31st March 2012 and up to £23.5m at 31st March 2013. This should provide some contingency to help absorb any further adverse movement in central Government funding in addition to providing scope for absorbing any potential delays in the timing of the delivery of savings.

2.5 The General Fund revenue budget proposals for 2012/13 also include a contingency of £16.7m which is identified against specific risks that are funded within the budget. Many of these risks, although not precisely quantifiable, have a high degree of certainty that they will be called upon in the year.

3. EARMARKED RESERVES

3.1 The Council has ring fenced earmarked reserves with balances as at 31 March 2011 detail in table 2 below.

Table 2: Earmarked Reserves

Reserve	Balance as at 31 March 2011
Housing Revenue Account	£12.9m
Schools Delegated Funds	£20.2m
Schools Earmarked Reserves	£0.1m
Parking Reserve Account	£0.8m
New Roads and Street works Act	£0.2m
Insurance Reserve	£0.5m
Leisure Facilities Reserve	£0.4m
Housing Grant Funded Reserves	£0.4m
HRA Grant Funded Reserves	£0.1m
Libraries Reserve	£0.1m
Highways Reactive Maintenance	£0.5m
Social Care Grant Funded Reserves	£1.1m
Children Services Reserves	£0.3m

Total	**£37.6m**

3.2 Movement in and out of Earmarked reserves is generally determined on out-turn however it is expected that these will reduce by approximately £5m due to the withdrawal of schools reserves on becoming academies.

3.3 An explanation as to the function and source of funds for these reserves can be found in note 2 of the Statement of Accounts.

4. UNFUNDED RESERVES

4.1 Local authorities also hold other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves, which are not resource-backed and can not be used for any other purpose, are also detailed in the Council's Statement of Accounts.

Risk Management

5.1 The Code of Audit Practice makes it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks need to be assessed in the context of the Council's overall approach to risk management.

5.2 The process by which the contingency budget is constructed links directly into the Council's risk management process. Significant risks are identified and recorded in risk registers which are regularly reviewed and updated as part of the risk management process. The process provides for review by senior officers, Group Directors, Cabinet Members and the Audit Committee addressing both executive functions and governance requirements. This process is integral to ensuring the effectiveness of the budget strategy. The key financial risks identified in the corporate risk register are reflected either directly in the budget strategy or are covered by the retained level of unallocated balances and reserves.

Further detail on Assessment of Required General Fund Revenue Balances

Area of Risk	Details	Risk	Reserves Required 2012/13 (£m)	Reserves Required 2011/12 (£m)
The general financial climate to which the Council is subject	There remains an ongoing uncertainty in future funding arrangements for the council exacerbated by the wave of new initiatives and burdens.	Funding for 2012/13 is fairly certain, but there remains a risk of in year adjustments	1.5 – 4.0	2.0 – 4.0
The overall financial standing of the authority	The financial strength of the council continues to improve with strengthened treasury management, a smaller capital programme, a prudent projected increase in council tax base and adequate bad debt provision. Financing costs are well managed through effective borrowing strategies and provided for in the MTFF	Slightly higher balances are forecast at the end of 2011/12, although the contingency included in the 2012/13 budget has also increased to £16.7m	1.5 – 4.0	1.5 – 4.0
The treatment of planned efficiency savings / productivity gains	The budget for 2012/13 contains £17.7m of new savings, as a result of the front loading of the cuts in the CSR 2010. This comes on top of £26.2m of savings delivered in 2011/12. New savings proposals have been developed through the council's transformation programme and strong project management and monitoring arrangements have been put in place.	Governance arrangements have been strengthened, but there remains an increasing risk on the delivery of savings due to increasing volume being managed by a reducing workforce.	2.5 – 5.0	2.5 – 5.0
The treatment of inflation and interest rates	Limited inflation has been included in the 2012/13 budget and the current trend is decreasing. However, specific risks remain in relation to contracts and fuel. The low interest rate environment continues and this has been factored into the budget.	Despite the level of inflation decreasing, specific risks in relation to contracts and fuel remain.	1.0 – 2.0	1.0 – 2.0

The financial risk inherent in any significant new funding partnerships or major outsourcing arrangements	The Council is reliant on external providers for a range of key services, especially in social care for residential and nursing care provision, and housing providers for temporary accommodation. Some of these suppliers are reliant on private finance linked to asset values for their viability. In the current financial climate this poses an increased risk of service failure to the Council. The Council has outsourced facilities management, leisure management and revenues services, and these contracts create residual risks to be managed by the Council.	The risks around these arrangements, although well managed, are not fully mitigated and it is proposed that £1.0m is required to cover these.	1.0 – 3.0	1.0 – 2.0
The treatment of demand led pressures	The Council has a robust financial planning process (MTFF) embedded across the organisation. Through this process, reasonable assumptions about demand and funding pressures have been made and a prudent view of volatile areas has been taken. All known pressures across the Council are included as funded items in the MTFF, with additional funding in future years linked to forecast demand. The budget contingency is largely to take account of potential demand led pressures on key expenditure and income streams.	This risk area is being managed through the MTFF and by including a £16.7m contingency within the budget. Even taking this into account it is prudent to have additional cover of £1.0m in reserves in order to mitigate the uncertainty over these pressures.	1.0 – 3.0	1.0 – 2.0
The financial risks inherent in any major capital developments	The Capital Programme contains fewer large projects than in recent years, but continues to include a significant volume of programme of works projects. However, a large part of the social care reablement programme is dependent on supported housing development which if slipped could impact on revenue savings.	£1.0m is proposed to be held in reserves to cover the impact of this risk.	1.0 – 1.5	1.0

Estimates of the level and timing of capital receipts	The estimate of the capital receipts in the 2012/13 - 2014/15 Capital Programme is based on a schedule of assets that have been identified for sale. If disposals are lower than projected then alternative options to achieve disposals or compensatory improvements to asset utilisation will be considered. The Council in addition has flexibility to borrow or use accumulated cash balances to cover such timing differences. The capital programme assumes General Fund capital receipts of £13.3m in 2012/13 and £12.7m over the following two years.	Risk has been minimised by only including receipts from identified surplus sites. However, the timing of receipts can have a significant impact on financing arrangements especially Minimum Revenue Provision (MRP) (typically 4% of the historic net capital financing requirement).	1.0	1.0
The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions	Whilst there remains a slight risk, the level of reserves has increased and an adequate level of provisions has been built into the budget.		0.5 – 1.0	0.0 – 1.0
The Council's capacity to manage in year budget pressures, and its strategy for managing both demand and service delivery in the longer term	There is a well-developed monthly budget monitoring process in place, ensuring adverse variations are identified promptly by service managers. The monthly challenge and review process ensures the early identification and resolution of issues. In the longer term, the Council's transformation programme is addressing service delivery.	Although risk has been reduced by robust monitoring procedures an amount for this area is still included.	1.0 – 2.0	1.0 – 2.0

Agenda Item 6

REPORT ON THE REVISIONS TO THE TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTEMNT STRATGEY 2012/13 TO 2014/15

Contact Officer: Paul Whaymand
Telephone: 01895 250353

SUMMARY

Audit Committee considered the draft Annual Treasury Management Strategy Statement and Investment Strategy for 2012/13 to 2014/15 at the December 2011 meeting. This was in advance of the final Statement being presented to Cabinet and Council on 23 February 2012.

As part of the scrutiny process members requested that a further report should be brought to the March Audit Committee detailing the changes from the draft to the final version of the Statement.

RECOMMENDATIONS

That the contents of the report are noted.

INFORMATION – Amendments to the Annual Treasury Management Strategy Statement and Investment Strategy for 2012/13 to 2014/15

Since the draft TMSS was reported to Audit Committee in December, the final Housing Revenue Account determination has been published, changing Hillingdon's payment from £192.8m to £191.6m. As a result several figures within the report have been amended. In addition, the section discussing the 'Reform to the Council Housing Subsidy System' has been rewritten and now covers paragraphs 2.7 to 2.13 (previously 2.7 to 2.8).

Certain figures within the report have been updated as a result of movements over the last couple of months due to the completion of the Council's capital programme for 2012/13 to 2014/15, updates to estimated debt maturities and to match the latest budget position.

Prior to taking the report to Cabinet it was noticed that one change which had been included in the strategy had not been highlighted in the summary. Therefore, the summary has been amended to highlight the change in minimum counterparty credit rating from A+ to A- to accommodate the downgrade of many UK financial institutions and to note the removal of Clydesdale Bank from the counterparty list. This change is in relation to the summary section only.

The appendices have also been updated to reflect the latest information.

All changes have been highlighted on the attached report.

Treasury Management Strategy Statement
and Investment Strategy 2012/13 to 2014/15

Contents

Appendices

SUMMARY

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the strategy for managing the numerous risks related to this activity.

With an overall annual expenditure in excess of £700m and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs, is an integral part of daily cash and investment portfolio management. As at 31 March 2012 the Council's loan portfolio is expected to be £165.2m (excluding Housing Revenue Account reform financing) and the total value of investments forecast at £38.4m. The Balance Sheet position as at 31 March 2011 showed the value of debt as £161.6m and the value of investments as £42.9m.

The Council's Capital Financing (CFR) requirement, which measures the Council's underlying need to borrow for capital purposes and represents the cumulative capital expenditure that has not yet been financed, is a key driver of borrowing strategy. Reform of the housing subsidy system has had major impact on the Housing Revenue Account (HRA) element of the CFR and will require the Council to take on additional debt of £191.6m to fund a one off settlement to central government in return for abolishing the annual subsidy payment. The projected CFR for 31 March 2012 is £429.7m, of which £161.7m is attributed to the General Fund (GF) with the remaining £268.0.m within the HRA.

The Council's current strategy is to minimise borrowing to below the level of its net borrowing requirement. This is lower than the CFR, the difference representing balances, reserves, provisions and working capital. This approach lowers interest costs and reduces credit risk and relieves pressure on the Council's counterparty list. Borrowing is restricted to a few highly secure sources. These include: the Public Works Loan Board (PWLB), commercial banks, European Investment Bank, structured finance, and products associated with other local authorities. Additionally, borrowing is restricted by two limits: the Authorised Limit, a statutory limit that sets the maximum level of external borrowing on a gross basis, and the Operational Boundary, which is determined by both the estimated CFR and day to day cash flow movements. For 2012/13 the proposed Authorised Limit is £499m and proposed Operational Boundary is £466m.

Throughout the year, capital expenditure levels, market conditions and interest rate levels are monitored to minimise borrowing costs over the medium to longer term and maintain stability. The differential between debt costs and investment earnings continues to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure. An additional strand of the strategy is to actively monitor opportunities arising for debt rescheduling in order to deliver savings in interest costs but with minimal risk, and to balance the ratio of fixed rate to variable rate debt within the portfolio.

In order to service the Council's day to day cash needs, the Council maintains a portfolio of short term investments. The Council's investment priorities are: the security of invested capital; the liquidity of invested capital, and the optimum yield that is commensurate with security and liquidity, in that order. The report details the Council's investment strategy, explains the institutions (counterparties) with whom the Council is permitted to invest, the limits related to the size of individual investments and overall holding with institutions. In the annual review of the strategy a change to the minimum investment counterparty long term credit rating from A+ to A- (or equivalent) is recommended. This is in response to downgrades in the credit ratings below A+ of many institutions considered to be systemically important to the financial system. In addition several amendments to the investment options have been suggested. These include: the addition of Corporate Bonds, the addition of a new counterparty; Bank Nederlandese Gemeenten, a reduction in Money Market Fund limits (from £10m/15% to £7.5m/10%) and the removal of Clydesdale Bank from the counterparty list.

As a result of continued pressure and uncertainty within the financial markets, the security of any investment is the primary consideration in decision making and a cautious approach will always be adopted. Whilst this report identifies all permitted options in investment decision making, tighter controls govern daily activity limiting the number of counterparties with whom investments will be placed and the value of the total holding with any single institution. Regular monitoring of all institutions on the counterparty list is part of daily treasury management. In any period of significant stress in the markets, the default position will be to invest with the governments Debt Management Office (DMO).

The impact of interest rates is crucial to all treasury management activity and forecasts of interest rate movements are taken into account in developing treasury management strategy. Consequently this strategy is kept under review and, taking market information into account, will be realigned, if required, with evolving market conditions and expectations for future interest rates.

In November 2011 CIPFA revised its Treasury Management Code of Practice and these amendments have been incorporated within the Strategy and additionally a revised Treasury Management Policy Statement issued for approval.

1. Background

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine a Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Annual Investment Strategy as required under the CLG's Investment Guidance.

1.2. Treasury Management is about the management of risk. The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk.

1.3. The purpose of this TMSS is to allow Council to approve:

- Treasury Management Strategy for 2012/13
- Annual Investment Strategy 2012/13
- Prudential Indicators for 2012/13, 2013/14 and 2014/15
- MRP Statement
- Adoption of the revised Treasury Management Code of Practice & Guidance notes and subsequent amendments

1.4. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the Prudential Indicators and the current and projected Treasury position (Appendix A). The outlook for interest rates (Appendix B) has been taken into account in developing this strategy.

1.5. The CIPFA Treasury Management Code was revised in November 2011 and as per requirements of the Prudential Code, Council are asked to approve the adoption of the revised code.

1.6. All treasury activity will continue to comply with relevant statute, guidance and accounting standards.

2. <u>Balance Sheet and Treasury Position</u>

2.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), which together with Balances and Reserves are the core drivers of treasury management activity. The estimates of the CFR, based on the current Revenue Budget and Capital Programmes, are:

	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
General Fund CFR	161.7	191.2	221.1	229.2
HRA CFR	268.0	268.0	268.0	268.0
Total CFR	429.7	459.2	489.1	497.2
Less: Existing Profile of Borrowing and Other Long Term Liabilities *	168.1	160.9	153.9	147.9
Cumulative Maximum External Borrowing Requirement	**261.6**	**298.3**	**335.2**	**349.3**
Balances & Reserves**	29.8	26.5	23.9	24.1
Cumulative Net Borrowing Requirement/(Investments)	**231.8**	**271.8**	**311.3**	**325.2**

* The existing profile of borrowing and other long term liabilities does not include potential LOBO loan maturities which may or may not occur. Over the next three years, loans totalling £8m, £10m and £11m respectively will be in their call state.
**In order to demonstrate a prudent net borrowing position the Balances and Reserves figures quoted above relate to core General Fund balances only and do not include those balances over which the Council has no direct control.

2.2. The Council's level of physical debt and investments are linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

Estimates of Capital Expenditure:

2.3. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

2.4. For the purposes of Treasury management the estimates for capital expenditure shown in the next table vary from the draft budget. Figures presented here are an estimate of likely capital cash outflows whereas the capital budget is set on an accruals basis.

Capital	2011/12	2011/12	2012/13	2013/14	2014/15

Expenditure	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
General Fund	61.8	51.4	87.3	71.1	37.0
HRA	11.9	13.4	17.9	13.7	7.0
Total	**73.7**	**64.8**	**105.2**	**84.8**	**44.0**

2.5. Capital expenditure is expected to be financed as follows:

Capital Financing	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Capital Receipts	20.9	15.0	15.5	12.7	0
Government Grants	24.7	25.8	36.8	18.7	17.7
Revenue Contributions	1.9	2.1	2.4	3.5	3.5
Other External Funding	3.0	5.3	3.3	5.8	3.9
Unsupported Borrowing	23.2	16.6	47.2	44.1	18.9
Total	**73.7**	**64.8**	**105.2**	**84.8**	**44.0**

Incremental Impact of Capital Investment Decisions:

2.6. As an indicator of affordability the table below shows the notional impact of capital investment decisions on Council Tax and housing rent levels and represent the impact on these if the financing of the capital programme were to be funded from taxes and rents. However, in reality much of the capital programme is funded from the sale of released or newly created assets, revenue savings for invest to save schemes and additional rental income for HRA developments.

Incremental Impact of Capital Investment Decisions	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Increase in Band D Council Tax	£21.96	£22.05	£15.78
Increase in Average Weekly Housing Rents	£5.02	£(0.01)	£0.22

Reform to the Council Housing Subsidy System

2.7. The Council housing self-financing reforms involve the removal of the housing subsidy system by transferring a one-off allocation of national housing debt in return for the retention of all rental income that is currently pooled under the subsidy regime. Settlement date is 28th March 2012 and will result in the Council more than doubling it's debt to fund the settlement figure of £191.6m in return for an annual subsidy payment to central government that currently amounts to £15m per annum.

2.8. New Borrowing from 1st April 2012 will be allocated to the relevant GF and HRA debt pools. Pre-settlement loans will be frozen at 31st March 2012 and will be allocated to the two pools to align historic debt to GF and HRA respectively.

2.9. The Council has the option of borrowing externally from the PWLB or the market and will, in conjunction with treasury advisors, seek a mix of financial instruments that spreads Treasury risks. In a departure from current Treasury practice the Council will adopt a two pool approach in relation to the allocation of debt between the GF and the HRA.

2.10. A two pool approach involves splitting existing loans between the GF and HRA and then allocating new loans to each pool as required. This has been adopted for clarity and transparency. Treasury management decisions on the structure, timing of borrowing and debt management will be made independently for the GF and HRA. Interest on loans will be calculated in accordance with proper accounting practices. Interest expenditure on external borrowing will be attributed to GF and HRA accordingly.

2.11. The policy for apportioning existing loans is based on matching actual HRA capital expenditure with actual borrowing.

2.12. If the GF and HRA wish to swap loans as a result of strategic decisions this will be undertaken at no internal premium or discount.

2.13. Where the GF or HRA has surplus cash balances which allow either account to have external borrowing below its level of CFR, the rate charged on this internal borrowing will be based on the average rate of interest earned on cash balances for the financial year.

2.14. **HRA Indebtedness:** As a requirement of the Prudential Code a limit of £303.3m has been set for HRA indebtedness for 2012/13 and the following two years.

2.15. The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2011/12 Approved %**	**2011/12 Revised %**	**2012/13 Estimate %**	**2013/14 Estimate %**	**2014/15 Estimate %**
General Fund	4.25	2.92	4.00	5.08	5.85
HRA	31.17	30.80	28.11	27.24	26.61
Weighted Average	**9.99**	**8.64**	**9.07**	**9.88**	**10.46**

3. Borrowing and Rescheduling Strategy

3.1. The Council's balance of estimated external debt at 31 March 2012 (gross borrowing plus other long term liabilities) is shown in Appendix A. This Prudential Indicator is comparable with the Operational Boundary and Authorised Limit.

3.2. The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit for borrowing determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	489	489	496	527	535
Other Long term Liabilities	3	3	3	2	2
Authorised Limit	**492**	**492**	**499**	**529**	**537**

3.3. The **Operational Boundary** is linked directly to the Council's estimates of the CFR and estimates of other day to day cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	459	459	466	497	505
Other Long term Liabilities	3	3	3	2	2
Operational Boundary	**462**	**462**	**469**	**499**	**507**

3.4. The Chief Finance Officer has delegated authority, within the above limits for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Council will be notified of any use of this delegated authority.

3.5. **Gross and Net Debt:** - a new indicator will be included once final guidance is clarified.

3.6. In conjunction with advice from its treasury advisor, Arlingclose, the Council will keep under review the following borrowing options:

- Public Works Loan Board (PWLB) loans
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank and directly from Commercial Institutions
- Borrowing from the Money Markets
- Capital Markets (stock issues, commercial paper and bills)
- Local authority bills
- Structured finance
- Leasing

3.7. Notwithstanding the issuance of Circular 147 on 20 October 2010, following the CSR announcement which increases the cost of new local authority loans from the PWLB to 1% above the cost of the Government gilts, PWLB still remains an attractive source of borrowing, given the transparency and control its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:

- Variable rate borrowing
- Medium-term Equal Instalments of Principal (EIP) or Annuity Loans
- Long term Maturity loans, where affordable

Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and maintain stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2012/13. The "cost of carry" associated with medium and long term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short term costs. The use of internal resources in lieu of borrowing may again, in 2012/13, be the most cost effective means of financing capital expenditure.

3.8. PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. Exposure to variable interest rates will be kept under regular review. Each time the spread between long term rates and variable rates narrows by 0.50%, Arlingclose will trigger a formal review point with the Council and options will be considered and decisions taken on whether to retain the same exposure or change from variable to fixed rate debt.

3.9. The Council's existing PWLB variable rate loan borrowed prior to 20 October 2010 will be maintained on its initial terms and is not subject to the additional increased margin for new variable rate loans.

3.10. HRA Reform Financing – On the 20 September 2011, HM Treasury announced the PWLB rates offered to local authorities would be temporarily reduced to allow councils to borrow at lower levels for their one-off HRA reform settlement payment. This will enable the Council to borrow at around 0.13% above the equivalent gilt yield (current borrowing rates are 1% above the gilt yield) to fund the HRA transaction. These lower rates will be available on 26th March 2012 only. Although various sources of borrowing will be considered, it is likely that due to the temporary reduction, all HRA reform financing will be sourced from the PWLB utilising a mix of variable and fixed rate loans with varying maturities.

3.11. The Council has £48m loans, which are LOBO loans (Lender's Options Borrower's Option) of which £8m of loans will be in their call period in 2012/13. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan(s) by borrowing from the PWLB. The default response will however be early repayment without penalty.

3.12. There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.

3.13. The rationale for rescheduling would be one or more of the following:

- Savings in interest costs with minimal risk
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

Rates and markets are monitored daily by officers to identify opportunities for rescheduling.

3.14. Borrowing and rescheduling activity will be reported monthly to Cabinet.

3.15. Where temporary borrowing is required this will be attributed directly to either the GF or HRA as needed. Interest costs will be allocated accordingly.

3.16. The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises, which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short term rates on investments.

Upper Limits for Interest Rate Exposure	**Estimated Level (or benchmark level at 31/03/12 %**	**2011/12 Revised %**	**2012/13 Estimate %**	**2013/14 Estimate %**	**2014/15 Estimate %**
Upper Limit for Fixed Interest Rate Exposure on Debt	85	100	100	100	100
Upper Limit for Fixed Interest Rate Exposure on Investments	0	(75)	(75)	(75)	(75)
Upper Limit for Variable Interest Rate Exposure on Debt	15	50	50	50	50
Upper Limit for Variable Interest Rate Exposure on Investments	(100)	(100)	(100)	(100)	(100)

For the purposes of the above indicator investments over one year in duration are classified as fixed.

3.17. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt. The first scheduled LOBO call option has been included as the maturity date within this indicator.

Maturity structure of fixed rate borrowing	**PWLB Estimated level (Benchmark level) at 31/03/12 %**	**Market LOBO 1st call option at 31/03/12 %**	**Lower Limit for 2012/13 %**	**Upper Limit for 2012/13 %**
under 12 months	3.44	5.22	0	25
12 months and within 24 months	3.44	6.53	0	25
24 months and within 5 years	7.54	10.44	0	50
5 years and within 10 years	32.31	9.14	0	100
10 years and within 20 years	3.26	0	0	100
20 years and within 30 years	0.00	0	0	100
30 years and within 40 years	0.00	0	0	100

40 years and within 50 years	18.68	0	0	100
50 years and above	0	0	0	100

4. Investment Policy and Strategy

4.1. Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

4.2. The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

4.3. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendices C and D. The Chief Finance Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported monthly to Cabinet.

4.4. Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have lead to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Council's investment strategy is framed.

4.5. Changes implemented to the investment strategy for 2012/13 include:

- The addition of corporate bonds which the CLG have indicated will become eligible as non-capital investments from 01/04/12
- The addition of Bank Nederlandese Gemeenten (Long term rating AAA/AAA/Aaa)
- Reduction of MMF limits from 15%/£10m to 10%/£7.5m
- Removal of Clydesdale Bank from the Counterparty list

4.6. The Council's estimated level of investments at 31 March 2012 is presented at Appendix A.

4.7. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

4.8. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office (DMO) or UK Treasury Bills. (The rates of interest from the DMO are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure)

4.9. Investment returns attributable to the HRA will be based on the Item 8 determination

4.10. **Credit Risk**: The Council considers security, liquidity and yield, in that order when making investment decisions. Credit ratings remain an important element of assessing credit risk but they are not the sole feature in the Council's assessment of counterparty credit risk. The Council also considers alternative assessments of credit strength and information on corporate developments of, and market sentiment towards counterparties. The following key tools are used to assess credit risk.

- Credit Ratings - minimum long term A- or equivalent for counterparties; AA+ for non-UK sovereigns. (The counterparty limit is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in the credit ratings below A+ of many institutions considered to be systemically important to the financial system)
- Credit Default Swaps (where quoted)
- Economic fundamentals such as GDP; Net Debt as a Percentage of GDP
- Sovereign support mechanisms/potential support from a well-resourced parent institution
- Share Prices (where quoted)
- Macro-economic indicators
- Corporate developments, news articles and market sentiment.
- Subjective overlay

The Council will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

4.11. The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2012/13. Short term money market rates are likely to remain at very low levels for an extended period, which will have a significant impact on investment income.

4.12. With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow and credit conditions permit, in order to lock in higher rates of acceptable risk adjusted returns.

4.13. In order to spread an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return.

Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

4.14. Money market funds (MMFs) will be utilised, but good treasury management practice prevails and whilst MMFs provide good diversification the Council will also seek to diversify any exposure by utilising more than one MMF. The Council will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. Where MMF's participate, the Council utilises the facilities of a MMF portal to make subscriptions and redemptions. The portal procedure involves the use a clearing agent however the Council's funds are ring fenced throughout the process.

4.15. Collective Investment Schemes (Pooled Funds): The Council has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. Any investment in pooled funds will be regularly monitored for both performance and to ensure their continued suitability in meeting the Council's investment objectives.

4.16. Investments which constitute capital expenditure: Investments meeting the definition of capital expenditure can be financed from capital or revenue resources. They are also subject to the CLG's Guidance on "non-specified investments". Placing of such investments has accounting, financing and budgetary implications. Whilst it is permissible to fund capital investments by increasing the underlying need to borrow, it should be noted that under the CLG's Minimum Revenue Provision (MRP) Guidance, MRP should be applied over a 20 year period. The Council has determined that it is not currently prudent to make investments which constitute capital expenditure. These would presently need to be sourced from revenue and therefore the requirement for MRP would make the investment not viable.

4.17. The use of financial instruments for the management of risks: Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the Council does not intend to use derivatives. Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

4.18. The Council banks with HSBC Bank plc and at the current time, it does meet the minimum credit criteria of A- (or equivalent) long term. If the credit rating falls below the Authority's minimum criteria, HSBC Bank plc will continue to be used for its banking activities, short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

4.19. The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
	17	17	80	53	26

4.20. All investment activity will comply with the accounting requirements of the local authority IFRS based Code of Practice.

5. Outlook for Interest Rates

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose, is attached at Appendix B. The Council also monitors other sources of market information and will reappraise its strategy from time to time and, if required, realign it with evolving market conditions and expectations for future interest rates.

6. Balanced Budget Requirement

6.1. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

7. 2012/13 MRP Statement

7.1. The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision (MRP) has been issued by the Secretary of State. Local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

7.2. The four MRP options available are:

Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

This does not preclude other prudent methods to provide for the repayment of debt principal.

7.3. MRP in 2012/13: Option 1 and 2 will be used for the majority of GF historic debt particularly that deemed to be supported through the Revenue Support Grant. For major projects where capital expenditure is funded from prudential borrowing Option 3 will be used to provide MRP over the life of the asset to which the borrowing was applied.

7.4. Following the HRA self-financing settlement, HRA debt will increase from £65m to £256.6m with a borrowing cap of £303.3m. It is proposed that the HRA will make a form of MRP to pay down this debt over the 30 year business cycle on which the settlement is based.

8. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

Treasury activity is monitored and reported to Senior Management on a daily and weekly basis. Monthly updates including Prudential Indicators are provided to Cabinet as part of the budget monitoring process. Additionally a six month strategy outturn report is taken to Cabinet.

The Treasury Management Strategy Statement (including Prudential Indicators and Annual Investment Strategy) for the forthcoming financial year is submitted to Cabinet prior to agreement at full Council before the start of the financial year. An early draft is provided to Audit Committee in December. Any amendments to the TMSS which are required during the year will be submitted to Cabinet for approval. In addition, Audit Committee is responsible for the yearly scrutiny of treasury management practices.

9. Revision to the CIPFA Treasury Management Code of Practice and Guidance Notes

CIPFA revised the Treasury Management Code of Practice (TM Code) and associated Guidance Notes in November 2011. This revision is an update to the TM Code and Guidance Notes last published in November 2009 and approved by Council in February 2010. The TM Code has been reviewed and updated following recent developments and anticipated regulatory changes relating to the Localism Bill 2011, including housing finance reform and the introduction of the General Power of Competence. Council is required to adopt the revised Code and approve the associated Treasury Management Policy Statement.

Below are the principle changes to the code:

- The Council must explicitly state in their TMSS whether they plan to use derivative instruments to manage risks, and ensure they have the legal power to do so.

- The Council will need to make reference to their high level approach to borrowing and investment in their Treasury Management Policy Statement. (See appendix E for the revised Treasury Management Policy Statement)

- Less focus has been placed on the ‘minimum credit limits’ for investment counterparties, with more focus on the ‘minimum acceptable credit quality.

- New treasury indicator: Upper limits on the proportion of net debt to gross debt; to highlight where an authority may be borrowing in advance of its cash requirement.

- The Council may wish to create a new treasury indicator which considers credit risk.

- Expansion of the risk management chapter.

- New Section in the TM Code Guidance Notes on the ‘Treasury Management Implications of the Housing Self-Financing Reform. (Debt and interest allocations)

10. <u>Other Items</u>

Training
CIPFA’s Code of Practice requires all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

The Council adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Treasury staff also attend regular training sessions, seminars and workshops. These ensure their knowledge is up to date and relevant. Details of training received are maintained as part of the performance and development process.

Council members receive education regarding treasury management as part of their general finance training. Access to additional training is provided where required.

Investment Consultants
The CLG’s Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

The Council has a contract in place with Arlingclose Ltd to provide a treasury advisory service, which details the agreed schedule of services. Performance is measured against the schedule of services to ensure the services being provided are in line with the agreement.

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m	31 Mar 15 Estimate £m
External Borrowing:				
Fixed Rate – PWLB	105.2	99.9	94.7	90.4
Fixed Rate – Market	40.0	38.0	37.0	33.0
Variable Rate – PWLB	12.0	10.5	9.0	7.5
Variable Rate – Market	8.0	10.0	11.0	15.0
Current Borrowing	**165.2**	**158.4**	**151.7**	**145.9**
New Borrowing	-	271.8	311.3	325.2
Total Borrowing	**165.2**	**430.2**	**463.0**	**471.1**
Existing long term liabilities	2.9	2.5	2.2	2.0
Total Gross External Debt	**168.1**	**432.7**	**465.2**	**473.1**
Total Investments	38.4	39.5	36.7	34.9
Net Borrowing Position	**129.7**	**393.2**	**428.5**	**438.2**

APPENDIX B

Arlingclose's Economic and Interest Rate Forecast

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Official Bank Rate													
Upside risk					0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.10	2.20	2.30	2.40	2.40
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.30	1.35	1.40	1.50	1.60	1.70	1.80	2.00	2.10	2.30	2.40	2.50	2.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.30	2.40	2.45	2.50	2.55	2.60	2.70	2.75	2.80	2.85	2.90	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.05	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	3.75	3.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	4.25	4.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012. We think that it could be 2016 before official UK interest rates rise.
- The UK's safe haven status, the direct effect of QE and minimal prospect of an increase in policy rates are expected to keep gilt yields at their lows in the near term.
- A disorderly outcome to the Eurozone sovereign crisis remains a key economic, credit and political risk.

Underlying Assumptions:

- Financial market stress is expected to remain a feature of 2012. Rates within Interbank markets (where banks fund the majority of their day to day operations) have continued to climb. This dynamic was a characteristic of the 2008 banking crisis and whilst the authorities have flooded the markets with liquidity, it is still a strong indicator of market risk.
- Inflation has moderated back to 4.8% in November. CPI is expected to drop gradually back towards the 2% target as the January 2011 VAT increase, the surge in oil prices and the large energy price hikes fall out of the twelve month comparison.
- Recent data and surveys suggest that since the summer the UK economy has lost the admittedly fragile momentum. Business and consumer surveys point to continued weakness in coming months. Public spending cuts, austerity measures, credit constraints, low business and consumer confidence could result in the economy stalling (Q3 excepted, when the 2012 Olympics will provide a temporary boost) and most likely pressure the Bank of England to provide further QE.
- Faltering global growth will not be helped by the considerable uncertainty and expansion of risks presented by the crisis in the Eurozone and gridlock in the US going into an election year. The knock-on effects could in turn weigh on growth in China and emerging market countries.
- Gilt supply is expected to be higher in 2012-13 than earlier forecast by the Treasury. However, over the short-term, gilts will retain their safe-haven status as euro area contagion risks grow.
- Sizeable European bond redemptions and refinancing (Italy in particular) in the first half of 2012 remain significant challenges. Headwinds to fiscal convergence and treaty changes could intensify downgrade pressures on the AAA core nations as well as peripheral countries. The effectiveness of the European Financial Stability Fund (EFSF) may prove limited, increasing the possibility of a sovereign failure or the break-up of the euro area.

APPENDIX C

Specified Investments

Specified Investments identified for use by the Council

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high credit quality" as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

"Specified" Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts: (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills)
- Local Authority Bills
- Corporate Bonds
- Commercial Paper
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- *Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

* Investments in these instruments will be on advice from the Council's treasury advisor.

When determining the minimum acceptable credit quality the Council will not only consider the credit rating criteria below but also information on corporate developments of and market sentiment towards investment counterparties as set out in the Credit Risk indicator.

For credit rated counterparties, the minimum criteria will be the lowest equivalent long term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).

Long term minimum: A-(Fitch); A3 (Moody's;) A- (S&P)
New specified investments will be made within the following limits:

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits %/£m
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	£35m per Local Authority / No total limit
Term Deposits/Call Accounts/CD's	UK	Counterparties rated at least A- Long Term (or equivalent)	15% / £20m
Term Deposits/Call Accounts/CD's	Non-UK	Counterparties rated at least A- (or equivalent) in select countries with a Sovereign Rating of at least AA+	15% / £15m
Gilts	UK	DMO	No limit
Treasury Bills	UK	DMO	No limit
Local Authority Bills	UK	Other UK Local Authorities	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	40% / £50m
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	10% / £7.5m per fund. Maximum MMF exposure 75%
Other Money Market Funds and Collective Investment Schemes	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme (CIS) per SI 2004 No 534 and subsequent amendments	10% / £7.5m per fund. Maximum MMF exposure 75%

Commercial Paper	UK	Counterparties rated at least A- Long Term (or equivalent	15% / £20m
Corporate Bonds	UK	Counterparties rated at least A- Long Term (or equivalent	15% / £20m

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty / Group Limit £m**	**Maximum Counterparty / Group Limit %**
Term Deposits	UK	DMADF, DMO	No limit	No Limit
Term Deposits	UK	Other UK Local Authorities	£35m per Local Authority	No Limit
Term Deposits /Call Accounts	UK	Lloyds Banking Group (Including Bank of Scotland)	20	15
Term Deposits /Call Accounts	UK	Barclays Bank Plc	20	15
Term Deposits /Call Accounts	UK	HSBC Bank Plc	20	15
Term Deposits /Call Accounts	UK	Nationwide Building Society	20	15
Term Deposits /Call Accounts	UK	RBS Group (Royal Bank of Scotland and Nat West)	20	15
Term Deposits /Call Accounts	UK	Standard Chartered Bank	20	15
Term Deposits /Call Accounts	Australia	Australia and NZ Banking Group	15	15
Term Deposits /Call Accounts	Australia	Commonwealth Bank of Australia	15	15
Term Deposits /Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	15	15
Term Deposits /Call Accounts	Australia	Westpac Banking Corp	15	15
Term Deposits /Call Accounts	Canada	Bank of Montreal	15	15
Term Deposits /Call Accounts	Canada	Bank of Nova Scotia	15	15

Term Deposits /Call Accounts	Canada	Canadian Imperial Bank of Commerce	15	15
Term Deposits /Call Accounts	Canada	Royal Bank of Canada	15	15
Term Deposits /Call Accounts	Canada	Toronto-Dominion Bank	15	15
Term Deposits /Call Accounts	Finland	Nordea Bank Finland	15	15
Term Deposits /Call Accounts	France	BNP Paribas	15	15
Term Deposits /Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	15	15
Term Deposits /Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	15	15
Term Deposits /Call Accounts	France	Société Générale	15	15
Term Deposits /Call Accounts	Germany	Deutsche Bank AG	15	15
Term Deposits /Call Accounts	Netherlands	ING Bank NV	15	15
Term Deposits /Call Accounts	Netherlands	Rabobank	15	15
Term Deposits /Call Accounts	Netherlands	Bank Nederlandse Gemeenten	15	15
Term Deposits /Call Accounts	Sweden	Svenska Handelsbanken	15	15
Term Deposits /Call Accounts	Switzerland	Credit Suisse	15	15
Term Deposits /Call Accounts	US	JP Morgan	15	15

Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively if a counterparty is downgraded, this list may be shortened.

The above percentage limits are based on a 30 day rolling average investment balance.

Non UK Banks are restricted to a maximum exposure of 25% per country and a total overseas aggregate exposure (excluding MMFs) of 40%.

Maturity periods may be amended to less than one year to address any emerging risk concerns.

APPENDIX D

Non-Specified Investments determined for use by the Council

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Maximum maturity	Max % of portfolio	Capital expenditure?
▪ Deposits with banks and building societies ▪ CDs with banks and building societies	✓ ✓	5 Years	40 In Aggregate	No
▪Gilts ▪Bonds issued by multilateral development banks ▪Bonds issued by UK financial institutions ▪Sterling denominated bonds by non-UK sovereign governments ▪Corporate Bonds	✓ (on advice from treasury advisor)	6 Years	40 In Aggregate	No
Money Market Funds and Collective Investment Schemes, which are not credit rated	✓ (on advice from treasury advisor)	5 Years	15 In Aggregate	No

In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

APPENDIX E

TREASURY MANAGEMENT POLICY STATEMENT

INTRODUCTION AND BACKGROUND

The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year. Cabinet will receive a mid-year review and an annual report after its close.

The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet and Audit Committee and for the execution and administration of treasury management decisions to Chief Finance Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates Cabinet and Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

The Council defines its treasury management activities as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

This page is intentionally left blank

Internal Audit Progress Report

Contact Officer: Helen Taylor
Telephone: 01895 556132

REASON FOR ITEM

This report provides the Audit Committee with a summary of Internal Audit (IA) activity in the period from 14 November 2011 to 19 February 2012. This fulfils the requirements of CIPFA's Code of Practice for Internal Audit in Local Government to bring to Members' attention periodic reports on progress against planned activity and any implications arising from Internal Audit findings and opinions.

The report also satisfies the Audit Commission requirements to keep Members adequately informed of the work undertaken by Internal Audit and of any problems or issues arising from audits.

OPTIONS AVAILABLE TO THE COMMITTEE

To note the in-year progress against the Internal Audit Plan for 2011-12; the updated position of those audits undertaken in 2007-8, 2009-10 and 2010-11 and that all recommendations have been implemented for 2008-9 audits.

1. INFORMATION

1.1. In addition to the Annual Report, the Head of Internal Audit produces interim reports to Officers and Members throughout the year. These are approximately quarterly, summarise progress to date and bring to the attention of members any issues of note.

2. Resources

2.1. Two new trainees started in January 2012, replacing two who resigned earlier in the year. There has been one long-term sickness absence in the team during the period and one long-term absence for other reasons. However a number of audits have been deleted for unrelated operation reasons, outlined below, so the staff resources are sufficient to meet the remaining planned audits.

3. Progress against Plan and Follow up Status

3.1. During the period, six audits received Limited Assurance, twelve received Satisfactory Assurance, of which eight were school audits, and four received Full Assurance of which 3 were school audits. Although six received Limited Assurance, we have agreed action plans with management to address the weaknesses identified and we will be closely monitoring these for implementation by the agreed timetables.

3.2. I am not anticipating any qualification of my annual opinion as a result of audits reported in the current period.

3.3. The current status of this year's plan in included in Appendix 1.

3.4. The progress and status of those audits carried out in 2007-8, 2009-10 and 2010-11 is included in Appendices 2, 3 and 4.

3.5. It was anticipated when setting the plan that amendments will always be needed to accommodate the changing needs of the Council. Amendments made up to the 19 February 2012 include one addition to the planned work which has been accommodated from current resources.

> **Carbon Reduction Commitment Energy Efficiency Scheme –** Added to the plan as the scheme required Internal Audit input to certify that adequate and effective processes and procedures were in place to ensure, that the Council captures, reports and maintains complete, accurate and timely information on its electricity and gas usage.

3.6. There have been nine deletions from the plan during the period. All decisions on deletions took into account the risks associated with the audits and whether deferral to 2012/13 would be more appropriate. The audits ***deleted and included in the audit plan for 2012/13 are***:-

> **Employee Expenses – Automated Payments** – This was originally put in the 2011/12 plan as it was expected that automated payments would go live within the year. However, delays have occurred and the system will not be piloted until March 2012, with the system going fully live in 2012/13. Internal Audit has been involved in the planning stage of this project, advising on controls.

> **Criminal Records Bureau Checks** – Human Resources (HR) assumed responsibility for CRB checks from the Business Support Units in November 2011. It was apparent that there were improvements required and HR is reviewing the whole process starting with Children & Families and then moving onto other service areas. After discussions we felt that HR had identified the improvements needed and we could add little to the programme of improvements they were already putting in place.

> **Mental Health** - This audit was planned to be carried out in Quarter 4. However, at the time of planning, it was established that CNWL (Central North West London) that provides the service on behalf of the Council was going through a major restructure and that the audit would be best delayed until 2012-13 when we will review the adequacy and effectiveness of the new processes put in place.

Assessment & Care Management – Learning Disabilities and Physical Disabilities – A review of Older People's assessment processes is being undertaken. Proposals for the reorganisation of Older Peoples Social Care assessment and care management teams are under consideration so an audit in 2011/12 would not be able to take into account any new reporting lines and changes in responsibilities.

Empty Property Management - The service is in the process of being restructured and transferred to a different Head of Service and therefore an audit in 2012/13 is considered more appropriate.

Private Sector Housing - This audit has been deferred at the request of the respective Head of Service as the service is going through a BID restructure which should be completed in April 2012. The audit in 2012/13 will review the adequacy of the new processes put in place.

Investigations Team – This team was set up in 2011/12, bringing together the activities of both investigation and enforcement, previously undertaken by separate teams in different directorates. The team is still being developed and so an audit in 2012/13 when the team is more embedded is considered more beneficial.

School Admissions – There is a current Business Improvement Delivery (BID) project on school admissions based on reviewing the processes undertaken for school places applications. The aim is to use on-line applications to feed information directly into the admissions system maximising the use of IT. An audit of the current manual system would not add any value.

3.7. The audits deleted from the plan and not included in the plan for 2012/13 are:-

The Willows – This special school became an Academy within the year and the Council is therefore no longer requires assurance on its systems.

Behaviour Support – Financial Systems - The audit was for the 2011/12 plan because the Behaviour Support Service was a service purchased by secondary schools but being offered to primary schools from April 2011. With the consequent risk that expenditure could exceed income. At the planning stage of the audit, it was obvious that a sufficient number of schools had brought the service and there was little risk. The audit was therefore terminated at that stage.

3.8. Unless otherwise stated, all reports have an action plan agreed with internal audit.

3.9. Summaries of the outcomes of the audits completed in the period are provided below:

Audit Title: CRC Energy Efficiency Scheme
Assurance level: Limited

The Carbon Reduction Commitment (CRC) Energy Efficiency Scheme is a mandatory energy efficiency scheme which was introduced in April 2010. Organisations were required to calculate and report energy used in tonnes of carbon dioxide (CO_2). The overall aim of the scheme is to encourage organisations to reduce their energy consumption. The greater the reduction, the greater the savings in energy supply costs and the fewer carbon allowances to purchase.

Non-compliance or inaccurate reporting will expose organisations to potentially significant financial penalties e.g. a fine of £40 per tonne of carbon dioxide incorrectly reported beyond the 5% allowable margin of error. Organisation names will be placed in a performance league table which could impact on the council's reputation.

The audit objective was to ensure that adequate and effective processes and procedures are in place to ensure, that the council captures, reports and maintains complete, accurate and timely information on its electricity and gas usage including that of its schools.

We were pleased to report risks are appropriately addressed in these areas:

- Registering and submitting both Footprint and Annual reports on time;
- Budgeting for payment of the CRC allowance.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
A process should be put in place to capture building details from Property, Housing and Corporate Construction and relay this information to the CRC Officer, to ensure that all relevant buildings have been captured (especially changes in-year).	High	February 2012
The Programme Board should ensure the case for having a contract with TEAM, the energy auditing agency, is revaluated and Contract Management improved to ensure the council is receiving value for money.	High	April 2012
The Programme Board should ensure for next year's submission:- • there is a clear plan for next year's submission so that the collation of CRC information is complete and	High	Immediate

accurate; • all establishments are on the corporate contracts. And once on, do not change energy supplier without authorisation, therefore ensuring there is an opportunity to challenge the reasons behind any supplier changes; • there is a process in place which ensures the Energy Manager or relevant Officer is notified if any properties that are disposed of. So that final readings can be taken and the council are not charged for energy usage.		
Document the process the officer followed to capture and calculate CRC emissions and clarify how the CRC supporting documentation for 2010/11 data is going to be held. So that the council can justify its figures and does not struggle to recreate the starting point for the 2012-13 submission.	High	February 2012

Management Comment - Recommendations of the report have been agreed in conjunction with both the Head of ICT & Business Services and Heads of Service to ensure they are delivered to timetable.

Audit Title: Fleet Management
Assurance level: Limited Assurance

The Fleet Management Service (FMS) is responsible for providing a fit for purpose, safe, reliable and cost effective vehicle fleet, enabling LBH to deliver operational services in line with corporate objectives. The FMS primarily supports waste services, highways and passenger services. The fleet operate from Harlington Road Depot (HRD).

The objective of the audit was to ensure the processes for Fleet Management procurement, repairs, servicing and disposals are efficient, effective and economical.

We are pleased to report risks are appropriately addressed in the following areas:

- Fleet vehicles are legal and roadworthy
- There is a planned maintenance schedule in place to ensure fleet vehicles are serviced at predetermined intervals in line with manufacturers recommendations
- Breakdown and recovery arrangements are in place

- Income had been banked from the disposal of fleet vehicles/machinery
- A performance framework is in place.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed target date
The Transport Manager should conduct a review of fleet vehicles and items of plant/machinery to ensure all assets are correctly included in the asset register. The Transport Manager should then provide a list of all fleet assets to Corporate Finance to ensure they have all been included in the asset register. Without updating the Council's asset register for assets purchased the council does not have a clear view of its assets and LBH account will not correctly reflect assets.	High	January 2012
Management should regularly review the level of repairs being carried out on fleet vehicles. Without a detailed analysis of patterns of repair, management will not be able to identify or investigate possible cases of excessive repair. Vehicles with high repair rates should be considered for replacement. Analysis would also help to identify possible collusion between drivers and the contractor to carry out unnecessary repairs.	High	April 2012
The Transport Manager should provide a monthly list to PEECS SMT of Line Managers who have not carried out appropriate risk assessments for their staff. If a driver is involved in a serious accident where an appropriate risk assessment has not been completed LBH may be found culpable as a corporate body and individual directors may be subject to legal proceedings. The Council's reputation will be put at risk.	High	April 2012
Details required on the vehicle hire booking form should be amended to include the purpose of hiring a vehicle and the named driver. If the reason for hire is not specified, there is no control in place to identify that drivers are using hired vehicles for personal gain at the cost of the Council. If the driver of the hired vehicle was involved in an accident the FMS may not be able to identify who was liable for driving the vehicle.	Medium	January 2012

All fleet vehicles should be securely locked at all times when they are not being maintained. Vehicles are at risk of malicious damage or theft especially by persons who manage to gain access to Harlington Road Depot.	Medium	January 2012
The Head of Service should commission a needs assessment/analysis to establish if fleet vehicles currently on hire are required and fully utilised by each service user department. The Council may not be getting value for money from its fleet and incurring unnecessary costs if hired vehicles are underutilised.	Medium	April 2012

Management Comment - Management actions have been agreed and will be monitored to ensure they are delivered to timetable.

Audit Title: Greenwich Leisure Contract
Assurance level: Limited Assurance

Greenwich Leisure Limited (GLL) is an independent registered charity whose primary objectives are to provide sports, leisure facilities and services in the interests of social and physical welfare within communities. GLL manages over 90 leisure centres in partnership with fourteen London Boroughs. GLL currently manages three Hillingdon Sport & Leisure Complexes on behalf of London Borough of Hillingdon. (Namely Botwell Green Sports & Leisure Centre in Hayes, Highgrove Pool & Fitness Centre in Eastcote and Queensmead Sports Centre in Ruislip).

London Borough of Hillingdon is committed to encouraging community development, engagement and social cohesion by extending and improving sporting and leisure opportunities to make Hillingdon a more healthy, active and successful sporting borough.

In consideration of the right to operate the facilities, an annual management fee of £540K is payable by the GLL, while an annual fee of £50K will be paid by LBH to use the facilities and associated ancillary services during the service period.

The objective of the audit was to ensure that there were adequate and effective processes in place to manage the contracts with Greenwich Leisure Limited.

We were pleased to report risks are appropriately addressed in these areas:

- Roles and Responsibilities
- Health and Safety

- Training and Development
- Facilities maintenance
- Customer feedback

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The Deputy Chief Executive, Director PEE&CS should ensure that, going forward, no contract commences without having a signed and sealed agreement in place. The Botwell Green Leisure Centre building contract agreement between GB Building Solutions and LBH should be signed urgently. All the other issues relating to warranties and outstanding works and defects should be agreed within a reasonable timescale because without properly signed agreement it is difficult to resolve disputes satisfactorily and hold the contractor to account.	High	May 2012
The Head of Service (Planning, Trading Standards & Consumer Protection) should set timescales for when the method statement, which outlines GLL's responsibilities, should be agreed and for when the lease for Botwell Green Leisure Centre should be signed. Without quick resolution of these outstanding issues, it will be difficult to enforce the contract if there is a breach.	High	May 2012
The Project Manager Sport and Leisure should ensure parking machines are installed as quickly as possible in the precinct of Botwell Green Leisure Centre to generate additional revenue because without these, the Council is failing to maximise revenue.	High	February 2012
The Head of Service (Planning, Trading Standards & Consumer Protection) should determine who is responsible for approving the Service Delivery Plan because If the Service Delivery Plan is not approved and evidenced, the Council's objectives might not be achieved.	Medium	June 2012
The GLL partnership manager should ensure quick implementation of the Quest accreditation scheme (i.e. industry acceptable standard on the continuous improvement in operation and service delivery) for all the centres as this will help managers enhance, improve and continue to improve the quality services they will give to	Medium	December 2012

customers.

Management Comment – All actions have been agreed and are being progressed.

Audit Title: Housing Repairs- Responsive Audit 2011/12
Assurance level: Limited

This audit was identified as part of the annual audit plan for 2011/12.

The Corporate Vision for LBH is "Putting Our Residents First" while the objective is to continue to provide good quality housing repair services to our residents.

Hillingdon Housing Repairs Service, HHRS, is responsible for day-to-day maintenance of Hillingdon's (10,500) housing properties. Defects and problems are reported to the council via the contact centre in the Civic Centre.

The audit objective was to ensure management of housing repair services are efficient, effective and economical.

We were pleased to report risks are appropriately addressed in these areas:

- Roles and responsibilities
- Invoicing

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The Head of Repairs should ensure there is a process in place which enables management to maintain assurance that repairs completed by contractors are adequate and effective.	High	February 2012
The Head of Repairs should put a stock management system in place to ensure the council knows how much stock operatives are obtaining from suppliers, using and carrying around in their vans.	High	April 2012
The Head of Repairs should analyse usage and specify a restricted list of brands for frequently used materials to ensure value for money is achieved.	High	March 2013

Control improvements required	Risk	Agreed Target Date
The Head of Repairs should ensure the policies and procedures are updated to reflect Council's objectives and current processes to ensure consistent practices are followed.	Medium	March 2013
The Head of Repairs should ensure that annual recharge rates are approved to ensure they are scrutinised and are consistent with the Council's objectives.	Medium	April 2012
All inspections should be documented providing assurance that the quality of repairs meets established standards set.	Medium	February 2012

Management Comment - These recommendations are accepted and there are plans in place for delivering them. Some progress has already been made where this can be done by quick changes to procedures. The longer term actions are linked to the completion of other tasks which will be progressed during the next financial year.

Audit Title: Street Lighting
Assurance level: Limited

This audit was identified as part of the annual audit plan for 2011/12.

Street Lighting is important to road safety at night. It also improves the quality of life for residents be deterring crime and making people feel more secure.

As a highways authority, the Council has a legal responsibility to maintain 21,200 (approx) street and subway lights together with 3,300 illuminated signs, bollards and zebra crossings.

The objective of the audit was to ensure Street Lighting is efficient, effective and economical within the borough.

We were pleased to report risks are appropriately addressed in these areas:

- Process maps in place outlining operational processes.
- The Council's responsibility with regards to street lighting is clearly outlined on its website.

- There are clear communication channels for residents to report street lighting issues.
- Contactors are in place to carry out specialist structural and electrical testing.
- There are processes in place to recover costs from third parties.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
A stock control system should be set up in the street lighting warehouse at Harlington Road Depot, in order to effectively manage and account for all items of stock and prevent/detect any misappropriation.	High	Feb 2012
Using the guidance from the Institute of Lighting Engineers, a policy should be produced outlining the service objectives and priorities. This will provide a clear and consistent direction for the service.	Medium	Aug 2012
Senior Officers should ensure that details of stock consumed and work undertaken within each job are recorded on the day sheets to enable effective monitoring.	Medium	Feb 2012

Management Comment - Stock is now only ordered direct from suppliers for specific jobs. Stock for day to day works is held by stores and booked out as needed.
Lighting Policy will be drafted in the spring; resources are currently concentrating one the implementation of the EXOR asset management system as part of the Business Process Re-engineering of Street Environment.
Details of materials used are recorded on daily work sheets in the interim. It is planned to log materials used against each asset in the Exor software to produce accurate cost and usage of materials and labour.

Fuel at Harlington Road Depot
Assurance level: Limited

At Harlington Road Depot, there were fuel pumps that can be used to refuel the fleet of Council vehicles. The equipment consisted of very old tanks, pumps and underground piping installed in the early 1970's.

The overall responsibility for this service rested with the Corporate Director of Planning, Environment, Education and Community Services. The operational responsibility for managing this service on a day to day basis was delegated to the Transport Manager, based at the depot. Under the recent restructure, the responsibility for authorising diesel purchases had been delegated to the Deputy Director – ICT, Highways and Business Services, who is based at the Civic Centre.

Management were aware that the diesel tank above ground did not comply with the Environmental Standards for oil storage regulations. The approval of capital expenditure for its replacement had been granted by the Leader of the Council and the Cabinet Member for Finance, Property and Business Services. Tendering arrangements were in progress.

The last audit of this area was carried out during 2004/05 and the recommendations made were followed up in subsequent years. However, the Head of Service was seeking assurance on the adequacy and effectiveness of the systems and controls in place for requisitioning, storing, issuing, and billing aspects of the fuel management service. This audit was therefore carried out as part of the annual audit plan for 2011/12.

The objective of the audit was to provide the Head of Service with the above assurance that he was seeking, and to ensure that the requirements for replacing the diesel fuel storage tank and other related equipment at Harlington Road Depot, to comply with the Environmental standards for oil storage regulations, were accurately identified and specified in the tender / procurement process.

We were pleased to report that risks were appropriately addressed to comply with the environmental standards for oil storage regulations and progress had been made towards the installation of a new fuel tank at the Harlington Road Depot.

However, improvements were needed to address risks in the following areas:

Control improvements required	**Risk**	**Agreed Target Date**
The Transport Manager in PEECS should consult with Corporate Procurement in Central Services to initiate a tender process for the bulk purchase of diesel fuel for Harlington Road depot. If a properly tendered contract for the procurement of diesel fuel, at the current expenditure level of over £750k per annum, does not exist, then the Council's Standing Orders, Public Contract regulations and EU Directives are not being complied with.	High	April 2012
The Transport Manager should ensure that all deliveries of diesel fuel are supervised by Council officers. Without such controls in place, there is a risk or temptation for the delivery driver to manipulate the delivery of fuel to their advantage.	High	Mid December 2011

The Transport Manager should consider introducing tighter controls around the overall access to the Harlington Road Depot and improve CCTV camera coverage in both the fuel pump and tank areas. Without such controls in place, there is a risk of unauthorised intruders on site or even authorised staff taking advantage of the poor security.	High	Immediate
Once the new tank with its improved calibration system is in place, Transport Manager should regularly reconcile the book value of stock on the Triscan system against the physical stock in the tank. These reconciliations should be recorded and evidenced by the officer carrying out the reconciliation. Without such reconciliations, it would be difficult to detect any errors in delivery or fraudulent drawing of diesel fuel.	High	February 2012
The Transport Manager should ensure that Purchase Orders are raised before any delivery of diesel fuel is arranged and suppliers are reminded to submit their invoices promptly after the fuel has been delivered. Without these, the Council has no clear idea of its commitments.	Medium	Mid December 2011
The Transport Manager should instruct all drivers that they must take immediate measures to have their fleet key reset through the system administrator if it gets locked, and management should cease the practice of allowing the master key to be used when drivers have been locked out of the system. If that type of discipline is not exercised, there is a risk of master key usage being abused and creating unnecessary additional work for Fleet Services staff.	Medium	Immediate
The Transport Manager should explore the possibility of extending the current duration of three weeks, for which the recorded CCTV coverage is saved and retrievable, and opt for the longest possible duration at a reasonable cost. Three weeks may not be sufficient to detect or investigate any suspicious activities around the fuel pump area.	Medium	February 2012
The Transport staff certifying the invoices should check them diligently against the delivery notes and update the Triscan fuel stock control system accurately. The officer authorising the invoice for payment should ensure that the delivery note, invoice and the Triscan system show consistent information. Without such controls in place, there is a risk of overpayments being made.	Medium	Immediate
The Transport Manager should ensure that all transactions	Medium	Immediate

relating to fuel expenditure are reflected promptly on Oracle Financials. Without such controls in place, budgetary control may not be effective.		
The Deputy Director - ICT, Highways and Business Services (PEECS) should clearly identify who is to be responsible for investigating fuel consumption anomalies or discrepancies and provide appropriate training. Without clearly identified responsibility, the monitoring of efficiency may not be effective and the benefits of reports produced each month may not be achieved.	Medium	End December 2011
There should be a system in place, which evidences the outcome of each investigation, including reasons for anomalies and what measures were taken to address or resolve them. Without a documented trail, it is difficult to comment on whether the Team Leaders or Fleet Services management have been monitoring the anomalies or not.	Medium	Immediate
Once the new tank is in place and more accurate stock control data is available through the Triscan / Tranman systems, the Head of Finance for PEECS should review the reporting mechanism, and consider whether they can be improved to provide further useful information. Without periodical reviews of existing practices, it is not possible to determine whether objectives are being met.	Medium	March 2012
The Transport Manager should ensure that their team have formally documented procedures and guidelines for day to day tasks. Without documented processes and procedures improper practices may be adopted and business continuity may be affected when there are staff changes.	Medium	January 2012
Disagreed recommendation The Transport Manager should ensure that the disused tank below ground is fully decommissioned and made safe in line within the capital funding release approval for this project. If the disused tank below ground is not fully decommissioned and made safe whilst the contractors are on site during this project, there may be implications at a later date leading to higher costs, if the same or any other contractor has to be called back.	Medium	N/A but will be considered during future plans.
Management Response: Disagreed - The PID report did make reference to the decommissioning of the old below ground fuel tank; however the approved capital purchase		

and specification for the supply contract for the new tank did not take into account the final decommissioning work for the under ground tank. (The appointed contractor did not quote for this work). This will be linked to future expenditure and the future plans for the depot in 2012.

Management Comment: The new fuel tank has been installed at Harlington Road Depot. The Deputy Director ICT Highways and Business Services is satisfied that 9 out of the 13 recommendations have already been implemented and is confident that the other 4 will be implemented within the target dates agreed in the action plan. Implementation of agreed recommendations is therefore on target."

Audit Title: Housing Repairs- Planned 2011/12
Assurance level: Satisfactory

This audit was identified as part of the annual audit plan for 2011/12.

The Hillingdon Housing Service repairs functions were returned to the council on the !st October 2010. The Repairs Team delivers the repairs and maintenance services to tenants and leaseholders.

The audit objective was to ensure that the cyclical maintenance programmes are carried out efficiently, effectively and economically

We were pleased to report risks are appropriately addressed in these areas:

- Roles and Responsibilities
- Payment Process
- Insurance & Health and Safety Management
- Budget authorisation and approval

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The Head of Housing Maintenance HHS should ensure procedures are updated to reflect the current processes and Council's objectives. To guard against inconsistent practices being followed.	Medium	April 2012

All inspections should be documented providing assurance that the quality of repairs meets established standards and the Council is receiving value for money.	Medium	January 2012

Audit Title: Penalty Charge Notices & Appeals
Assurance level: Satisfactory

Parking Services is an operational unit responsible for the management of on and off street parking, the enforcement of parking regulations and appeals against the issue of Penalty Charge Notices (PCNs) across the borough. It also collects revenue generated from parking activities.

Enforcement of parking regulations are undertaken by Mouchel Limited in the borough and the contract is managed by Parking Services.

The audit objective is to ensure that adequate and effective controls are in place to recover income from Penalty Charge Notices and that write –offs are properly authorised.

We were pleased to report risks are appropriately addressed in these areas:

- Policies and Procedures
- Roles and Responsibilities

Improvements are needed to address risks in the following areas:

Control improvements required	Risk
The Parking Administration Manager should carry out regular analysis of potential generation of a backlog of work (to support a staffing request if appropriate); of all valid PCNs cancelled because challenges were not responded within 28 days. If valid PCNs have to be cancelled this will impact on Council's income, reputation and service delivery.	Medium
The mystery shopping exercise should be revamped to target the Civil Enforcement Officers (CEO) with high error rates with a view to identifying their training and development needs. This will help to lower the error rates and reduce write offs and cancellations.	Medium

Audit Title: Hillingdon Customer Contact Centre
Assurance level: Satisfactory

The objectives of the Customer Contact Centre are:

To be one of the first points of contact for Hillingdon residents, businesses and visitors on behalf of the Council through a variety of access channels for the delivery of Council services.

To deliver and maintain excellent customer services, meeting and exceeding the needs of the service users.

The audit objective was to ensure that arrangements are in place to efficiently and effectively manage the Customer Contact Centre, and maintain service delivery.

As well as providing a comprehensive telephone enquiry service, the Contact Centre also actions:

- Written correspondence.
- Online enquiries.

The audit objective was to ensure that arrangements are in place to efficiently and effectively manage the Customer Contact Centre, and maintain service delivery.

We were pleased to report risks are appropriately addressed in these areas:

- Policies and procedures
- Customer reference information
- Staff roles and responsibilities
- Performance management
- Data security and business continuity
- Processing customer enquiries
- Processing customer payments

Improvements are needed to address risks in the following areas:

Control improvements required	**Risk**	**Agreed Target Date**
The Customer Contact Centre Manager needs HR advice on which staff members require CRB disclosures due to the fact that the eligibility for posts subject to CRB disclosures has changed. Once confirmed the CCC Manager should ensure they are all up to date and monitored to prevent inappropriate staff having access to sensitive information.	Medium	August 2012
A control process is needed to ensure that cases are closed promptly on the Onyx computer system. This should include	Medium	February 2012

regular production of exception reports to highlight cases that have been open for a long time. Without this, statistical information would be incorrect and additional Contact Centre resources would be expended in progress chasing and rectifying errors.

Audit Title: Tenancy Management
Assurance level: Satisfactory

There are currently around 10,000 Council tenancies that are managed by Hillingdon Housing Service.

Community Housing is one of a number of specialist service teams within the housing management function. It provides 'end to end' tenancy management services from the point of entry into Council housing to the point of tenancy termination and encompasses all key tenancy events which arise during the lifetime of the tenancy.

There are currently three Community Housing Teams. They are based in Ruislip, Yiewsley and Hayes. Each team has a geographic patch of tenancies and estates to manage.

The audit objective was to ensure that the tenancy management services are delivered effectively, efficiently and economically.

We were pleased to report risks are appropriately addressed in these areas:

- Detailed procedures are in place for all aspects of tenancy management which are available to all staff on a shared drive.
- Procedures and detailed information are easily accessible to tenants through internet pages, boards in the housing offices and the Tenant Handbook.
- Mutual exchanges had been authorised within the 42 day deadline and all legislative documentation had been completed.
- Health and safety training is monitored to ensure all staff are up to date with their training to ensure their safety whilst on visits.
- Risk assessments and lone working assessments are carried out within each Housing Team, with guidance provided on how they should be completed. This is approved and summarised by the Service Manager and Head of Service in an annual Health and Safety report.
- Of the eight complaints received between January 2011 and July 2011, all had been dealt with satisfactorily and resolved at stage one of the complaints procedure.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The Head of Estates Management should carry out random sample reviews of new tenancies on a quarterly basis to ensure that all required documentation, such as checklists, have been completed and filed otherwise it will not be clear that all procedures have been followed. These reviews should be evidenced.	Medium	December 2011
Management should obtain exception reports on a quarterly basis which highlight any properties that have not had a visit within three years and ensure that any cases appearing on these reports are visited promptly so that there are no breaches of tenancy conditions.	Medium	April 2012

Audit Title: Penetration Testing Arrangements
Assurance level: Full

The London Borough of Hillingdon periodically arranges for penetration testing to be undertaken on its behalf as part of the Communications Electronics Security Group (CESG), the Information Assurance (IA) arm of the Government's National Technical Authority), requirements. This audit reviewed the work undertaken in September 2011 by Encription. The scope of this work comprised of one off annual testing to include External IT Health Check and Internal IT Health Check, testing against the Government Connect Secure Extranet (GCSx CoCo 4.1) standards.

The objective of the audit was to verify that data traffic in and out of the Council network is adequately managed, controlled and secure.

We were pleased to report risks are appropriately addressed in these areas:

- The scope of the penetration testing conformed to CESG specified ITHC standards (IT Health Check), reducing the risk of vulnerabilities not being identified which could be exploited to gain unauthorised access to the Councils network, systems and data;
- All staff undertaking the Penetration testing are CREST and Tiger qualified;
- Access to the Council's network for the penetration testing was explicitly authorised in writing beforehand. This reduces the risk of the access being viewed as unauthorised and responded to as such, which could adversely impact the testing.

Audit Title: ICT Policy Compliance

The Council is legally responsible for all information stored or transmitted by its computer systems and for any improper disclosures. Disclosure of data, even unintentionally, can breach the Data Protection Act. Any such breaches could lead to the Council being fined. Employees are accountable for breaches of security or confidentiality.

The objective of the audit was to ensure that LBH staff are complying with the ICT Acceptable Usage Policy (section vi - Confidentiality and Security of Data). We carried out probity checks on workstations within the Civic Centre and checked they had been locked when they had been left unattended.

- We were pleased to report there is guidance held on Horizon to inform LBH employees about locking their workstation.

We have reported our findings to Senior Management with the following recommendations;

- For the three workstations identified in Corporate Payments (1S/04), ICT should investigate why the workstations did not automatically lock after they had been inactive for beyond one hour;

- ICT should remind staff to use the password protected screensaver whenever they leave their workstation for short periods of time.

Schools' Audits

The table below summarises the school audits finalised in the period.

2011/12	**Assurance Level**
Schools - Primary	
Minet Infants	Satisfactory
Hillside Infants	Satisfactory
Hermitage Primary	Satisfactory
Ryefield Primary	Satisfactory
Harmondsworth Primary	Satisfactory
Newham Junior	Satisfactory
St Matthews	Full
Coteford Junior	Full
Breakespear Infants	Full
Schools - Special	
Hedgewood	Satisfactory

Schools - Nursery	
McMillan Nursery	Satisfactory

4. Follow up audits

4.1. We continue to make progress in following up and clearing action points from previous audits.

4.2. The table below shows the results of follow ups for general audits and school audits. Implementation rates on follow ups have dropped slightly from 77% to 75% in this period.

Audit Title	DATE ISSUED	HIGH	MEDIUM	LOW		IMPLEMENTED - HIGH	IMPLEMENTED - MEDIUM	IMPLEMENTED - LOW		NOT IMP'D - HIGH	NOT IMP'D - MEDIUM	NOT IMP'D - LOW	REVISED TARGET DATE
Street Cleansing	Nov-10	1	2	0		1	2	0		0	0	0	Jan-12
Private Sector Leasing	Jun-10	1	0	0		0	0	0		1	0	0	Mar-12
Asylum Accommodation	Apr-10	0	3	0		0	0	0		0	3	0	Mar-12
Targeted Youth Support Team f/up	Jun-11	2	5	3		2	5	3		0	0	0	Jan-12
Referrals & assessment	Jun-11	0	2	1		0	2	1		0	0	0	N/A
Liquid Logic	May-11	0	6	1		0	4	1		0	2	0	Aug-12
Data Security and Transfer	Mar-09	0	3	4		0	3	4		0	0	0	N/A
Private Sector Renewal & Disabled Facilities Grants	Sep-11	1	0	0		1	0	0		0	0	0	N/A
Court Costs	Jun-11	4	2	0		3	2	0		1	0	0	Jan-12
Residential to Independent Living	Jul-11	5	9	7		5	8	7		0	1	0	Feb-12
Protocol System - Adult Social Care and Children Services	Sep-11	1	6	3		1	4	1		0	2	2	Mar-12
Learning & Development	Jul-11	0	4	7		0	1	1		0	3	6	Apr-12
Risk Management - Corporate	Jun-11	0	4	2		0	4	2		0	0	0	N/A
Protocol Debtors - ECMS Manual Logins	Aug-11	3	2	0		3	2	0		0	0	0	N/A
General Ledger	May-11	0	1	1		0	0	1		0	1	0	Apr-12
Creditors	Jun-11	3	4	0		3	3	0		0	1	0	May-12
Parking Permits 2nd & 3rd f-up	Oct-10	0	2	0		0	2	0		0	0	0	N/A
McMillan Early Childhood Centre 2nd f-up	Dec-10	0	1	0		0	1	0		0	0	0	N/A
Performance Management	Mar-10	0	1	0		0	1	0		0	0	0	N/A
Financial Assessments	Jul-11	2	0	0		1	0	0		1	0	0	Feb-12

Section 75 Agreement - 2009/10 Review	Oct-10	0	2	0		0	1	0		0	1	0	Mar-13
Supporting People - 2010/11 review	Jul-11	2	0	0		2	0	0		0	0	0	N/A
Child Protection & Reviewing 2nd follow up	Jun-11	1	1	0		1	1	0		0	0	0	N/A
Fusion Contract Management f/up	Jun-11	5	1	0		0	0	0		5	1	0	Apr-12
Culture & Arts Strategy f/up	Nov-10	5	1	1		2	1	1		3	0	0	Apr-12
Mortuary	Jun-11	0	1	1		0	1	1		0	0	0	N/A
Fleet Management (ex Hillingdon Homes)	Aug-10	0	1	0		0	1	0		0	0	0	N/A
Housing Rents f/up	Nov-11	1	0	1		1	0	1		0	0	0	Jun-12
Cemeteries	Sep-11	1	4	5		1	1	4		0	3	1	Mar-12
Capita Online Payments - Security F/Up	Sep-11	0	3	2		0	3	2		0	0	0	N/A
Domestic Waste - Civic Amenity Sites 3rd f/up	Jun-11	0	1	0		0	1	0		0	0	0	N/A
Utilities Gas and Electricity	Mar-10	0	1	0		0	0	0		0	1	0	Aug-12
Lady Bankes Junior	Jan-11	1	1	1		1	1	1		0	0	0	N/A
Grange Park Junior	May-11	1	3	0		1	3	0		0	0	0	N/A
Oak Farm Junior	May-11	0	2	2		0	2	2		0	0	0	N/A
Whitehall Infants	Jun-11	2	5	1		2	5	1		0	0	0	N/A
Grange Park Infants	Jul-11	0	0	2		0	0	2		0	0	0	N/A
Business Continuity and Civil Emergency	June 09	1	0	0		1	0	0		0	0	0	N/A
Improvement Projects	Jul 11	1	5	0		1	2	0		0	3	0	May-12
Council Tax/NNDR	Jul 11	1	11	0		0	7	0		1	4	0	May-12
		45	**100**	**45**		**33**	**74**	**36**		**12**	**26**	**9**	
	% Implemented by Risk					**73%**	**74%**	**80%**					
	Overall % Implemented									**75%**			
	Overall % Not Implemented									**25%**			

4.3. Details of audits followed up, but where High or Medium risk issues remain outstanding are included in the appendices. The dates of latest follow up are given alongside the number of outstanding recommendations.

5. Advice Guidance and Consultancy

Management continue to request ad hoc advice from us on operational issues within their service.

6. Anti Fraud Work

Fraud Awareness

6.1. Another Fraud Awareness Bitesize session for managers was presented in December 2011 and another is due in March 2012.

6.2. The e-Learning Pool module has been completed by 45 members of staff, five have started the module and 58 have registered their intention to complete it.

6.3. Revised induction guidelines / checklists are being finalised by Learning and Development and should be available soon. These will now include the Fraud e-Learning module as a compulsory module for all new starters.

National Fraud Initiative (NFI)

6.4. The majority of data match reports from the NFI have been investigated and we are monitoring progress on the investigations that are still underway to ensure that they are being investigated promptly and properly.

6.5. We have just received new data matches of householders claiming Council Tax Single Person Discount, on the basis that they live alone, yet the Electoral Register suggests that there is more than one person in the household aged 18 or over. These will be investigated by the Revenues Service.

6.6. The Audit Commission is currently consulting its audited bodies, who participate in the NFI, on the Commission's proposed approach for rolling out the new NFI real time and flexible data matching services. The proposal is for a range of options, all of which are recognised by the Commission as assisting in preventing and detecting fraud and the audited body will decide which it should use in order to target the actual fraud risks it faces.

Other work

6.7. Six confidential investigations are underway and the results of these will be reported upon conclusion of the investigations.

6.8. The outcomes of those confidential investigations that have been concluded are contained in Part II of this report.

Internal Audit Plan 2011-12 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
					H	**M**	**L**
CROSS CUTTING CORPORATE ISSUES							
Anti Fraud and Investigation							
National Fraud Initiative (NFI)	Ongoing						
Anti Fraud Promotion	Ongoing						
Fraud/Irregularity Investigations	Ongoing						
Planned proactive (to be determined):							
- Write-off Probity	Finalised	15/07/11	Full	N/A	0	2	2
- Disabled Parking Bays	Finalised	07/11/11	N/A	N/A	0	1	2
- Mayoral Services	Finalised	22/8/11	Satisfactory	Nov 11 – Revised date Aug 2012	0	1	0
- Imprest Accounts	Draft Issued						
- Leisure Link Card	Finalised	19/09/11	N/A	N/A	0	0	2
- Compliance with Driving Policy	Planning						
Other Cross-Cutting							
Annual Governance Statement - Audit	Completed						
Advice and Information (Ad hoc)	Ongoing						

Internal Audit Plan 2011-12 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
					H	**M**	**L**
Consultancy Advice - Specific Projects	Ongoing						
Pre-Loaded Cards							
Employee Expenses - Automated Payments	Deferred to 2012/13						
Establishment Audits - to be determined	Planning						
Misc Audit tasks							
Follow ups	Ongoing						
Brought forward Audits	Ongoing						
CENTRAL SERVICES							
Finance							
Creditors	Planning						
Debtors	In progress						
Budgetary Control	Drafting						
Capita On-Line Payments	Draft Issued						
Human Resources							
Agency & Interim Approvals	Drafting						
CRB Checks	Deferred to						

Internal Audit Plan 2011-12 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
					H	**M**	**L**
	2012/13						
Employability Status - Permanent Staff	Finalised	14/09/2011	Satisfactory		1	2	2
HR Payroll Changes & Trigger Dates	In progress						
Audit & Enforcement							
Planning Enforcement	In progress						
SOCIAL CARE HEALTH & HOUSING							
Adult & Older People Services							
Critical Team	Finalised	09/11/11	Satisfactory		2	3	2
Mental Health	Deferred to 2012/13						
Assessment & Care Management - LD & PD	Deferred to 2012/13						
Self Directed Support	Planning						
Stroke Care Grant Certification	Completed	27/06/2011	NA	NA	0	0	0
Children's Social Services							
Play Capital Grant Certification	Completed	17/06/20	NA	NA	0	0	0

Internal Audit Plan 2011-12 Progress							
Audit Title	**Status**	**Date Finalise d**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
					H	**M**	**L**
		11					
Fostering	Drafting						
Adoption	Planning						
Emergency Duty Team	Drafting						
Behaviour Support - Financial Systems	Deleted						
Hillingdon Housing Services							
Housing Repairs & Maintenance - Responsive	Finalised	30/11/20 11’	Limited	Follow up in progress	3	3	1
Housing Repairs & Maintenance - Planned, including Major Works	Finalised	05/11/20 12	Satisfactory		0	2	3
Housing Rents	Finalised	11/11/11	Satisfactory	February 12	0	0	0
Empty Property Management	Deferred to 12/13						
Leasehold Management & Service Charges	In progress						
Tenancy Management	Finalised	23/11/11	Satisfactory		0	2	2
Housing							
Housing Needs	In progress						
Private Sector Housing	Deferred to 12/13						

Internal Audit Plan 2011-12 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
					H	**M**	**L**
Housing Supply	Finalised	08/09/11	Full		0	0	2
Public Health							
Public Health	Deferred to 2012/13						
PLANNING, ENVIRONMENT, EDUCATION & COMMUNITY SERVICES							
Street Environment							
Street Lighting	Finalised	29/11/11	Limited		1	3	0
Highways - Reactive Maintenance							
Corporate Construction							
School Building Programme - Permanent	Planning						
School Building Programme - Temporary	Planning						
Construction Contracts - Final Accounts	Drafting						
Green Spaces, Sport & Leisure							

Appendix 1

Internal Audit Plan 2011-12 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
					H	**M**	**L**
Greenwich Leisure Ltd Contract	Finalised	13/02/12	Limited		3	2	0
Parking Services							
Penalty Charge Notices and Appeals	Finalised	28/11/11	Satisfactory		0	2	1
Transport Services							
Fleet Management	Finalised	14/02/12	Limited		3	7	6
Fuel at Harlington Road Depot	Finalised	24/01/12	Limited		4	10	0
Stores at Harlington Road Depot	Planning						
Property Services							
Utilities Contracts - Water	Drafting						
Public Safety							
Investigations Team	Deferred to 12/13						
Consumer Protection							
Food Health & Safety Services	Planning						
Business Services							
Mortuary	Finalised	23/06/11	Full	February 2012	0	0	0
Heathrow Imported Food Unit	Drafting						

Internal Audit Plan 2011-12 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
					H	**M**	**L**
Passenger Services	Planning						
Cemeteries	Finalised	12/09/11	Satisfactory	February 2012 – revised date March 12	0	3	1
ICT							
Customer Contact Centre	Finalised	15/12/11	Satisfactory		1	2	3
Youth Services							
Youth Services	Finalised	7/10/11	Satisfactory		0	7	4
Other Education							
Pupil Referral Unit							
Education Welfare	Finalised	14/07/11	Full		0	0	5
Early Years Centres	Planning						
School Admissions Service	Deferred to 2012/13						
Psychology Service	Drafting						
Schools - Primary							
Bourne Primary	Planning						
Minet Infants	Finalised	16/11/11	Satisfactory		0	2	2
Firthwood Primary	Finalised	16/11/11	Satisfactory		0	2	1

Internal Audit Plan 2011-12 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
					H	**M**	**L**
Holy Trinity Primary	Planning						
Hillside Infants	Finalised	10/1/12	Satisfactory		0	3	2
Hermitage Primary	Finalised	21/11/11	Satisfactory		0	4	0
Whiteheath Infants	Finalised	6/10/11	Full	Follow up in progress	0	1	1
Ryefield Primary	Finalised	9/2/12	Satisfactory		0	2	2
Grange Park Infants	Finalised	19/07/2011	Full	N/A	0	0	2
Harmondsworth Primary	Finalised	16/1/12	Satisfactory		1	3	1
Newham Junior	Finalised	30/11/11	Satisfactory		1	2	0
Whitehall Junior	Finalised	29/06/2011	Satisfactory	Follow up in progress	2	1	1
Yeading Infants	Finalised	23/06/2011	Satisfactory	Follow up in progress	2	4	1
Yeading Junior	Finalised	3/10/11	Satisfactory	Follow up in progress	1	3	0
Breakespear Infants	Finalised	12/12/11	Full	N/A	0	0	2
Bishop Winnington Ingram	Finalised	03/05/2011	Satisfactory	Follow up in progress	0	4	1
Coteford Junior	Finalised	30/1/12	Full	N/A	0	0	1
Deansfield	Draft Issued	3/11/11	Satisfactory		4	5	0
Ruislip Gardens	Finalised	10/11/11	Satisfactory		0	2	0
St Bernadettes	Draft Issued						

Internal Audit Plan 2011-12 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
					H	**M**	**L**
St Marys	Draft Issued						
St Matthews	Finalised	3/11/11	Full	N/A	0	0	2
St Swithun Wells	In progress						
Whitehall Infants	Finalised	16/06/2011	Satisfactory	February 2012	0	0	0
Special							
Meadow							
Moorcroft	Draft Issued						
The Willows	Deleted						
Hedgewood	Finalised	16/11/11	Satisfactory		1	5	0
Nursery Schools							
McMillan Nursery	Finalised	12/12/11	Satisfactory		1	3	1
ICT audit contract							
Penetration Testing Arrangements	Finalised	18/01/2012	Full	N/A	0	0	2
Adults and Children's Protocol	Finalised	12/09/2011	Limited	November 2011 - revised date Aug 2012	0	2	2
IT Strategy replaced with Schools							

Internal Audit Plan 2011-12 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
					H	**M**	**L**
Security							
Disaster Recovery							
CAPITA – Online payments systems - Security	Finalised	12/09/2011	Satisfactory	February 12	0	0	0
Contingency Audits							
Pulse (Recruitment)	Finalised	12/08/2011	Satisfactory	October 2011	0	0	0
Contaminated Waste Grant Certification	Completed	June 2011	N/A	N/A	0	0	0
Investigation 045	Completed	N/A	N/A	N/A	0	0	0
Investigation 046	Completed	N/A	N/A	N/A	0	0	0
Investigation 047	Completed	June 2011	N/A	N/A	0	0	0
Investigation 048	Completed	N/A	N/A	N/A	0	0	0
Investigation 049	In Progress						
Investigation 050	Completed	N/A	N/A	N/A	0	0	0
Investigation 051	Completed	N/A	N/A	N/A	0	0	0
Music Service Private Fund Review	Completed	N/A	N/A	N/A	0	0	0
Economic Development	Finalised	19/09/11	Full	N/A	0	0	3
New Year's Green Lane	In Progress						

Internal Audit Plan 2011-12 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
					H	**M**	**L**
Weighbridge							
Payments for Contingent Labour (on and off contracts)	In Progress						
Direct Payments	In Progress						
Investigation 052	Completed	N/A	N/A	N/A	0	0	0
Investigation 053	Completed	N/A	N/A	N/A	0	0	0
Investigation 054	Completed	N/A	N/A	N/A	0	0	0
Investigation 055	Completed	N/A	N/A	N/A	0	0	0
Investigation 056	Finalised	Feb 2012	N/A	N/A	3	2	0
CRC Energy Efficiency Scheme	Finalised	15/02/2012	Limited		5	1	0
Investigation 057	In Progress						
Investigation 058	In Progress						
Investigation 059	Finalised	6/2/12	N/A		3	0	0
Investigation 060	In Progress						

Appendix 2

Internal Audit Plan 2010-11 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
CROSS CUTTING CORPORATE ISSUES					**H**	**M**	**L**
IT Policy Compliance	Finalised	25/01/2012	N/A	N/A	0	0	0
Records Management	Finalised	01/06/2011	Limited	Follow up in progress	2	3	3
Risk Management – Corporate Issues arising from individual Directorate audits	Finalised	03/06/2011	Satisfactory	December 2011	0	0	0
Subsistence	Finalised	9/7/10	Satisfactory	October 11 – revised date Sep 12	2	0	0
FINANCE & RESOURCES							
Debtors - ASC Protocol – ECMS Manual Logins	Finalised	8/8/11	Limited	December 2011	0	0	0
CT/NNDR - System	Finalised	14/7/2011	Satisfactory	Feb 12 – revised date May 12	1	4	0
LG Pension Scheme - Governance	Finalised	30/09/10	Satisfactory	May 2011 – revised date Dec 2011.	0	2	0

Appendix 2

Internal Audit Plan 2010-11 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
				Follow up in progress			
Creditors	Finalised	03/06/11	Limited	January 2012 - Revised date May 2012.	0	1	0
General Ledger	Finalised	31/05/11	Satisfactory	Dec 2011- Revised date Apr 2012	0	1	0
DCEO							
Learning & Development	Finalised	01/07/11	Satisfactory	December 2011 - Revised date Apr 2012	0	3	6
EDUCATION & CHILDREN'S SERVICES							
Schools - Primary							
Glebe Primary	Finalised	19/7/10	Satisfactory	May 2011 - revised date May 2012	1	0	0
Guru Nanak Sikh Primary	Finalised	27/04/2011	Limited	December 2011	0	0	0
Lady Bankes Junior	Finalised	26/01/2011	Satisfactory	Jan 2012	0	0	0
Whiteheath Junior	Finalised	10/02/20	Satisfactory	Sept 2011 -	1	0	0

Internal Audit Plan 2010-11 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
		11		revised date Jan 12. Follow up in progress			
Lady Bankes Infants	Finalised	17/05/2011	Full	Jan 2012	0	0	0
Oak Farm Junior	Finalised	11/05/2011	Satisfactory	Jan 2012	0	0	0
Grange Park Junior	Finalised	18/05/2011	Satisfactory	Jan 2012	0	0	0
Special							
Grangewood School	Finalised	18/10/10	Satisfactory	Dec 2011 – revised date Apr 12	1	0	0
Other School Related							
Education - Looked After Children	Finalised	4/11/11	Satisfactory		2	3	0
CHILDREN'S SERVICES							
Child Protection and Reviewing (Safeguarding Children)	Finalised	23/06/11	Satisfactory	Feb 12	0	0	0
Referral and Assessments	Finalised	21/06/11	Satisfactory	Dec 2011	0	0	0
Children's Centre's – McMillan Early Childhood Centre	Finalised	16/12/2010	Satisfactory	January 2012	0	0	0

Internal Audit Plan 2010-11 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
ADULT SOCIAL CARE HEALTH & HOUSING							
Financial Assessments	Finalised	01/07/2011	Satisfactory	Feb 12 – revised date end of Feb 2012	1	0	0
Housing							
Supporting People	Finalised	6/7/11	Satisfactory	Dec 2011	0	0	0
Private Sector Renewal & Disability Grant	Finalised	30/09/10	Limited	Dec 2011	0	0	0
Older People's Care							
Residential to Independent Living	Finalised	27/07/11	Limited	December 2011 – revised date Feb 12. Follow up in progress	0	1	0
People with Physical and Sensory Disability							
Children with Disabilities - Transition	Finalised	14/09/11	Limited	Follow up in progress	1	4	4
Other Adult Services							

Internal Audit Plan 2010-11 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
Safeguarding Adults	Finalised	18/05/11	Satisfactory	October 2011 – revised date Jan 2012. Follow up in progress	0	1	0
ENVIRONMENT AND CONSUMER PROTECTION							
Street Cleaning	Finalised	13/12/10	Satisfactory	Feb 2012	0	0	0
Improvement Projects	Finalised	5/7/2011	Satisfactory	Feb 12 – revised date May 12	0	3	0
Parking Cash Collection	Finalised	27/06/2011	Satisfactory	Oct 2011 – revised date Feb 2012	1	0	1
Parking Permits (Residents, Visitors & Brown Badges)	Finalised	12/10/10	Limited	Jan 2012	0	0	0
PLANNING AND COMMUNITY SERVICES							
Major Construction Projects							
Individual Project Management x 2	Finalised	06/07/11	Limited	Follow up in progress	3	3	0

Appendix 2

Internal Audit Plan 2010-11 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
Property							
Facilities Management Contract	Finalised	6/10/11	Limited	Follow up in progress	3	5	1
Arts, Culture, Libraries & Adult Education							
Adult Education	Finalised	01/07/2011	Satisfactory	Follow up in progress	0	6	1
Culture and Arts Strategy	Finalised	11/11/10	Satisfactory	Nov 2011 – revised date Jan 2012. Follow up in progress	3	0	0
Sport and Leisure							
Fusion Management Contract	Finalised	06/07/11	Limited	Feb 2012 – revised date April 12.	5	1	0
Contingency							
Investigation 030	Finalised	15/10/10	N/A	Aug 11 – revised date Dec 11. Follow up in progress	1	2	0

Appendix 2

Internal Audit Plan 2010-11 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
Court Costs	Finalised	03/06/11	Limited	December 2011 – revised date January 12. Follow up in progress	1	0	0
Investigation 037	In Progress						
Investigation 038	Completed	Jan 12	N/A	N/A	0	0	0
Investigation 043	Completed	Jan 12	N/A	N/A	0	0	0
Investigation 044	In progress						
ICT audit contract							
Liquid Logic	Finalised	May 11	Limited	November 2011 Revised Date August 2012	0	2	0
Oracle Financials -Debtors	Finalised	July 11	Limited	November 2011– Revised date Jan 2012. Follow up in progress	0	2	0
E-Payments	Finalised	April 11	Limited	November 2011 – Revised date Jan 2012.	2	4	1

Internal Audit Plan 2010-11 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of Last Follow Up**	**Number of outstanding recommendations**		
				Follow up in progress			
Information Assurance & Security	Finalised	31/1/11	Satisfactory	November 2011 – Revised date Jan 2012. Follow up in progress	0	1	0
Hillingdon Homes Audits by Mazars							
Housing – Responsive Repairs	Finalised	Aug 1O	Substantive	Feb 11 – revised date Apr 2012	1	0	0
Fleet Management	Finalised	Oct 10	Substantive	November 2011	0	0	0

Internal Audit Plan 2009-10 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow up**	**Number of outstanding recommendations**		
CROSS CUTTING CORPORATE ISSUES							
Budgetary Control	Finalised	02/03/10	Satisfactory	Nov 2011 – revised date Mar 2012	0	1	1
Performance Management	Finalised	29/03/10	Satisfactory	January 2012	0	0	0
DEPUTY CHIEF EXECUTIVE/FINANCE & RESOURCES							
Corporate Property							
Utilities Contracts Gas & Electricity	Finalised	26/03/10	Satisfactory	January 2012 – revised date Aug 2012	0	1	0
Legal							
Debt Recovery Processes	Finalised	10/5/10	Satisfactory	Jun 2011 – revised date Sep 2011. Follow up in progress	0	3	0
ENVIRONMENT & CONSUMER PROTECTION							
Highways Planned Maintenance	Finalised	26/01/10	Satisfactory	May 2011 – revised date Mar 2012	0	3	0

Internal Audit Plan 2009-10 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow up**	**Number of outstanding recommendations**		
Domestic Waste Collection & Disposal – Civic Amenity Sites	Finalised	3/6/10	Limited	Feb 12	0	0	0
PLANNING AND COMMUNITY SERVICES							
Business Continuity & Civil Emergency Audit	Finalised	08/06/09.	Limited	Feb 2012	0	0	0
CHILDREN'S SERVICES							
Asylum Accommodation	Finalised	23/04/10	Satisfactory	Nov 2011 – revised date Mar 2012	0	3	0
Schools - Secondary							
Ruislip High Secondary School	Finalised	25/03/10	Satisfactory	May 2011 – revised date Dec 2011. Follow up in progress	1	2	0
ASCHH							
Finance systems							
Carefirst Debtors	Finalised	12/2/10	Satisfactory	Jun 2010 – revised date Mar 2011 – Follow up in progress	1	0	0
Housing							
Temporary Accommodation (formerly B&B)	Finalised	26/08/10	Limited	November 2011 – revised date Mar	1	0	0

Internal Audit Plan 2009-10 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow up**	**Number of outstanding recommendations**		
				2012			
Learning Disabilities							
Sec 75 Agreement (Funding of LD Services)	Finalised	6/10/10	Satisfactory	Nov 2011 – revised date Mar 2013	0	1	0
Mental Health Service							
Mental Health Service	Finalised	29/06/10	Limited	April 2011 - To be followed up during the 12/13 audit	0	1	0

✓ for Finalised/Satisfactory/Full
⇨ for in progress
⇩ for Limited

Key

PLAN 2007-8			Number of outstanding recommendations			Comments
Audit Title	Status	Assurance Level	High	Med	Low	
ADULT SOCIAL CARE, HEALTH & HOUSING						
Private Sector Leasing	✓	✓	1	0	0	Followed up Dec 2011 - Revised date March 2012
FINANCE & RESOURCES						
Securicor Collection	✓	⇩	1	0	0	Followed up August 2011 – Revised date for commencement of new contract March/April 2012

Internal Audit Strategy

Contact Officer: Helen Taylor
Telephone: 01895 556132

REASON FOR ITEM

The code of Practice for Internal Audit in Local Government requires the Head of Internal Audit to produce an Audit Strategy and Annual Plan and to ensure that the Audit Committee receives, understands and approves it.

This report sets out the strategy for delivery and development of the Internal Audit Service 2012-13 and the associated Annual Internal Audit Operational Plan. It details how the service will be delivered, the assurance that it will provide and how the Head of Audit will contribute to corporate governance arrangements, risk management processes and key internal control systems.

The Internal Audit Strategy underpins the assurance the Head of Audit provides for the Annual Governance Statement.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee should review and approve the audit strategy**.**

INFORMATION

1. INTERNAL AUDIT STRATEGY 2012-13

1.1. The Audit Strategy is a high level document, which deals with how the service will be delivered and developed. The Audit Plan provides details of how this strategy translates into a detailed work plan.

2. OBJECTIVES AND OUTCOMES

2.1. The objective of Internal Audit is to provide an independent and objective opinion on the organisation's control environment by evaluating its effectiveness in achieving the organisation's objectives.

2.2. Auditing standards recognise that its remit extends to the whole control environment of the organisation, including the systems of governance, risk management and internal control. A fuller expansion of this definition and the roles and responsibilities of Hillingdon Internal Audit is contained in the Terms of Reference for the service, which is available on the Council's website.

2.3. Audits will be carried out using a risk-based methodology, which looks at the objectives of an identified area as set out in service, group and team plans and assesses how far the controls in place will assist in addressing the risks to the objectives.

2.4. The outcome will be an assurance opinion at year-end that is based on an assessment of key risks to the Council.

3. EVIDENCE FOR THE OPINION

3.1. Internal Audit use a risk based approach to audit planning, which considers the total possible auditable areas in the Council (known as the Audit Universe) and weights them according to a set of risk factors. These include the obvious considerations such as value, volume and ease of removal of assets that would be considered in any financial context but also a range of non financial factors such as risks to service users and to the reputation of the Council. Risk assessments are updated at the end of every audit.

3.2. As the services the Council delivers or the methods of delivery are changed, the Audit Universe is continually revised and re-risked to ensure it keeps pace with emerging challenges. Risk is therefore reconsidered at the beginning of each year and a new Annual Operational Plan is based on a revised universe and risk assessment.

3.3. The model allows higher risk audits to be carried out annually, if necessary, and can accommodate varying frequencies for other audits such as triennial audit of schools, and a programme of reviews for establishment audits. At the same time, the methodology still ensures that all audits in the universe are carried out within a defined period (still five years) because the greater time since the last audit, the riskier the area becomes and it naturally falls into a higher risk category. At the end of each audit the risk assessment for the area will be revised resulting in an automatic recalculation of priorities.

3.4. The audit strategy is therefore a rolling plan, which determines the audits for the forthcoming year in an Annual Operational Plan. An element of contingency is budgeted in the plan so that in-year urgent issues can be dealt with as they arise.

3.5. This methodology results in a plan that supports Directors in delivering the strategic priorities and provides an overall view on the internal control environment, which is a key part of good corporate governance.

4. IDENTIFYING AND ADDRESSING SIGNIFICANT LOCAL AND NATIONAL ISSUES

4.1. Internal Audit meets regularly with Directors and Managers within the Council to discuss emerging issues and changing priorities both locally and nationally. Any relevant issues are incorporated into the audit universe and risked in the normal way.

4.2. Risk registers are regularly checked and risks and current mitigation are taken into account in the annual planning round.

4.3.The team also scan professional journals, news media, web-based professional discussion groups and other on-line media to keep up to date with the wider audit and local government environment.

4.4. Investigation where poor or weak controls are identified as contributing factors have immediate actions plans put in place but are also placed in a high risk category and scheduled for early audits.

5. HOW THE SERVICE WILL BE PROVIDED

5.1. The in-house team will carry out most audits, the exception being the audit of some IT systems, particularly where a high level of technical skill is required. A contract for 50 days of audit is in place with RSM Tenon. Less technical aspects of IT audit are incorporated into the general audit work when systems are under review.

5.2. We have a dedicated schools' auditor, which allows delivery of a service that not only provides audit to schools but also adds value by providing advice, guidance and a regular newsletter. We continue to work closely with Schools Finance, HR and Governors' Services to provide school support that reflects a more coherent approach.

5.3. During the year the majority of secondary schools have achieved Academy status and are no longer the responsibility of the local authority. This has reduced the time required on dedicated schools audit and consultation has taken place to address the changing requirement.

5.4. Anti-fraud awareness training and proactive detection will continue to be delivered by the Audit team as will preliminary investigation of suspected or alleged fraud and corruption. The Corporate Fraud Team has been active in dealing with wider fraud issues that affect the council such as Tenancy and Blue Badge fraud.

5.5. Data analysis software is used to match large volumes of data to identify suspicious transactions.

5.6. The team has experienced some staff turnover in-year with two trainees leaving to join the private sector. However, a successful recruitment campaign has filled both posts with good graduates. There will be approximately 11 FTE in 2012-13, which takes account of the reduced Schools' Auditor days and a reduction in the dedicated Head of Audit days as a consequence of her responsibilities for Corporate Fraud and Planning Enforcement.

6. RESOURCES AND SKILLS REQUIRED TO DELIVER THE STRATEGY

6.1. The in-house team has a wide pool of skills and experience and we encourage staff to further their professional training. The Head of Audit and one Audit Manager are professionally qualified CIPFA accountants; one Audit Manager is MIIA (Institute of Internal Auditors) qualified. This provides a wide range of technical skills at manager level.

Four trainees are, or will be, pursuing professional training supported by the Council. One graduate will come to the end of his Institute of Internal Auditors (IIA) training in the coming year. Three trainees will commence studying for the IIA in October.

The qualifications status for the current team is as follows:

Qualified Accountants	5
Member of the Institute of Internal Auditors	1
Studying for IIA	1
About to commence IIA studies	3

Unqualified but very experienced	2

6.2. Continuing Professional Development for all staff is addressed through the PADA process.

BACKGROUND PAPERS

Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Internal Audit Operational Plan 2012-13

Contact Officer: Helen Taylor
Telephone: 01895 556132

REASON FOR ITEM

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government requires the Head of Audit to produce a risk based plan, which is fixed for no longer than a year and is designed to implement the Audit Strategy. The Audit Committee should approve but not direct this plan.

OPTIONS AVAILABLE TO THE COMMITTEE

To approve and comment on the operational plan for 2012-13

INFORMATION

1. Development of the Internal Audit Operational Plan 2012-13

1.1. The annual audit plan takes account of the council's priorities and any associated risks. In developing the plan, a systematic risk assessment and planning methodology is used, as set out in the Audit Strategy. The methodology supports the council in delivering its strategic objectives and provides assurance on the overall internal control environment.

1.2. In addition to proactive anti-fraud awareness and detection initiatives, Internal Audit investigates specific areas of concern or irregularity as and when they arise. Allowance for this type of investigation, as well as for pro-active investigation and other areas of anti-fraud work, such as training have been included within the plan.

1.3. Work is planned for the year, but changes in service delivery during the year or newly emerging risks mean that there will be occasions when audits need to be added or deleted. This has been a challenge for the last couple of years and is likely to remain so in the coming year. As previously;

- The Business Improvement Delivery (BID) process continues to challenge service delivery models leading to fundamental changes in the structure of service delivery across the council.
- Procedural changes, service mergers and reorganisations present a risk to the existing control framework.
- The government continues to bring forward changes in policies which have a direct effect on Local Government services and service delivery.
- The slow progress of the Health and Social Care Bills means we will not have certainty of the changes that are likely to affect our joint services until later in the year but we need to plan to respond promptly.

1.4. The financial challenge facing the council in 2012-13 means that we will have to continue to be responsive to changes wherever they appear.

1.5. A greater number of audit days have been planned this year, reflecting the riskier environment in which we are operating. Contingency allowance which was set at 15% of chargeable days in 2011-12 has been reduced to 11% for 2012-13. Bearing in mind that some changes result in deletions, this should still allow the service to respond to changes while allowing the delivery of the planned work.

1.6. Specialist IT audit will be no more than 50 days in-year. We have determined the areas to be audited and will finalise the allocation of days for each at the planning stage of each audit.

1.7. Table 1 identifies the internal resources available for 2012-13, based on all positions being filled on 1 April 2012. Productive days are calculated by deducting from the total available days - annual and other leave and a sickness allowance (set at the corporate target) and non-audit duties carried out by the Head of Audit. The total of 2313 days is then adjusted for controllable time such as training, planning, reporting and management time to arrive at days directly available for specific audits.

1.8. In addition to the in-house days, 50 days of IT audit will be available from the specialist provider.

Table 1 – Utilisation of Productive days In-house

Productive Days Available	2313	100%
Less		
Controllable overheads e.g. risk assessment, planning, management time, service development and training.*	653	28%
Chargeable days	1660	72%

* Four members of staff will be supported with professional training.

1.9. Table 2 is the list of identified audits for 2012-13, including the expected number of days for each. Some activity does not necessarily generate a report with recommendations, for example anti-fraud training, which forms part of the anti-fraud strategy or providing information for other regulators in pursuit of their fraud work, e.g. some NFI activity. I have therefore indicated what I anticipate the outcome of each piece of work to be by assigning them a category. The categories are as follows;

- RR – Standard report with recommendations.
- TPA – Third party assurance – e.g. Assurance provided for other regulators or bodies.
- INV – Investigation work. Outcomes will be reported but not necessarily with recommendations.
- PRO – Proactive work or promotion of good practice.
- ADV – Advice on specific queries or participation in corporate working groups

Table 2 Identified audits 2012-13

AUDIT TITLE	EXPECTED NO. OF DAYS	REPORT TYPE
CROSS CUTTING CORPORATE ISSUES		
Anti Fraud and Investigation		
National Fraud Initiative (NFI)	30	TPA/INV
Fraud Awareness	5	PRO
Fraud/Irregularity Investigations	100	INV
Planned proactive (see table 3)	70	INV
Other Cross-Cutting		
Annual Governance Statement - Audit	10	RR
Advice and Information (Ad hoc)	20	ADV
Consultancy Advice - Specific Projects	5	ADV
Employee Expenses - Automated Payments	15	RR
Insurance - Risk Mitigation	15	RR
Voluntary Organisations Support	10	RR
Supplier Viability	10	RR
Establishment Audits - to be determined	20	RR
Misc Audit tasks		
Follow ups	45	RR
Brought forward Audits	40	RR
CENTRAL SERVICES		
Democratic Services		
Registration Services	10	RR
Finance		
NNDR	10	RR
Value Added Tax	10	RR
Treasury Management	15	RR
Human Resources		
Personnel Records	10	RR
HR Operations Processing	20	RR
Sickness Absence	20	RR
Schools' HR	15	RR
Overtime and Standby Payments	15	RR
CRB and Professional Association Checks	10	RR
Policy, Performance & Partnerships		
Performance Management	20	RR
PLANNING, ENVIRONMENT, EDUCATION & COMMUNITY SERVICES		
Corporate Property & Construction		
School Building - Project Mgt Phase 2	60	RR
Education		

AUDIT TITLE	EXPECTED NO. OF DAYS	REPORT TYPE
Childrens' Centres	15	RR
Music Service	10	RR
Rural Activites Garden Centre	10	RR
School Admissions Service	15	RR
Schools - Primary		
Belmore Primary	4	RR
Charville Primary	4	RR
Colham Manor Primary	4	RR
Cranford Park Primary	4	RR
Field End Junior	4	RR
Harlyn Primary	4	RR
Hayes Park Primary	4	RR
Hillingdon Primary	4	RR
Hillside Junior	4	RR
Pinkwell Primary	4	RR
William Byrd Primary	4	RR
Wood End Primary	4	RR
Schools - Special		
Chantry	5	RR
Schools - Secondary		
Abbotsfield	7	RR
Harlington Community	7	RR
Ruislip High School	7	RR
ICT, Highways & Business Services		
CRC Efficiency Scheme	25	RR
Highways - Rhino Machines	15	RR
Harlington Road Depot - Fuel	10	RR
Energy Usage	15	RR
Facilities Mgt - Mechanical & Electrical	15	RR
Planning, Sport & Green Spaces		
Community Infrastructure Levy	10	RR
Trees - Compensation Claims	10	RR
Golf Courses	10	RR
Blue Badge Scheme	10	RR
Public Safety		
Investigations Team	20	RR
Public Safety Contracts	15	RR
Commercial Waste Collection	15	RR
Waste Disposal - All Waste	20	RR
Libraries	15	RR
Licensing Services	15	RR
Application Processing Team	15	RR

AUDIT TITLE	EXPECTED NO. OF DAYS	REPORT TYPE
Transportation & Planning Policy		
Chyrsalis	15	RR
SOCIAL CARE, HEALTH & HOUSING		
Access & Assessment		
Self Directed Support	25	RR
Assessment & Care Mgt - Adults	20	RR
Mental Health Service	20	RR
Children & Families		
Children's Placements	15	RR
Looked After Children 21-25 Education	15	RR
Residential Services - Children	20	RR
Referral & Assessments - Children	15	RR
Youth Offending Service	10	RR
Personalised Services		
Homecare - External Provision	20	RR
Adult Care Scheme	15	RR
Disabilities Service - Adults	20	RR
Homecare In-House Provision	20	RR
Commissioning, Contracts & Supply		
Contracts & Inspection Service - SCHH	20	RR
Brokerage - Social Services	20	RR
Commissioning Third Sector Providers	20	RR
Other		
Support to Carers	20	RR
Housing Needs		
Private Sector Housing	15	RR
HMO Licensing	15	RR
Housing Benefit Subsidy	60	TPA
Empty Property Management	15	RR
Council House Aids & Adaptations	15	RR
Housing Maintenance		
Housing Services Major Works	15	RR
Housing Gas & Other Servicing Contracts	15	RR
Housing Stock Data	10	RR
Housing Management		
TeleCareLine	10	RR
Caravan Site	5	RR
Caretaking Services on Estates	20	RR

AUDIT TITLE	EXPECTED NO. OF DAYS	REPORT TYPE
ICT auditors - various - contractor	50	RR
Disaster Recovery		
ICT Strategy		
Desktop Refresh Programme		
Web and Network Security		
Electronic Document Management - Setting up, Storage and automatic deletion of records		
Onyx upgrade		
Technical Input		
Contingency	183	
TOTAL	**1707**	

1.10. Table 3 is the activities I expect to undertake as part of pro-active anti-fraud detection with an indication of the risks to be addressed. The compliance nature of these audits means they may not always result in a report with recommendations, unless a universal issue is identified.

Table 3 Pro-Active Anti-Fraud

DESCRIPTION	DAYS	RISKS/POSSIBLE LOSSES
DESCRIPTION	**DAYS**	**RISKS/POSSIBLE LOSSES**
Human Resources		
Professional Fees	5	Paying employees' professional fees when they are not entitled to them
Travel and Subsistence		
Employee Expenses	5	Non-compliance with Expenses Policy leading to losses
Payments/Creditors		
Use of Purchase Cards	5	Misuse of card for personal purchases
Procurement		
Single Tender Actions	10	Use of single tender actions to avoid complying with Procurement Standing Orders
Compliance with Quotes & Tenders	10	Close relationships with suppliers could lead to officers allocating work without obtaining quotes/tenders from other suppliers.
Council Tax		
Council Tax Student Exemptions	5	Student exemption entitlement not verified or student expiry date not recorded on system leading to loss of revenue
Housing		
Succession Tenancies	5	False claims to obtain a succession tenancy.

DESCRIPTION	DAYS	RISKS/POSSIBLE LOSSES
		Reduces available social housing.
Bribery Act		
Bribery Framework – specific service	5	Non-compliance with the Bribery Act. Leading to poor VFM and reputation risk.
Data Matches	20	
TOTAL	**70**	

This page is intentionally left blank

Review of Internal Audit Terms of Reference

Contact Officer: Helen Taylor
Telephone: 01895 556132

REASON FOR ITEM

The Code of Practice for Internal Audit in Local Government requires a periodic review of the Terms of Reference of Internal Audit. The Terms of Reference were last reviewed in March 2011, when minor textual amendments were made.

OPTIONS AVAILABLE TO THE COMMITTEE

The Committee can comment on the appropriateness of the Terms of Reference.

INFORMATION

The Terms of Reference are attached to this report.

Changes have been made to reflect the wording changes prompted by the Accounts and Audit Regulations 2011 (SI No.817), which came into force on 31 March 2011

In Parts 5 and 8 the wording has been changed to reflect the fact that the Head of Audit reports to the Deputy Chief Executive and Corporate Director Central Services.

The opportunity has been taken to delete the word Charter from the Terms of Reference.

All changes have been tracked to allow the committee to clearly see the effect.

London Borough of Hillingdon
Internal Audit Terms of Reference

Deleted: Charter &

1..PURPOSE

1.1. This Terms of Reference describes the purpose, authority, and principal responsibilities and operating methods of the council's Internal Audit Section.

Deleted: Charter

2.DEFINITION OF INTERNAL AUDIT

2.1. The CIPFA Code of Practice for Internal Audit in Local Government (2003) defines Internal Audit as *'an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.'*

3. PURPOSE

3.1. Internal Audit is an independent appraisal function established within the Council to examine and evaluate activities as a service to the organisation and to contribute advice at an early stage in the implementation of any developments/amendments to processes. The objective of Internal Audit is to assist elected members and officers of the Council in the effective discharge of their responsibilities. To this end, Internal Audit will furnish them with analysis, appraisals, recommendations, advice and information concerning the activities reviewed.

4. AUTHORITY

4.1. The statutory basis for Internal Audit is the Accounts and Audit Regulations 2011, which require that a "relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control." Proper internal Audit Practices are defined in the *Code of Practice for Internal Audit in Local Government in the UK.*

Deleted: 2003

Deleted: shall

Deleted: maintain

Deleted: system of

Deleted: internal audit practices

4.2. Internal Audit Section takes due cognisance of the standards promoted by other bodies such as the Institute of Internal Auditors (IIA), Auditing Practices Board (APB) and the CCAB accounting bodies.

5. INDEPENDENCE

5.1. The Head of Internal Audit reports to the Deputy Chief Executive and Corporate Director Central Services and has unrestricted access to the External Auditors, Chief Executive, the S151 Officer, Leader of the Council and to members through the Audit Committee. Internal Audit's authority is defined in statute and internally is derived from policies, procedures, rules and regulations established by the Council. This includes these terms of reference, Financial Regulations, Conditions of Service, and Code of Conduct.

Deleted: These

Deleted: Financial

5.2. The authority for the production and execution of the audit plan and subsequent audit activities rests with the Head of Internal Audit. The annual audit plan will be presented for approval to the Council's Corporate Management Team (CMT) and to the elected members via the Audit Committee. Based on the work carried out the Head of Internal Audit will produce an Annual Audit Opinion on the systems and controls operating in the year.

5.3.The Head of Internal Audit will also report to the Annual Governance Statement Working Group any audit issues likely to merit inclusion in the statement and contribute to the Audit Committee's Annual Report to the Council.

5.4. The Head of Audit has operational duties in respect of Corporate Fraud and Planning Enforcement. Where audits are required in these areas the Terms of Reference for the audits will be discussed with and all finding will be reported directly to the Deputy Chief Executive and Corporate Director Central Services, prior to the implementation by the Head of Audit.

Deleted: now

6. ACCESS

6.1. Statutory access derives for the Accounts and Audit regulations 2011, part 2 6.(2)which state

Any officer or member of a relevant body must, if the body requires-

a) *Make available such documents and records as appear to that body to be necessary for the purposes of the audit; and,*

b) *Supply the body with such information and explanation as that body considers necessary for that purpose.*

6.2.To meet its objectives, Internal Audit shall have unrestricted access to all Council records (whether manual or computerised systems), cash, stores and other property, and to enter Council property or land. Such access shall be granted on demand and not subject to prior notice. Internal Audit will have the authority to obtain such information and explanations as it feel necessary to fulfil its responsibilities.

7. RESPONSIBILITIES

7.1. Service Directors are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Services.

7.2. Internal Audit responsibilities include but are not limited to:

a. Examining and evaluating the adequacy of the Council's system of internal control;
b. Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
c. Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
d. Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;

e. Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assignments;
f. Co-ordinating with the work of the external auditors for audit planning and assisting the external auditors as required;
g. Working in partnership with other bodies to secure robust internal control that protects the Council's interests.
h. Promote anti-fraud and anti-corruption practices and assist management in the investigation of fraud/corruption and other irregularities.
i. Engage in the process of gathering and assessing the evidence for the assessment of the control environment thereby contributing to the production of the Annual Governance Statement

7.3. In meeting its responsibilities, Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures. In addition, Internal Auditors shall comply with the Code of Ethics and the Code of Practice for Internal Audit in Local Government promulgated by the Chartered Institute of Public Finance and Accountancy and other such professional bodies of which internal auditors are members.

7.4. There will be a regular rotation of staff between audit areas and unless there are clear operational reasons staff will not audit the same area more than twice in succession. Auditors will not be assigned to audit an area where they have;

- undertaken operational duties within the previous three years.
- declared a relationship or other interest

7.5. In line with the International Standards internal audit may engage in consulting activities including, advice, facilitation, and training. Internal Audit will accept proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organisation's operations but will not assume management responsibility or decision-making. For significant pieces of work a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations will be reached with managers. Such agreements will ensure that there is a clear separation of the role of Internal Audit from the decision making process.

7.6. In order to ensure the proper discharge of its responsibility, Internal Audit will:-

a. Prepare the strategic and annual plan for approval by the Corporate Management Team, taking into account the risks of service departments.

b. Conduct audits in accordance with established and best practice, as enshrined in CIPFA's Internal Audit Manual, which has been supplemented by internal procedures.

c. Promptly consult and report its findings to the relevant level of management, including members as necessary, making recommendations for improvements where weaknesses are identified.

d. Monitor the progress of implementation of recommendations and report this to members. It is for management to accept and implement internal audit findings and recommendations or to accept the risk resulting from taking no action. However, it is for the Chief Internal Auditor to bring to the attention of management and/or members any risk they feel is not being adequately addressed.

e. Educate the organisation to understand that the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

f. Maintain good working relationships with officers at all levels, Members, External Auditors and any other external review agencies.

g. Make adequate arrangements for the monitoring and review of audit work to deliver a quality audit service.

8 RESOURCES

8.1 Internal Audit resources will be determined by the Deputy Chief Executive Central Services and S151 Officer acting on behalf of the members of the Audit Committee and will reflect the corporate needs of the council. Resources will also reflect the need to allow the S151 Officer to discharge his obligations and the council to discharge is obligations under the Accounts and Audit Regulations 2011 Part 2, 4-(1).

The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.

8.2. The staffing structure will comprise suitable qualified posts with a mix of professional specialisms to reflect the needs of the organisation. Resources may be bought in for specific specialisms such as IT audit.

This page is intentionally left blank

Agenda Item 11

WORK PROGRAMME 2011/12

Contact Officer: Khalid Ahmed
Telephone: 01895 250833

REASON FOR ITEM

This report is to enable the Committee to review meeting dates and forward plans.

OPTIONS AVAILABLE TO THE COMMITTEE

1. To confirm dates for meetings

2. To make suggestions for future working practices and/or reviews.

INFORMATION

The report also provides details of

All meetings to start at 5.00pm

Meetings	Room
27 June 2011	CR 3
28 September 2011	CR 3
8 December 2011	CR 3
15 March 2012	CR 3

AUDIT COMMITTEE

2011/12 DRAFT Work Programme

27 June 2011	**Future of Local Public Audit - Consultation**	**Deputy Director of Finance**
	Consolidated Fraud Report	**Head of Audit & Enforcement**
	Annual Review on the Effectiveness of the systems of Internal Audit	**Head of Audit & Enforcement**
	Draft Annual Governance Statement	**Deputy Chief Executive, Central Services**
	Head of Audit Annual Assurance Statement	**Head of Audit & Enforcement**
	IFRS Training	**Deputy Director of Finance/Deloitte**
	Audit Committee Annual Report to full Council	**Head of Audit**
	Audit Committee Work Programme	**Democratic Services Manager**

Meeting Date	**Item**	**Officer/member**
28 September 2011	**Update on ICT Outstanding Recommendations**	**Head of IT**
	External Audit Annual Governance Report	**Deputy Director of Finance/Deloitte**
	External Auditor's report on the Pension Fund Annual Report and on the Statement of Accounts 2010/11	**Deputy Director of Finance/Deloitte**
	Internal Audit Progress Report and plan amendments	**Head of Audit & Enforcement**
	Treasury Management Practices	**Deputy Director of Finance**
	Risk Management Quarter 1 Report – PART II	**Head of Policy**
	Corporate Fraud Update	**Head of Audit & Enforcement**
	Audit Committee Work Programme	**Democratic Services Manager**

8 December 2011	*** Private Meeting with External Auditors to take place before the meeting**	
	Internal Audit Progress Report and plan amendments	**Head of Audit & Enforcement**
	Treasury Management Strategy 2011/12	**Deputy Director of Finance**
	Deloitte – Annual Audit Letter	**Deloitte**
	Audit Committee Work Programme	**Democratic Services Manager**

	*** Private meeting with the Head of Audit & Enforcement to take place before the meeting**	
15 March 2012	**Internal Audit Progress Report**	**Head of Audit & Enforcement**
	Internal Audit Strategy	**Head of Audit & Enforcement**
	Internal Audit Operational Plan	**Head of Audit & Enforcement**
	Review of Internal Audit Terms of Reference,	**Head of Audit & Enforcement**
	Annual Governance Statement – Interim Report	**Head of Policy**
	Report on the Revisions to the Treasury Management Strategy Statement and Investment Strategy	**Deputy Director of Finance**
	Balances and Reserves Statement	**Deputy Director of Finance**
	Deloitte Annual Grant Audit Letter	**Deputy Director of Finance/Deloitte**
	Deloitte – 2011/12 Annual Audit Plan	**Deputy Director of Finance/Deloitte**
	Risk Management report Part II	**Head of Policy**
	Audit Committee Work Programme	**Democratic Services Manager**

June 2012	Fraud Report	Head of Audit & Enforcement
	Annual Review of the Effectiveness of Internal Audit	Head of Audit & Enforcement
	Head of Audit Annual	Head of Audit & Enforcement

	Assurance Statement	
	Audit Committee Annual Report to Full Council	Head of Audit & Enforcement
	Draft Annual Governance Statement	Deputy Chief Executive Central Services.
	Risk Management Report	Performance and Intelligence Manager
	Audit Committee work Programme	Democratic Services Manager
	Treasury Management Practices	Deputy Director of Finance

Agenda Item 12a

The Chartered Institute of Public Finance & Accountancy

Better Governance Forum briefing paper

Audit Committee Update

-helping audit committees to be effective

Issue 7

- **Assurance Planning**
- **Risk Outlook for 2012**
- **Government Response to the Future of Local Public Audit consultation**

February 2012

Introduction

Dear Audit Committee Member,

Welcome to Issue 7 of our briefings for audit committee members in public sector bodies.

It has been produced by the CIPFA Better Governance Forum and is free to our subscribing organisations. Its aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role. This issue includes an article explaining the issues around planning assurance and use of 'assurance maps'. As an audit committee you rely on assurances from a number of sources and it makes sense to make sure that you get what you need in the most efficient way possible.

2012 looks set to be another challenging year for the public services and we've highlighted 10 topical risk areas that might be relevant for your organisation. Knowing the risks is one thing, but we've tried to highlight how the audit committee can add value and have impact in these areas.

We have also included an article outlining the Government's proposals for changing local public audit arrangements. Further work will be carried out on the proposals in 2012 and audit committees will want to monitor the likely impact on their authority.

I hope you will find this issue helpful. If you have missed earlier issues they are available directly from our website. Previous issues.

We welcome feedback on these briefings and suggestions for future topics. Please let us know if we are getting them right.

Best wishes

Diana Melville
Governance Advisor
CIPFA Better Governance Forum
Diana.Melville@cipfa.org.uk

Receive our briefings directly:

This briefing will be sent to all key contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be forwarded to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website. This will give you access to governance material, guidance documents and you can receive these briefings directly.

Visit our website www.cipfanetworks.net/governance or register today.

Workshops and training for audit committee members in 2012

The Influential Audit Committee

This new audit committee workshop will address how the audit committee can improve its influence and impact on good governance. Featuring sessions on assurance planning, effective public reporting, improving accountability and evaluating the provision of audit services, the workshop will offer opportunities for discussion, self-evaluation and networking with other public sector audit committee members.
21st March London, 29th March Manchester, 18th July Birmingham, 4th October Edinburgh
Further dates & locations will be available in 2013.
http://www.cipfanetworks.net/governance/events/

Advanced Audit Committees

Have you cracked the basics? This workshop examines the audit committee role in strategic risk management, value for money, counter fraud and treasury management.

22nd March Edinburgh
http://www.cipfanetworks.net/governance/events/

25th April London, 16th May Leeds
http://www.cipfanetworks.net/training/events/#3

Effective Audit Committees

Key features of an effective audit committee, including the role of the chair, role in the governance framework and working with your auditors.

9th February London, 15th March Leeds
http://www.cipfanetworks.net/training/events/#3

Essential Skills for Board Members

The role of a board member in a public sector body, featuring sessions on corporate governance, decision making, accountability and evaluating board performance.

27th March London, 12th June London
http://www.cipfanetworks.net/training/events/#3

CIPFA Annual Audit Conference

Strategic issues and professional briefings affecting audit in the public services.

23rd and 24th May, Nottingham

In-house training

In house training for any of the events shown above or tailored to your needs is available. For further details contact http://www.cipfanetworks.net/training/ or email Diana.Melville@cipfa.org.uk

Risk assurance and assurance mapping – make sure you mind the gap!

In August 2011 the CIPFA Better Governance Forum and Audit Panel published a survey on Audit Committee practices in local government. The survey established that each year 99% of Councils looked at Annual Governance Statements (outside of Scotland, where this is not a requirement); and 99% annually reviewed Internal Audit reports. However, only 77% of the audit committee reviewed the risk assessments of (key) strategic risks.

The significant difference in reviewing such risks may simply reflect the context of each council, but it may also suggest that some audit committees need to improve their oversight of such risks. After all, numerous surveys have concluded that the greatest source of major risk surprises derives from the mismanagement of strategic risks.

This article explores the best practices of Risk Assurance, Assurance Frameworks and Assurance Mapping to support audit committee oversight of key risks; building on the CIPFA Audit Committee Update article on strategic risk management in January 2011.

Starting with the foundations: The Audit Committee role and Risk Assurance

CIPFA outlines three key areas in relation to the oversight of risks by audit committees, specifically that they should:

- "Consider the effectiveness of the authority's risk management arrangements.."
- "Seek assurances that action is being taken on risk-related issues.."
- [ensure]... the Statement on Internal Control, properly reflects the risk environment.."[1]

Risk assurance addresses how to get a solid and up to date sense of whether risk management processes in general, and specific key risks in particular, are being managed effectively. When we look back at the many risk and governance issues in the past, including the recent financial crisis, the importance of robust risk assurance becomes self-evident. This links to the inevitable fact that whilst organisations try hard to deliver objectives and manage risks, it can be easy for them to underestimate problem areas.

Assurances from External Audit

Independent assurance in relation to financial accounting and reporting principally comes from external audit. That said, even external audit assurances have their limitations (as the Enron collapse and recent financial crisis have revealed) and this, combined with the likely changes to public sector external audit, highlights the importance of obtaining assurance regarding external audit independence, adherence to quality standards, and also being clear about the focus and depth of the work being done. Some organisations use internal audit to carry-out assignments to complement external audit's work, often in order to save costs, but many heads of internal audit have told me that doing this often reduces their ability to work on other areas of risk, where far greater (but sometimes less obvious) threats lie.

Assurances from Internal Audit and Internal Audit Quality Assessments

The next key source of assurance that audit committees rely on comes from internal audit. Audit committees need assurance that internal audit work is of a high standard. In local government it is a statutory requirement that there is an annual review of the effectiveness of internal audit. In addition professional auditing standards require regular quality reviews. Reviewing assurances on the quality and effectiveness of internal audit is a key responsibility of the audit committee.

Validating the Internal Audit plan

[1] Audit Committees, practical guidance for local authorities, CIPFA 2005

Reviewing the internal audit plan is a very important responsibility for audit committees and many heads of internal audit tell me they would like greater audit committee engagement; particularly so there is a greater understanding of what work has and has not underpinned their overall audit opinion, or assurances in support of any Annual Governance Statement.

CIPFA's Audit Committee Update in January 2010 also discusses the importance of the audit plan, and concludes with three important questions, discussed further, below:

- How does the internal audit plan link to the key risk register?
- What audits have been left off the plan and why?
- How does the plan fit with other assurance work?

How does the internal audit plan link to the key risk register?

In 2011 I surveyed over 30 heads of internal audit about the way they generated the "audit universe" upon which their plans were based. 80% said that currently their plans were mostly based on lists of processes, systems, departments and/or locations. Whilst this approach has its merits, it could easily miss key organisational objectives and risks upon which the council's success is likely to depend. In the light of this, around 65% of the heads of internal audit surveyed felt that their future plans needed to be more closely aligned to the organisation's key objectives and risks. Thus audit committees and heads of internal audit would be advised to ask themselves whether internal audit's plans are truly linked to their organisation's key objectives and risks by considering how many of the key risks have been audited over the past 2-3 years, to what depth, and the rationale for those areas not being audited.

What audits have been left off the plan and why? How does the plan fit with other assurance work?

It is common to find that a number of key objectives and risks have not been included on internal audit's plan over a series of years. Possible explanations could be: i) these risks have been discussed at the audit committee or board level; ii) with resource constraints internal audit is unable to address these areas and iii) internal audit probably doesn't have the skills to do these audits either. Whilst these observations may have some merit, they are increasingly being called into question, for example: audit committee and board discussion may help to clarify the nature of risks facing the organisation, but is unlikely to reveal weaknesses in specific processes and controls in relation to these risks, in the way that an internal audit would.

Thus when there are gaps in internal audit's coverage of key risks, audit committees should ask internal audit to work with senior management to set out an Assurance Framework, underpinned by an Assurance Map (A-Map) of key risks, setting out:

- How have line management accountabilities for each risk been formally documented;
- Whether key performance indicators (KPIs) have been agreed in relation to the risk area, and establish how often these are reviewed by more senior levels of management to ensure the area is properly under control;
- Whether any oversight functions (e.g. legal, HR, Finance, IT, health & safety or environmental compliance) are already monitoring (or even auditing) the risk and if so, to what level of rigour?
- Has internal audit ever looked at this risk in the past?

Clarifying the assurance framework and preparing an A-Map provides a structured way of deciding what risk assurance is already in place and what additional assurance is needed, which may not always need to be an internal audit. For example, an A-Map for a major project may show that project management accountabilities have been established and KPIs agreed, but also show there is little independent assurance of the project. Where this is the case, the assurance choices range from asking the project manager to update the audit committee on how risks are being managed, to asking for independent assurance from a project management expert (particularly if very technical issues are critical), or to ask for an audit or review by internal audit. The importance of risk assurance in relation to key projects becomes all the more obvious when we reflect on the various studies that have shown that 40+% of major projects failed to deliver either to time, to budget or to the original specification.

In relation to other risk areas such as: regulatory compliance, IT security, or safety, health and environment, there may be specialist functions that have (or could have) a risk oversight role. Consequently, as an alternative to requesting an internal audit of the area, another option could be to invite a representative from the relevant oversight function (e.g. Legal, IT) to present to the board or audit committee how the risk is being managed. Seeking direct assurance from line management, or other oversight functions, allows the audit committee to make the most of existing resources, thereby enabling internal audit's efforts to be focussed on other risk areas. Obtaining direct assurance can also provide valuable information that can be used to focus any subsequent internal audit on the areas of greatest risk.

The benefits of Assurance frameworks and Assurance Mapping

It should be clear that having an assurance framework, and preparing A-Maps can be invaluable when assessing the internal audit plan, and rationalising the areas internal audit should and should not be auditing. In addition A-Maps have the benefit of confirming existing arrangements or revealing gaps or overlaps in assurance: the latter being very helpful in these resource constrained times.

Stepping up requests for direct assurances from specialist functions to the audit committee usually helps to reinforce the importance of the risk assurance role of these functions over and above their role of day-to-day task delivery, helping to reduce the risk of unpleasant surprises. Heads of internal audit regularly tell me how important it is to make this change: "Some functions think they have done their job by simply developing policies and publishing these on the intranet, leaving the rest of the organisation to get on with it. They need to be more proactive than this if key risks are to be properly managed and audit committees and senior managers can play a key role in highlighting this by requesting direct assurance".

Working on an assurance framework and using A-Maps will typically reveal opportunities for clarifying the accountabilities for risk management and assurance in certain areas. Thus when audit committee members or senior managers hear the response: "It's everyone's job to manage that risk", an A-Map will often demonstrate whether this is in fact the case. It is not at all uncommon to find out that: "it's everyone's job", actually means "it's no one's job".

A-Maps can also provide the means to clarify, rationalise and consolidate multiple assurance inputs (e.g. from IT security, compliance, legal, health & safety, finance, internal and external audit) into a one concise assurance report, something many audit committees and senior managers would like, to reduce the burden of paperwork they need to read.

Assurance Frameworks and Assurance Maps: Practical considerations

Audit committees should not expect internal audit to develop an assurance framework or A-Map without significant line management support and involvement. This will speed up the information gathering and validation stages, and prove to be invaluable when agreeing and implementing actions needed to deliver benefits (e.g. determining how to address any assurance gaps or overlaps, or how to amend the format, content and frequency of assurance reporting).

Audit committees should not expect A-Maps for all key risks to be prepared in one go in a short timescale, since the typical results from such an exercise tend to be relatively superficial (even flawed in some instances) and also deliver limited benefits. My advice to heads of internal audit and audit committees is to request A-Maps for one or two areas key areas first (e.g. key projects, compliance and finance) and then to extend these based on what emerges, and where the greatest benefit/value is likely to be found.

Conclusion

My work with public sector heads of internal audit last year has highlighted an increasing sense of internal audit functions being stretched very thinly. The best functions are being proactive about this, exploring ways to be more efficient (through lean techniques and/or shared service arrangements), as well as by starting to engage their key stakeholders regarding the range of assurance sources within the organisation beyond just internal audit and external audit. Hopefully the use of assurance frameworks and A-Maps will increasingly be seen to be a key way to deliver more with less. To sum up the views of numerous heads of internal audit: "we have to try our utmost to manage risks effectively before things go wrong, making it important to have reliable real-time risk assurances. With current resource constraints such assurances need to come from a range of sources, allowing internal audit to focus on the most critical areas".

James Paterson

About the author: James Paterson is the Director of Risk & Assurance Insights Ltd. He works as a consultant, facilitator, coach, trainer and author. He specialises in risk management, assurance frameworks, assurance mapping, lean auditing, IA effectiveness and board effectiveness. He was a member of the Council of Directors of the UK IIA and was formerly Chief Internal Auditor of AstraZeneca PLC.

Definitions

Assurance framework	Assurance Map (A-Map)
A framework that provides a structure for the evidence to support an Annual Governance Statement. It typically involves determining the principal risks to the organisation meeting its principal objectives; clarifying the key controls in place to manage them, and setting out how senior management and the board have gained sufficient assurance about their effectiveness. Often underpinned by Assurance Maps. See: "Building an Assurance framework" ~ NHS	An assurance map involves mapping assurance coverage against one, or several, key risks in an organization. Its key focus is the clarification of where risk and assurance roles and accountabilities reside. It helps to ensure there is a clear, comprehensive risk and assurance picture with no duplicated effort or gaps. An A-Map is an important tool in developing an assurance framework

Planning your assurance needs

Assurance needs to balance the **value** of assurance with the **cost** of assurance

- According to **risk**
- And **statutory requirements**
- And **accountability** demands

Key questions to ask:

1. Do we have all the assurances we need to meet our responsibilities as an audit committee and to ensure the organisation meets its statutory duties?
2. Do we have assurance across all key areas, not just financial risks and statutory obligations?
3. Are we over-relying on internal and external audit for assurance? Are there other sources of assurance we should be hearing from?
4. What degree of rigour underpins the assurances being received in terms of the breadth and depth of risk assurance coverage?
5. Are we taking steps to improve the efficiency and cost-effectiveness of assurance, for example removing any duplication?

Diana Melville
Governance Advisor, CIPFA Better Governance Forum

Risk Outlook for 2012

Last year we identified a top 10 risks for 2011 and we have an updated list for 2012. Each organisation will have its own strategic risk profile and you might find it helpful to compare that with the list below. Whilst risk management is about prevention and preparedness, it is also about seeking opportunities for improvement and meeting your organisation's goals.

	Potential Risk Area	What the audit committee can do
1	**Fraud** The National Fraud Authority has estimated that £21.2 billion of fraud is against the public sector.[2] Whilst £15 billion is tax fraud, that still leaves substantial fraud being undertaken against the budgets for public services. For example the NFA estimate procurement fraud against central and local government to be £2.3 billion, payroll & recruitment fraud to be £329 million, and housing tenancy fraud to be £900 million. At the same there are rising expectations from the government that public sector bodies will act effectively to prevent, detect and investigate fraud. The NFA have published 'Fighting Fraud Together' that sets out their strategy for tackling fraud.	Ask whether fraud risks have been identified, assessed and counter fraud plans are in place. Review your organisation's counter-fraud capability and resources. Are any changes planned? Ask if the staff working in 'at risk' areas are aware of the fraud risks and know how to raise concerns. The Better Governance Forum has a checklist for audit committees to use when reviewing your counter fraud arrangements. Checklist
2	**Financial Challenges and budget cuts** Public bodies have already made substantial savings in 2011 and more will be planned in 2012. A recent Audit Commission report 'Tough Times' reported that auditors expected 90% to balance their budgets, but that had involved service cuts in many areas and some planned cuts may not be sustainable.	The audit committee will not play a lead role in developing the budget as this is an executive responsibility. The audit committee may seek assurance that the decision making process includes good governance principles. For example: • Has a risk assessment been undertaken? • Is there sound data on service costs? • Are proposals consistent with the longer term financial plan and vision for the organisation? • Has appropriate consultation been undertaken?
3	**Transformation Programmes** As part of their plans to achieve significant savings many public sector bodies are planning transformation programmes. These could involve the establishment of new service delivery bodies or outsourcing. Some proposals are very complex and will take place over a long period of time and some include private or public sector partners.	A major change programme should have its own risk register and arrangements in place to review & manage risks and keep senior managers and board members updated. The audit committee can seek assurance that risk management arrangements are in place and working effectively.

[2] http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/annual-fraud-indicator/

	Any complex programme poses a number of risks and an organisational change programme is no exception. Possible risk areas include: • Legal risk • Financial risk • People risks • Technological risks.	The audit committee should also consider what assurance is available on the programme, for example through the programme board or from an internal audit review. The Better Governance Forum has a list of common risks arising from organisational change which may assist your own risk reviews. Change risks & opportunities
4	**Achieving Value for Money** This is a continuing goal for public services and one that is complicated by budget reductions. Some budget reductions mean a reduction in service rather than a true 'efficiency'. Some savings could mean the effectiveness of the service is reduced as well or there could be unintended consequences. Often these risks may not be recognised at the time. The Good Governance Framework for local government includes the following supporting principle: 'ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money.'	Consider what assurance is received on your organisation's achievement of value for money. Also consider what arrangements are in place to ensure value for money across the organisation. How well do they work in practice? Does the audit committee review any evidence on value for money as part of the Annual Governance Statement? Does the statement itself clearly show how the governance principle is achieved?
5	**Preparing for a change in external auditors** This may be a particular challenge for local government as result of the outsourcing programme the Audit Commission is organising, but could also impact on other public bodies. The finance and internal audit teams will need to plan early meetings with the new external auditors and understand what their expectations are. The external auditors rely on the work of internal audit and this will need to be planned by the audit team.	The audit committee should ask the current external auditors to brief them on handover arrangements to help ensure a smooth transition. The Audit Commission will commence consultation on the proposed permanent appointment at the end of April 2012. The audit committee will also want to meet the new engagement manager or lead auditor and ensure that external audit have arrangements in place to meet with finance and internal audit.
6	**Implementing the Localism Act** Key aspects that are of interest to the audit committee are: • New duty to promote and maintain high standards of conduct. • New arrangements for the investigation of allegations. • Changes to governance will be permitted including elected mayors or return to the committee form.	In the 2011/12 Annual Governance Statement authorities will need to highlight any changes they have made or are making to the deliver of the 'Good Governance' principle relating to the authority's values and upholding standards of conduct and behaviour. Audit committees should be satisfied that the arrangements meet the governance framework and also the requirement of the Localism Act to 'promote and maintain high standards of conduct.'

7	**IT Security and Cyber Risks** Public bodies rely on IT services to deliver their services and much sensitive and personal data is held on their databases. Ensuring adequate security from unauthorised access, hacking and resilience to denial of service attacks is a continuing challenge for the organisation. Arrangements should be is place to ensure that all staff and governors understand their own responsibilities for security. Resilience and protection should be regularly tested and evaluated.	The audit committee should seek assurance that risks have been fully identified and mitigation strategies and contingency arrangements are in place. This area is likely to feature in internal audit plans and may require specialist IT audit skills. It is also an area on which external audit will seek assurance to support their opinion and governance work. The audit committee should review the outcomes of the audit and monitor the implementation of priority recommendations.
8	**Impact of wider economic problems** The continuing economic gloom in the national and local economy will continue to impact on public services. Examples include: • Reduced income from fees & charges • Low returns on investments • Depressed property values • Increased welfare demands • Social unrest Corporate plans and medium term financial planning will need to be reviewed and revised to reflect the latest forecasts and to take account of emerging risks.	Horizon scanning is a useful risk tool to help organisations plan for the longer term. Audit committee members can support such approaches and bring a governance perspective to the discussion.
9	**Open public services & transparency** The white paper was issued in July 2011 and covers a range of issues relating to greater innovation and increasing choice and changing the provision of services by putting power directly in the hands of citizens and communities. One key objective is to increase transparency to the public by increasing the amount of information available on service providers. Increased local accountability is also promised with scope to challenge the provision of services.	As this agenda develops audit committees will want to see that the risks are identified and assessed. Commissioning risks are one area that should receive particular attention.
10	**The Olympics** The effectiveness of business continuity arrangements may be challenged by the Olympic Games, particularly for organisations in the London area or other Olympic sites. As well as the potential disruption to transportation or risk of security incidents, organisations need to be aware of whether their key service partners will be impacted.	The audit committee can review the identified risks and mitigations. Business continuity plans and IT disaster recovery plans should be regularly tested and kept up to date.

Government's response to the consultation on the future of local public audit

The Government published its response to last year's consultation on 4th January 2012. The Government is proposing to issue a draft bill for pre-legislative scrutiny in Spring 2012 and CIPFA is assisting in this process.

The following summary of key principles looks at the Government's proposals from the perspective of the audit committee:

- Local authorities will have a statutory duty to appoint their external auditors.
- Appointments will be made by Full Council following the advice of an Independent Audit (or Auditor) Appointment Panel.
- The Independent Audit Appointment Panel would be independently chaired with a majority of independent members.
- Where a body has an independent audit committee (i.e. with a majority of independent committee members), this can be used instead of a separate Panel.
- The Independent Audit Appointment Panel can be shared across local bodies to facilitate joint procurement exercises.
- If the local public body does not follow the advice of the Independent Audit Appointment Panel in making its appointment it will be required to publish its reasons for not choosing to follow that advice.
- The Government is proposing to provide for a limited set of functions of the Panel in legislation around advising on auditor appointment, independence, removal and resignation and public interest reports.
- The Government has acknowledged that where there is an existing audit committee there may be issues about the demarcation of responsibilities between both groups. It is proposing to work with the sector and develop guidance.
- The consultation response currently says that the Independent Audit Appointment Panel will be required to approve the provision of non-audit services to the audited body. However, CIPFA has provided the view to DCLG that it would be inappropriate for the Panel to have a say on what non-audit services would be appropriate to a public body. It has agreed to revisit this specific area; one option is that the audit committee approves non-audit services, but the Independent Audit is simply notified of additional services in order to monitor the balance of audit versus non-audit services being provided.
- The external auditor and the Independent Audit Appointment Panel will be designated persons under the Public Interest Disclosure Act.
- The scope of the external audit will continue to include a value for money component.
- The government intends local public bodies to have responsibility for providing evidence of securing value for money. The Government will work with the sector to develop guidance on this.

Ian Carruthers, Director of Policy and Technical at CIPFA, commented,

"The Government's response is helpful in providing a firmer outline of the proposed new arrangements for local public audit. However there remain areas for concern and considerable further work is required to develop the detailed practical guidance necessary for individual bodies to implement the Government's proposals consistently and cost-effectively."

The Government has acknowledged that issues around the relationship between the audit committee and the Panel will need further examination and guidance. It has carried out 'engagement events' in January to discuss some of the following issues with local government finance and audit officers as well as audit committee members:

- how the Panel will be appointed

- how many authorities could share a single Independent Audit Appointment Panel; for example, could regional Panels be created?
- the definition of 'independent'
- responsibilities of the Panel, and
- how auditors will, in future, audit value for money at public bodies.

CIPFA has been in close discussions with DCLG since the proposal that the Audit Commission should be abolished was announced. More recently, CIPFA's policy and technical team has met with DCLG to share its knowledge and expertise in setting audit committee guidance and to offer specialist assistance in drawing up future guidance for the proposed Independent Audit Appointment Panels.

Once the draft bill is published, or further guidance emerges, Audit Committee Members will need to consider how the Panel will impact on its own role. There is nothing in the response to suggest that the audit committee's role in receiving and monitoring external audit reports will change so this will continue to be an important part of the audit committee's function.

Other audit committee functions that could be affected include:

- oversight of cooperation between internal and external audit and impact on external audit fees
- oversight of arrangements to secure value for money, and
- overall assurance framework and the role played by external auditors in the provision of audit and non-audit services.

Keeley Lund
Technical Manager, Professional Standards and Guidance
CIPFA

Keeley.Lund@cipfa.org.uk

Recent developments you may need to know about:

Localism Act
The Act received Royal Assent on 16th November 2011. The act contains a wide range of provisions but the most pertinent areas for audit committees to be aware of are:

- Developments in the ethical framework.
- Pay transparency
- Opportunity to change form of governance including elected mayors and return to committees from the executive model.

A briefing on the main provisions of the act and a list of those parts that are now current is available on our website. Localism Act Briefing.

Future of Local Public Audit
The government's response to the CLG Select Committee report was published in October. It is available from the Parliament website. Response to Select Committee
The government's response to the consultation conducted between March and June 2011 was published in January 2012. Key aspects that are of particular interest to audit committees are featured in the main section of this briefing. The full government response is available here.

Outsourcing of external audit providers
The Audit Commission is currently undertaking a major exercise to outsource external audit contracts. Thirteen potential providers were invited to tender. The Commission will decide on the award of contracts in February and March 2012 and consultation with audited bodies on the proposed awards will commence at the end of April. Audited bodies will have the opportunity to make representations to the Commission on the proposed auditor appointments if they do not agree with the proposals. Auditor appointments will be approved in July to start from September. Details of the shortlisted audit firms and timetable are available on the Audit Commission website. Outsourcing timetable.
The Audit Commission have published a strategy setting out their approach for auditor appointments for 2012/13 and the process to follow for objecting to the proposed auditor appointment. Appointments Strategy.

Scrutiny of Treasury Management
Audit Committees responsible for undertaking the scrutiny of treasury management should be aware that a new *CIPFA Treasury Management Code of Practice 2011* has just been published. To support the effective scrutiny of treasury management strategy and policies the Better Governance Forum and Treasury Management Network have developed a self-assessment. It is available to download from the website. Effective Scrutiny of Treasury Management

Fighting Fraud Together
The National Fraud Authority (NFA) launched their national strategy for countering the threat of fraud in October 2011. The document outlines the fraud challenge and sets out the NFA's objectives: Awareness, Prevention and Enforcement. Fighting Fraud Together.
In November the NFA held a conference to launch Fighting Fraud Locally outlining how they will be working with local government to tackle fraud. More details on this are expected shortly.

Protecting the Public Purse
This report from the Audit Commission highlights the risks of fraud to local government and identifies good practice in fighting fraud. In 2010/11 the Audit Commission's fraud survey reported £185 million of detected fraud across local government. The report includes a short checklist for those responsible for governance so it is an ideal resource for audit committee members. The report focuses on local government but many of the issues apply equally to other public sector organisations. Protecting the Public Purse 2011

Social Housing Fraud
The government has issued a consultation document proposing ways to tackle tenancy fraud. If your organisation is a housing provider then you may wish to respond to the government's consultation. More details.

Responding to the challenging financial climate
In Tough Times the Audit Commission reviewed how well councils have responded to the need to make savings. Commenting on the Audit Commission report Alison Scott, Assistant Director CIPFA said: "Local government has done exceptionally well in managing the job so far. But in the face of further reductions in funding, councils need to ensure that their financial management remains of the highest possible standard."

Good Governance Guidance Note
CIPFA is commencing an update of the guidance note that supports the good governance framework for local authorities. The revised note will reflect changes to legislation and a range of other developments including the CIPFA Statement on the Role of the Head of Finance and CIPFA Statement on the role of the Head of Internal Audit. Formal consultation will take place in May 2012. The updated guidance note will not affect Annual Governance Statements for 2011/12.

Auditing the accounts 2010/11: Quality and timeliness of local public bodies financial reporting
The annual report from the Audit Commission reflects the outcomes from the external audit of financial statement, value for money conclusions and review of annual governance statements. Overall the sector performed well in ensuring that accounts were available for audit on time and published by the deadline of 30th September. Nearly two-thirds of bodies had to adjust their accounts to correct material misstatements identified during the audit however.
Just under a half of bodies followed CIPFA's recommended practice of including a 'comply or explain' statement relating to the role of the Chief Financial Officer as part of their Annual Governance Statement.
To ensure any weaknesses identified by audit reports are addressed and to ensure that the finance team are well placed for the preparation of financial statements for 2011/12, audit committees should monitor the implementation of recommendations and plans. Auditing the Accounts.

Improving Board Effectiveness
The Public Chairs' Forum and the Chartered Institute of Public Finance and Accountancy (CIPFA) have published a joint 'how to' guide for Chairs and Boards of public bodies.
Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies offers Chairs and board members indispensible advice on the roles that they perform, in turn helping to make their time with the board as effective and fulfilling as possible. The guide is available from the CIPFA shop. Board Governance Essentials

The Audit Committee Cycle

Each year the audit committee will be responsible for a number of core actions. Here are some snippets on how you might prepare for some of these.

Reviewing the Annual Governance Statement (AGS)

Although the Statement won't be approved until later in the year it is important to plan assurance needs and to be aware of major changes affecting the governance of the organisation.

Items to consider for the Annual Governance Statement:

- Any impact on governance, risk or internal control arising from budget reductions.
- Role of the Chief Financial Officer, in accordance with CIPFA's guidance. Role of CFO
- Role of the Head of Internal Audit. CIPFA Statement
- Financial reporting performance, particularly in the light of IFRS.
- Changes to the assurance framework, for example changes to the assurances arising from new shared service arrangements or partnerships.
- Any changes or proposed changes to ethical governance arrangements. For example disbanding the standards committee.

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

3 Robert Street, London WC2N 6RL

www.cipfa.org.uk

Diana Melville
Governance Advisor
Better Governance Forum
CIPFA
3 Robert Street
London, WC2N 6RL
Tel: 01722 349398
Diana.Melville@cipfa.org.uk
www.cipfanetworks.net/governance

Certificate No.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Agenda Item 13

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Document is Restricted

This page is intentionally left blank