



HILLINGDON
LONDON



Audit Committee

Members on the Committee

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

Date: THURSDAY, 8 DECEMBER
2011

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

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Published: 29 November 2011

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This Agenda is available online at:

<http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=256&Mid=1109&Ver=4>

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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 Declarations of Interest
- 2 Minutes of meeting held on 28 September 2011 (**Pages 1-8**)
- 3 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.
- 4 Deloitte -Annual Audit Letter (**Pages 9-24**)
- 5 Deloitte - Annual Grants Audit Letter

TO FOLLOW.

Deloitte have a deadline for completion of several Grant audits of 30 November 2011 and they then have to report their findings to the Audit Commission by February 2012. Therefore they have to report their findings to this Committee prior to February 2012 and therefore to this meeting in December.

Three of the grant audits have required additional testing which have delayed their completion which is why they are only being signed off by Deloitte on 30 November. The report will be distributed to Members hopefully by Friday, 2 December 2011.

- 6 Internal Audit Progress Report (**Pages 25-66**)
- 7 Treasury Management Strategy Statement and Investment Strategy 2012-13 to 2014-15 (**Pages 67-94**)
- 8 Audit Committee Work Programme 2011/12 (**Pages 95-98**)
- 9 Audit Committee Draft Work Programme 2012-13 (**Pages 99-102**)
- 10 Changing Legislation and Current Issues
- 10a Audit Commission Publication - Protecting the Public Purse (**Pages 103-122**)
- 10b Department for Work and Pensions - Consultation Paper on the Future of Local Authority Fraud Investigations (**Pages 123-128**)

PART II

11 Internal Audit Progress Report (Pages 129-130)

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Minutes

Audit Committee

Wednesday 28 September 2011

Meeting held at Committee Room 3 - Civic Centre,
High Street, Uxbridge UB8 1UW



HILLINGDON
LONDON

	<p>Independent Member: John Morley (Chairman)</p> <p>Members Present: Councillors George Cooper, Phoday Jarjussey, Richard Lewis and Raymond Graham.</p> <p>Also Present: Councillor Judith Cooper.</p> <p>Apologies: Councillor Paul Harmsworth (Councillor Phoday Jarjussey substituting).</p> <p>Officers Present: Garry Coote (Fraud Investigation Manager – Social Care, Health & Housing), Dan Kennedy (Manager – Performance & Intelligence Team – Central Services), Harry Lawson (Corporate Accounting Manager), Steve Palmer (Head of ICT and Business Services), Helen Taylor (Head of Audit and Enforcement), Paul Whaymand (Deputy Director of Finance) and Khalid Ahmed (Democratic Services Manager).</p> <p>Others Present: Heather Bygrave (Deloitte) and Jonathan Gooding (Deloitte).</p>
14.	<p>DECLARATIONS OF INTEREST</p> <p>John Morley and Councillor Raymond Graham declared Personal Interests in Agenda Item 5 – Approval of the 2010/11 Statement of Accounts and External Audit Report on the Audit for the Year Ended 31 March 2011 as they were former Members of the Board of Hillingdon Homes. They both remained in the room and took part in discussions on the item.</p> <p>Councillors Raymond Graham and Richard Lewis declared Personal Interests in Agenda Item 6 – External Auditor’s Report on the Pension Fund Annual Report and Accounts as Councillor Richard Lewis was a Member of the Pensions Committee and Councillor Raymond Graham was a substitute Member of the Pensions Committee. They both remained in the room and took part in discussions on the item.</p> <p>Councillors George Cooper and Judith Cooper declared Personal Interests in Agenda Item 13 – Internal Audit Progress Report as they were both Trustees of Groundwork Trust. They both remained in the room and took part in discussions on the item.</p>

15.	<p>MINUTES OF THE MEETING HELD ON 27 JUNE 2011</p> <p>Agreed as an accurate record.</p>	
16.	<p>EXCLUSION OF THE PRESS AND PUBLIC</p> <p>It was agreed that Agenda Item 12 – Risk Management Quarter 1 Report and Agenda Item 13 – Internal Audit Progress Report be considered in private.</p>	
17.	<p>ICT RECOMMENDATIONS UPDATE</p> <p>Members were reminded that at the last meeting of the Audit Committee attention was drawn to a number of ICT recommendations which had remained outstanding for some time.</p> <p>The Head of ICT and Business Services attended the meeting and provided Members with an update on the current status of Audit recommendations in the ICT area. Significant progress had been made with all recommendations either implemented or agreed with Internal Audit to be classed as no longer relevant.</p> <p>Members were informed that a review had taken place on the ICT approach to recording and processing agreed audit recommendations and central monitoring of progress and actions was now fully in place with structured liaison and contact points between Corporate ICT and Internal Audit.</p> <p>Discussion took place on the two outstanding recommendations which related to remote access and a more detailed explanation was given to Members.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1. That the progress made in the implementation of outstanding Audit recommendations within ICT be noted, and the Head of ICT and Business Services be thanked for his attendance. 	<p>Action By:</p>
18.	<p>APPROVAL OF THE 2010/11 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2011</p> <p>Consideration was given to a report which summarised the findings of the External Auditor on the audit of the 2010/11 Statement of Accounts and the Value for Money audit.</p> <p>Deloitte reported that an unmodified opinion would be given and the Statement of Accounts would be given a ‘true and fair’ view. Members were informed that these were the first set of accounts which had been prepared since the adoption of IFRS.</p>	

	<p>The Committee was informed of two issues which had been raised by members of the public in relation to the Statement of Accounts. A Member of Parliament had written to the Audit Commission regarding the Council's spend on the High Speed 2 Rail link campaign. This was not a formal objection and Deloitte was satisfied that it would not impact on the Accounts.</p> <p>In addition a member of the public had expressed concern regarding the procurement process within the Council. Deloitte reported that it was expected to issue an unmodified opinion on the financial statements and the value for money conclusion but they expected state in the completion section that an issue was outstanding and was being investigated.</p> <p>Members were informed that electors of the Borough, had the opportunity to raise an objection up to the date of the signing of the accounts and external auditors had 9 months to investigate this. At this stage it was unknown whether this concern was from an elector of the Borough and whether the concern constituted a formal objection. If confirmation was received that it was an objection, the guidance regarding objections would be followed and Deloitte would issue their completion statement once the matter was resolved.</p> <p>Pension Liability –This was identified as a risk because it was substantial and its calculation was sensitive to comparatively small changes in assumptions made about future changes in salary, mortality etc. The move from the use of the Retail Price Index to the Consumer Price Index as the principal measure of inflation had resulted in a past service gain being recognised in the comprehensive income and expenditure statement of £95m.</p> <p>Property valuations – Deloitte proposed a judgemental misstatement of £4.1m which was due to the difference between inflationary build costs and the finance cost used by the Council.</p> <p>Bad debt provisions – This was in relation to the provision of sundry debt.</p> <p>Recognition of revenue grant income – The timing for the recognition of grant income would depend on the scheme rules for each grant – No material issues had been found.</p> <p>Presumed risk of management override of key controls – Work focused on the testing of manual journals, significant accounting estimates and any unusual transactions, including those with related parties. No issues had been identified.</p> <p>IFRS transition risk- There had been no issues.</p>	<p>Action By:</p>
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	<p>its meeting held on 20 September 2011</p> <ul style="list-style-type: none"> Annual Governance Statement – Particular reference was made to weaknesses which had been identified in the monitoring and control of some construction projects and some sub-systems were not being regularly reconciled to the main Oracle creditors system. These were detailed within the Internal Audit progress report <p>Members expressed their appreciation at the efforts made by both Deloitte and Finance officers on the production of the accounts and the good joint working which had taken place. Deloitte confirmed that the Council’s Finance team had been well prepared for IFRS, and that the process had been handled smoothly.</p> <p>RESOLVED -</p> <ol style="list-style-type: none"> That approval be given to the Statement of Accounts for 2010/11 and the Auditors findings and adjustments as outlined in Appendix 1 to the report be noted. 	Action By
19.	<p>EXTERNAL AUDITOR REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS</p> <p>Members were reminded that regulations required the auditor’s report to be communicated to the Audit Committee as the body charged with governance of the Council’s accounts. The report had also been considered by the Pensions Committee on 20 September 2011.</p> <p>Members were informed that on completion of the outstanding matters, the Council would be issued with an unmodified audit opinion.</p> <p>Members reviewed the Pension Fund Annual Report & Accounts, and noted that these had been approved by the Pensions Committee. Members noted the creation of an Investments Strategy Sub-Committee.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> That the auditor’s findings contained in the report be noted. 	
20.	<p>INTERNAL AUDIT PROGRESS REPORT</p> <p>The Head of Audit and Enforcement reported that based on the work undertaken from June 2011 to 31 August 2011, there were no significant causes for concern at this time with levels of assurance.</p> <p>Five audits in the current report had received limited assurance</p>	

	<p>recommendations. The Head of Audit and Enforcement agreed to review this with her managers.</p> <p>Consideration of the follow up audits detailed in the report would be deferred until the next meeting of this Committee</p> <p>RESOLVED-</p> <p>1. That the in year progress against the Internal Audit Plan for 2011/12 be noted and the updated position of those audits undertaken in 2007-8, 2008-9, 2009-10 and 2010-11 be deferred for consideration at the next meeting of this Committee.</p>	<p>Helen Taylor</p> <p>Helen Taylor</p>
21.	<p>CORPORATE FRAUD REPORT</p> <p>Members noted a report which provided details on counter fraud measures which this Council carried out. Members commended the work being carried out, and noted the deterrent effect of the publicity being achieved.</p> <p>Members asked that they be informed when the Panorama television programme which this Council officers had been involved in, was due to be televised.</p>	<p>Garry Coote</p>
22.	<p>REVISED TREASURY MANAGEMENT PRACTICES</p> <p>The minor revisions to the Treasury Management Practices were noted.</p>	
23.	<p>WORK PROGRAMME 2011/12</p> <p>It was agreed that this Committee's Work Programme for 2011/12 be updated outside the meeting by the Chairman in consultation with officers.</p>	<p>Helen Taylor / Nancy Le Roux / Khalid Ahmed</p>
24.	<p>RISK MANAGEMENT REPORT – 2011/12 – QUARTER 1</p> <p>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.</p> <p>RESOLVED –</p> <p>1. That the information contained in the report be noted.</p>	

25	<p>INTERNAL AUDIT PROGRESS REPORT</p> <p>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.</p> <p>RESOLVED –</p> <p>1. That the information contained in the report be noted.</p>	
	<p>The meeting which commenced at 5.00pm, closed at: 6.50pm</p> <p>Next meeting: 8 December 2011 at 5.00pm</p>	

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.

DELOITTE - ANNUAL AUDIT LETTER

Contact Officer: Paul Whaymand
Telephone: 01895 556074

SUMMARY

This is a covering report to Deloitte's Annual Audit Letter which provides a summary of the conclusions from their audit work undertaken for the year ended 31 March 2011.

RECOMMENDATIONS

The Committee is asked to note the report.

INFORMATION

The letter identifies the key areas of Deloitte's work over the year, their findings in each area and the focus of their work going forward:

1. The Council's Financial Statements – an unqualified opinion issued on 30 September 2011. The recommendations from the audit were discussed in detail at Audit Committee on 28 September 2011.
2. The Local Government Pension Scheme Annual Report – an unqualified opinion was issued on 30 September 2011.
3. Value for Money Conclusion – an unqualified opinion was issued as part of the main financial statements.
4. Whole of Government Accounts – an unqualified statement of assurance to the National Audit Office on the council's consolidation return for the purposes of the Whole of Government Accounts
5. Grants Certification – there is a separate report on the agenda on grant certification.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

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London Borough of
Hillingdon

Annual Audit Letter to the
Members of the Council
on the audit for the year
ended 31 March 2011

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Executive summary

This letter reports our conclusions from our audit of the London Borough of Hillingdon (“the Council” or “Hillingdon”) for financial year ended 31 March 2011. The letter’s main messages are:

The Council’s financial statements	We issued an unqualified opinion on the Council’s accounts for the year ended 31 March 2011 on 30 September 2011.
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The local government pension scheme annual report	We issued an unqualified opinion on information in the Council’s pension scheme annual report for the year ended 31 March 2011 on 30 September 2011.
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Value for money conclusion	We issued an unqualified conclusion on the Council’s arrangements for securing value for money for the year ended 31 March 2011.
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Whole of Government Accounts consolidation return	We are required to provide a statement of assurance to the National Audit Office (“NAO”) on the Council’s consolidation return for the purposes of their audit of the Whole of Government Accounts. We provided an unqualified statement of assurance ahead of the NAO’s deadline of 1 October 2011.
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Certification of completeness of audit	In our audit report issued on 30 September 2011 we explained that the audit could not be formally concluded on that date until consideration of matters that had been brought to our attention had been completed. These matters were subsequently resolved and a revised report was issued on 1 November 2011.
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Grants certification	We undertake work on grant claims and other returns on behalf of the Audit Commission and provide certificates to grant funders on compliance with aspects of the terms on which funds have been claimed. We will provide a separate, detailed letter to the Council on the outcome of this work. The grants letter will be provided alongside this letter to the December audit committee.
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In our report to the audit committee in September, we reported a number of control observations and associated recommendations for management. Through our regular communication with management we understand that the majority of the recommendations reported have already been implemented. We will test the implementation as part of our planning procedures for the 2011/12 audit. There are no individually significant recommendations which we wish to bring to the attention of members here.

1. Introduction

The purpose of this letter

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Council as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that the Council has relevant safeguards and properly accounts for public money.

The Letter will be published on the Audit Commission website at www.audit-commission.gov.uk and should also be posted on the Council’s website.

Responsibilities of the Appointed Auditor and the Council and scope of our work

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

We have been appointed as Hillingdon’s independent external auditor by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities. As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (the Code). Under the Code, we review and report on:

- the Council’s accounts;
- the Council’s local government pension scheme annual report; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion) in respect of its local authority functions.

We also provide an assurance report to the National Audit Office on the financial information prepared by the Council for consolidation into the Whole of Government Accounts.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

As an additional responsibility to those set out in the Code, we also undertake grant certification work on behalf of the Audit Commission.

2. Financial reporting

Key issues arising from the audit of the Council's accounts

We reported separately to the Council's audit committee in September 2011 on the issues arising from our audit for the year ended 31 March 2011 and have issued an audit report providing an unqualified opinion on your accounts. We issued this report on 8 September 2011.

We have summarised below the areas of focus in our work and the outcomes from our testing in these areas:

Area of focus	Outcome of our work
Valuation of fixed assets	<p>We focused our work in particular on the revaluation of the Council's stock of dwellings. The revaluation produced significant reductions in reported asset values as a result of a change in guidance on the discount factor to be applied to convert from an untenanted valuation to a social housing valuation.</p> <p>We identified a judgemental misstatement in relation to the valuation of assets using a methodology known as depreciated replacement cost. However, management did not adjust for this misstatement on the basis that it was unlikely to be material. Management has agreed to undertake an exercise covering the assets concerned in the 2011/12 year. We considered this approach to be reasonable.</p> <p>Aside from the issue noted above, we concluded that the valuation process was reasonable and that valuations reflected market conditions and appropriate guidance.</p>
Valuation of pension scheme liabilities	<p>Overall, the assumptions used by the Council to calculate the pension liability fall within a reasonable range. A significant credit caused by the change in inflation index to be applied to pension payments from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI), was presented in line with guidance issued by CIPFA and reflected the judgement that this was a change in individuals' benefits.</p>
Accounting for revenue grants	<p>Our testing of revenue grants found no significant issues in relation to the basis of recognition.</p>
Bad debt provisions	<p>Our testing of debtors and bad debt provisions identified a judgemental misstatement relating to the provision for sundry debts. This misstatement was not material and was not adjusted by management. Otherwise, our testing concluded that the provisions for sundry debtors were reasonable.</p>
IFRS transition: capital grants, short-term absences accrual, and lease accounting	<p>We performed specific testing on transitional changes including capital grants, short-term absences accruals, and lease accounting. No issues were identified from our testing.</p>
Segmental reporting	<p>We proposed a change to the structure of the segmental reporting note following discussions with management and review of information reported internally to management. This change has been accepted and the note has been amended in the latest set of draft financial statements.</p>

2. Financial reporting (continued)

Identified misstatements

Audit materiality was £7.8 million. Uncorrected misstatements would have decreased cost of services by £0.3m, decreased net assets by £2.9m and decreased unusable reserves by £3.2m. These misstatements related to the fixed asset valuation methodology used and a provision for sundry debts.

Additionally, a number of misstatements identified through our work were corrected and reflected in the published Statement of Accounts.

Key issues arising from the audit of the pension scheme accounts within the pension scheme annual report

We reported separately to the Pensions Committee in September 2011 on our audit for the year ended 31 March 2011. There were no significant issues arising.

We issued an unqualified opinion on the pension scheme accounts within the pension scheme annual report in advance of the deadline for this.

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 review and report on the Council's Whole of Government Accounts return. Our report is used by the National Audit Office ("NAO") for the purposes of its audit of the Whole of Government Accounts.

We provided an unqualified statement of assurance ahead of the NAO's deadline of 1 October 2011.

3. Value for money conclusion

The scope of our work

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources in respect of its local authority functions. This is known as the value for money conclusion.

Value for money conclusion

We issued an unqualified value for money conclusion for the year ended 31 March 2011. This conclusion drew on the evidence we gathered for the use of resources assessment as well as from the work of other regulators, consideration of the Council's Annual Governance Statement and other work performed by us.

We reported two recommendations to management which are summarised below:

- | | |
|---|---|
| Publication of summary strategic plan | We suggested the Council should publish a strategic summary for residents which would cover key strategic priorities and how these priorities are being managed in the context of significant change. Management confirmed that this would be covered in an article that is published annually in the autumn edition of Hillingdon People. This article has now been published. |
| Amendment to annual governance statement | We suggested the Council should update the annual governance statement which is published alongside the accounts, to include more explicit narrative of control weaknesses identified during the year in relation to capital project management and creditors. This was accepted by management and the published annual governance statement included these changes. |

4. Grants

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by Central Government or a Public Authority to a Local Authority. The Commission, rather than its appointed auditor, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

We will issue a separate Annual Audit Letter in respect of the grants programme which will be presented to the December audit committee alongside this report.

5. Looking forward

This is a challenging period for local government on a number of fronts. The outcome of the recent Comprehensive Spending Review will add to existing local pressures.

Code of practice on local authority accounting in the United Kingdom 2011/12

Background The 2011/12 Code is the first annual update of the Code since the International Financial Reporting Standards were adopted as the basis for public sector accounting. The 2011/12 Code clarifies the requirements in a number of areas where uncertainty was identified in the 2010/11 Code and introduces new or amended accounting practices in a number of areas.

Effective date Effective for financial years commencing on or after 1 April 2011.

Pensions

Background Some recent changes to accounting standards will affect some areas of presentation in the financial statements. Most significant for Harrow is that the expected return on assets currently recognised in the comprehensive income and expenditure statement will be replaced with a 'net interest cost', which is calculated by applying a discount rate to the net liability/asset of the scheme. There will also be extended disclosure requirements – which give more disclosure, especially around risks and uncertainty.

Effective date Effective for financial years commencing on or after 1 April 2013.

Consultation - accounting for non-current schools' assets

Background CIPFA/LASAAC have put out to consultation its proposals for developing the 2011/12 Code in relation to non-current schools' assets.

The issue of the accounting treatment of non-current assets used by the different categories of maintained schools has been subject to debate for a number of years, without a firm conclusion being reached. The debate arises because the circumstances of each of the categories of maintained schools, such as ownership and access to economic benefits and service potential are different. The move to IFRS has resulted in authorities and auditors reconsidering the issue.

Effective date Effective for financial years commencing on or after 1 April 2011.

Bribery Act

Background In April 2010, the Bribery Act was passed into law in the UK and was effective from July 2011. Under the provisions of the Act, the enforcement authorities have at their disposal new and more easily applied offences which the Council will need to factor into their risk management processes. Importantly, the Act contains an offence of failing to prevent a bribe being paid on their behalf by an 'associated' person. Associated persons could include not only employees, agents or subsidiaries but a wide group of parties who perform services on behalf of the Council creating a potentially significant risk of liability for the Council under the Act.

The practical impact is that the Council should review their anti-corruption policies to ensure regulatory risk is mitigated.

Effective date Already effective. We understand the Council is already responding to these new requirements.

5. Looking forward (continued)

Code of practice on transport / infrastructure assets

Background CIPFA has published the Code of practice on transport / infrastructure assets (the Transport Code) which suggests a change in the financial reporting valuation of infrastructure assets.

Infrastructure assets are currently valued on a historic cost basis, with the transport Code suggesting a move to a depreciated replacement cost (DRC) based valuation. The transport Code suggests the withdrawal of the current method of historic cost accounting for infrastructure assets from 2012/13.

The consultation on the 2012/13 Financial Reporting Code (the financial Code) includes the option for a voluntary disclosure of infrastructure assets on a DRC basis but currently maintains the required historic cost valuation for these assets.

Effective date Effective for financial years commencing on or after 1 April 2012.

Self-financing for council housing

Background The reform of council housing was included as a Coalition agreement commitment. Significant changes to the current system are expected with a planned implementation date of April 2012.

Currently Councils receive a housing subsidy from government. The Housing subsidy is calculated by the government based on estimated income and spending for each local authority's HRA. The calculation involves a number of assumptions. Where the government's subsidy estimates show that expenditure for a local authority is greater than its income, then a subsidy is paid to the local authority. However, where the government's subsidy estimates show that income is greater than expenditure, then the local authority makes a payment to the government. This calculation changes annually. The new proposals suggest an end to the current subsidy system.

Effective date A planned implementation date of April 2012.

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. 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" circulated to you in February 2010 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to Hillingdon and this report is not necessarily 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 Hillingdon Council, 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

25 November 2011

Appendix: Analysis of professional fees

The professional fees earned by Deloitte in respect of the period 1 April 2010 to 31 March 2011, and in the previous year, are as follows:

	2010-11 £'000	2009-10 £'000
Fees payable in respect of the Council's accounts audit	359	368
Fees payable in respect of the certification of grants	155*	155
Fees payable in respect of the pension scheme	37	38
Total fees payable in respect of our role as appointed auditor	551***	561
DJD contract monitoring project**	-	-
Total non-audit fees payable	-	-

* Our work in respect of the certification of grants for 2010/11 is ongoing and the amount shown above is an estimate only based on the 2009/10 fees. We have regular dialogue with officers to keep them informed of progress for this work. We will issue a letter summarising the results of our work in early 2012 when complete.

** In our audit plan presented to you in February 2011 we highlighted that one of our divisions, Drivers Jonas Deloitte, submitted a proposal to the Council to monitor the delivery of a building contract for the expansion of six primary schools. We have since been informed that Drivers Jonas Deloitte was successful in this proposal and that work has now started. We do not consider this to compromise our independence as external auditor to the Council. We have also received approval from the Audit Commission to undertake this work.

*** The fees disclosed above do not reconcile directly to the audit fees disclosed in the financial statements. The audit fees disclosed in the financial statements exclude pension scheme costs noted above but include £20k of costs which related to the 2009/10 audit but were invoiced in the 2010/11 financial year.

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DELOITTE - ANNUAL GRANT AUDIT LETTER

Contact Officer: Paul Whaymand
Telephone: 01895 556074

SUMMARY

This report provides a summary of the key findings on the grant work undertaken by Deloitte for the year ended 31 March 2011.

RECOMMENDATIONS

The Committee is asked to note the report.

INFORMATION

The attached report addressed to the Audit Committee on 2011 Grant Certifications has been completed by the Council's external auditors Deloitte to communicate the key issues arising from their 2010/11 grant certification work.

The key findings of the report were:

- 8 grants have 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. The reasons for the qualifications were as follows:
 - HRA subsidy base data return - the council were 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' incorrectly classified additional payments as pensionable and thus deducted pension contributions in error. In addition, a school erroneously submitted teachers AVC deductions to the Council rather than to the AVC provider and the Council then submitted to the TPA.
 - 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.

Deloitte have committed to holding a feedback 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 follow when undertaking the audit. They have also agreed to deliver a specific session targeted at the Housing Benefits claim.

Internally, in respect of the Teachers' return new arrangements are being implemented in this area and this work will be transferred to the Schools Finance team rather than being done in Payroll, which should provide additional rigour in future.

In Housing and council tax benefits a comprehensive set of actions has been developed to address the audit findings. These include 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. A more detail explanation is attached as an appendix.

The total fees charged for the grant certification work to date is £201,583, with further £7k to £9k outstanding. This compares to £155,367 last year. Of this fee, £118,511 relates to the Housing and Council Tax benefits claim, an £18,204 increase on last year. £21,217 of the increase is attributable to the HRA due to the increased cost of auditing the HRA base subsidy returns.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

Response to 2010/11 BEN01 Audit

As the Audit Letter points out, it is not unusual for the BEN01 grant to be qualified especially when the volume and complexity of workload is taken into account. The total claim being audited is for £155.4m and relates to a case load nearing 25,000 claimants.

The 2010/11 claim audit covered a period when a number of key events are likely to have had an impact on the audit outcome:

- The number of claimants continued to increase.
- The Local Housing Allowance increased the breadth of factors that needed to be taken into account for the benefit calculation process.
- In common with other areas of the Council, the Benefits Service underwent the BID process. The aim here was to secure staffing efficiencies and although it is envisaged that such efficiencies will be delivered in the longer term, the inevitable uncertainty faced by the staff while the BID process was being conducted is likely to have had an effect on benefit processing.
- A proportion of the increase in documented qualifications appear to be a result of a change in audit approach. In the past some errors such as classification errors would not have been documented once they had been corrected at the audit stage.

Nevertheless, the Benefits Service has taken on board the individual audit qualifications and incorporated this into an improvement action plan which has been developed to minimise future errors. A summary of such changes and actions for minimising errors in the future are outlined below.

A number of errors that involved processing of information received from HMRC for various tax credits and other tax credits will not occur as a result of the introduction of a new system. From July 2011 such data is now being received electronically and fed directly into the Benefits system. This will avoid the transcription errors that were picked by the Benefit Audit.

Some errors resulted from recent changes in benefit levels for Bed and Breakfast (B&B) Accommodation. Previously benefit levels were identical for self contained as well as for accommodation that was not self contained. The rates are now higher for self contained accommodation and consequently such B&B cases have received greater scrutiny. Feedback from the errors uncovered by audit has been provided to staff in the Housing Needs Section along with training and other support such as guides to help ensure the correct property type is selected. This will be followed up by further accuracy checks by Housing Benefit Quality Control team.

Similar feedback has also been provided for errors attributable directly to Housing Benefit staff. A number of actions have already been taken to address the audit findings. These measures to minimise future incidence of errors include the following:

- highlighting individual errors and cascading the information to team leaders to reinforce through the management process;

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- a review of standard information such as tax rates for self employed income;
- central control over the up-rating of other standard information that affect housing benefit claims and;
- targeted training based on a training needs analysis in response to the audit findings.

In summary a comprehensive set of actions has been developed to address the audit findings. These include 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.

London Borough of Hillingdon

Report to the 8 December 2011
Audit Committee on the year
ended 31 March 2011 Grant
Certifications

Final Report

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1. Executive summary

We have pleasure in setting out in this document our key findings from our grant audit work of the London Borough of Hillingdon ("the Authority") for the year ended 31 March 2011. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

Certification deadlines

We have certified all 8 grant returns required under our contract with the Audit Commission (see Section 4 for details) for the year ended 31 March 2011. All but 1 of the grant returns we reported on were certified by the original required deadline.

The original deadline for the HRA base data return was 10 October 2011. The Authority agreed an extension with the DCLG to enable us to certify this grant return at a later date and we met this revised deadline of 21 October 2011.

Results of our grant return certification work

As a result of errors identified through the performance of our procedures, adjustments were made to 5 of the 8 grant returns prior to certification. A number of these adjustments related to form compilation errors; however, we also identified adjustments which indicated that grant instructions were not being correctly adhered to. We have summarised the number of adjustments identified and our conclusion on whether we were able to certify without a qualification letter in the table below. We have included additional comments below the table where we issued qualification letters on the grant returns in 2010/11:

Grant	Value of claim	Number of cells adjusted	Financial impact Increase/ (Decrease)	Qualified in 2010/11	Qualified in 2009/10
Pooling of housing capital receipts ("CFB06")	3,120,921	0	0	NO	NO
Disabled facilities return ("HOU21")	1,623,000	0	0	NO	NO
Sure start, early years and childcare and Aiming high for disabled childrens return ("EYC02")	12,637,384	0	0	NO	NO
National non domestic rates return ("LA01")	299,608,720	2	0	NO	NO
HRA subsidy base data return ("HOU02")	N/A	22	N/A	YES	NO
HRA subsidy return ("HOU01")	(11,304,798)	5	0	YES	NO
Teachers' pension return ("PEN05")	18,903,302	25	(£42,676)	YES	NO
Housing and council tax benefit scheme ("BEN01")	155,415,259	0	0	YES	YES

Summary of qualification letters

1. HRA subsidy base data return ("HOU02")

We issued a qualification letter on the HOU02 return as the Authority was unable to provide an audit trail which supported the classification of housing stock in accordance with DCLG guidance.

1. Executive summary (continued)

Results of our grant return certification work (continued)	Summary of qualification letters (continued) 2. HRA subsidy return (“HOU01”) We issued a qualification letter on the HOU01 return in respect of 2 points: - one of the adjustments resulted in a change to a brought forward figure on the return; and - one of the adjustments resulted in a difference to a previously certified figure on the HOU02 grant return. 3. Teachers’ pension return We issued a qualification letter on the PEN05 return in respect of 2 points: - our sample testing identified that the Authority had not correctly calculated pensionable pay. The Authority quantified the impact of this error as £33,628.20 pension contributions being incorrectly deducted and paid over; and - our sample testing identified that £1,769.48 of additional voluntary contributions were incorrectly paid to Teachers’ Pension as opposed to Prudential. 4. Housing and council tax benefit scheme (“BEN01”) Our initial sample testing of 80 cases identified errors on 13 cases. The results of our extrapolation work indicate the Authority may have under claimed subsidy by approximately £6k. We have included details of all 13 cases in our qualification letter. See Section 3 for more details.
Grant returns outside of the Audit Commission framework contract	The Authority also requested that we undertake procedures on 3 grant returns which were outside of our Audit Commission framework contract. We have completed the required procedures on 2 of these grant returns, issuing a modified opinion on one of the returns. We expect to finalise our work on the third return by 16 December 2011.
Fees	Total fees charged to date in respect of the work performed on the 11 grant returns (2010: 13 grants) certified by Deloitte were £201,583 (2010: £155,367). Section 4 of this report sets out the fees charged on each of the 11 grant returns we certified; and summarises the value of the grant return and the results of our audit work.

2. Introduction

Purpose of this report

This letter is addressed to the Audit Committee of the Authority and is intended to communicate key issues arising from our 2010/11 grant certification work. This Letter will be published on the Authority's website.

Our responsibilities

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

The respective responsibilities of the audited grant paying body, authorities, the Audit Commission and appointed auditors in relation to claims and returns are set out in the 'General Certification Instructions' produced by the Audit Commission.

Auditors presented with any claim or return that is not covered by a certification instruction should refer the matter to the Audit Commission for advice. If the Audit Commission has formally declined to make certification arrangements for a scheme, an auditor cannot act in any capacity. However, if the Audit Commission has not formally declined to make arrangements, the auditor can decide to act as a reporting accountant.

Any claims that we are asked to certify outside of the Audit Commission framework contract will be subject to a separate engagement letter between Deloitte, the Authority and any other party who will be relying on the results of our grant audit work. This engagement letter sets out the responsibilities of all parties involved in the engagement, the scope of our work and our terms of business.

The scope of our work

Auditors appointed by the Audit Commission are required to:

- review the information contained in a claim or return and to express a conclusion whether the claim or return is: i) in accordance with the underlying records; or ii) is fairly stated and in accordance with the relevant terms and conditions;
- examine the claim or return and related accounts and records of the Local Authority in accordance with the specific grant certification instructions;
- direct our work to those matters that, in the appointed auditor's view, significantly affect the claim or return;
- plan and complete our work in a timely fashion so that deadlines are met; and
- complete the appointed auditor's certificate, qualified as necessary, in accordance with the general guidance in the grant certification instructions.

These responsibilities do not place on the appointed auditor a responsibility to either:

- identify every error in a claim or return;
- or maximise the authority's entitlement to income under it.

3. Results of our grant return certification work

Grant returns certified without adjustment or a qualification letter

We were able to certify the following 2 grants without adjustment or a qualification letter:

- Pooling of housing capital receipts return (“CFB06”).
- Disabled facilities return (“HOU21”).

Grant returns certified with adjustment and without a qualification letter

We were able to certify the following 2 grants with adjustments and without a qualification letter:

EYC02 – Sure start, early years and childcare and Aiming high for disabled childrens return	
Adjustment details	One of the Audit Commission requirements is for the EYC02 grant return to be certified with the auditor certificate printed on the reverse side of the grant return. The audit certificate was not present on the original version of the grant return presented for certification.
Deloitte response	We discussed the error with the Authority and the Authority chose to adjust the grant return to include the auditor certificate on the reverse of the grant return. In our return submitted to the Audit Commission we reflected the fact that the grant return had been amended but that no numerical amendment was made to the overall entitlement on the grant return.

LA01 – National non-domestic rates (“NNDR”) return	
Adjustment details	<p>The original LA01 grant return was required to be submitted on 24 June 2011, the Authority met this deadline. In July 2011 Northgate issued additional guidance relating to a Cross Rail business rates supplement that had been included in the grant return.</p> <p>It is not appropriate for the Cross Rail supplement to be included within the grant return as, although it is collected by the Authority, it is not part of NNDR reporting.</p> <p>The adjustment of £235,980 to remove the Cross Rail supplement impacted on 2 lines within the grant return:</p> <ul style="list-style-type: none"> i) gross rates payable in respect of 2010/11; and ii) small business rate relief in respect of 2010/11. <p>The adjustment had no impact on the overall gross amount or contributions to the NNDR pool.</p>
Deloitte response	<p>We discussed the adjustment with the Authority who agreed with our assessment. The Authority updated its Northgate software to account for the adjustment and we agreed this to correspondence from Northgate.</p> <p>The Authority chose to amend the grant return to reflect the £235,980 adjustment. In our return submitted to the Audit Commission we reflected the fact that the grant return had been amended but that no numerical amendment was made to the total amount of business rates payable into the pool.</p>

3. Results of our grant return certification work (continued)

Grant returns certified with adjustment and a qualification letter

The following 3 grant returns were certified with adjustment and with a qualification letter:

HOU02 – Housing finance base data return	
Adjustment details	<p>Our procedures for the certification of the HOU02 grant return identified the following 11 errors:</p> <p>1 presentational error - in the original grant return the Authority included a net figure (i.e. premium minus discount) in the cell allocated to record the premium. The HOU02 grant instructions indicate that this figure should be presented on a gross basis. As result of this the Authority adjusted the grant return to show an increase of £204,162.64 in both the premium and discount cells.</p> <p>4 cell calculation errors – on a number of the cells within the grant return we are required to compare the Authority’s calculation to the HOU02 grant instructions. Our testing identified errors in calculation on the following cells:</p> <ul style="list-style-type: none"> • F004cc - ‘<i>estimated amount of principal outstanding on 1 April 2012 on any loan made to enable the borrower to acquire a dwelling in the housing revenue account (“HRA”)</i>’. The Authority recalculated this amount using the definition in the HOU02 grant instructions. Due to the nature of the error no adjustment was required to the grant return. • F0039mm - ‘<i>total value of rent in period 1 April 2010 to 31 March 2011 (including rent rebate)</i>’. The Authority recalculated this amount using the definition in the HOU02 grant instructions. This resulted in an increase of £64,327.93 to this cell on the grant return. • SF000cf - ‘<i>estimated HRA capital financing requirement (“CFR”) as at 31 March 2011</i>’. The Authority recalculated this amount using the definition in the HOU02 grant instructions. This resulted in an increase of £194,827 to this cell on the grant return. • F007ri - ‘<i>average actual weekly rent per dwelling in 2011/12 on a standardised 52 week basis</i>’. The Authority recalculated this amount using the definition in the HOU02 grant instructions. This resulted in an increase of 0.2249 to this cell on the grant return. <p>4 cell classification errors – on a number of the cells within the grant return we are required to check that the classification of the housing stock had been correctly stated. Our testing identified errors in calculation on the following cells:</p> <ul style="list-style-type: none"> • F004mm - ‘<i>1945 – 1964 small terrace houses</i>’. Our testing identified 15 properties that should have been included in cell F005mm ‘<i>1945 - 1964 large terraced, semi detached and detached houses</i>’. The Authority adjusted the grant return accordingly. • During November 2011 the Authority undertook an exercise to measure a number of its properties in accordance with DCLG guidance. As a result of this exercise the Authority identified errors on the classification of 5 properties and amended the grant return to reflect these adjustments.

3. Results of our grant return certification work (continued)

Grant returns certified with adjustment and a qualification letter (continued)

HOU02 – Housing finance base data return (continued)	
<p>Adjustment details (continued)</p>	<p>2 cells where there was a lack of audit trail – on a number of cells within the grant return we are required to check that an audit trail exists to demonstrate that properties have been classified by size in accordance with DCLG guidance. For 2 cells:</p> <ul style="list-style-type: none"> • F005mm ‘1945 - 1964 large terraced, semi detached and detached houses’; and • F003mm ‘All other pre-1945 Houses (MA)’ <p>our sample testing identified that, although the Authority had an audit trail, it was unable to demonstrate that this was in accordance with DCLG guidance.</p> <p>As a result of our findings the Authority undertook a measuring exercise (in accordance with DCLG guidance) on a large proportion of its housing stock with resulted in 368 properties being reclassified. The measuring exercise undertaken by the Authority resulted in an audit trail for all but 78 properties within the ‘1945 – 1964 large terrace houses’ category; and 65 properties within the ‘all other pre 1945 houses’ category.</p> <p>Qualification letter summary</p> <p>We have issued a qualification letter with respect to the 143 properties for which the Authority was unable to demonstrate an audit trail that was in accordance with DCLG guidance.</p>
<p>Deloitte response</p>	<p>We agreed the errors with the Authority and the Authority has not made any changes to the grant return to reflect the errors noted in our certification work. In our return submitted to the Audit Commission we reflected the fact that the grant return had been amended and that a qualification letter had been issued with respect to the 2 cells where there was a lack of audit trail.</p> <p>The majority of these errors appear to have arisen due to a misunderstanding of the grant instructions. We have agreed to hold a workshop with the various grant leads in 2011/12 to discuss our approach to the grant returns and the various certification requirements.</p>

3. Results of our grant return certification work (continued)

Grant returns certified with adjustment and a qualification letter (continued)

HOU01 – HRA subsidy	
Adjustment details	<p>Our procedures for the certification of the HOU01 grant return identified the following 6 errors:</p> <p>1 presentational error - in the original grant return the split between the general fund CFR and HRA CFR was incorrectly recorded. These 2 errors net off and therefore no adjustment was required to cell F004ci '<i>Capital Financing Requirement at 1 April 2010 minus adjustment A</i>'.</p> <p>5 cell calculation errors - on a number of the cells within the grant return we are required to compare the Authority's calculation to the HOU01 grant instructions. Our testing identified errors in calculation on the 5 cells which we have summarised below:</p> <ul style="list-style-type: none"> • F001ci - '<i>Opening HRA Capital Financing Requirement 2010-2011</i>'. Our sample testing identified an adjustment to increase cell F001ci by £928,362. • F005ci - '<i>Capital Financing Requirement at 1 April 2011 minus adjustment A</i>'. Our sample testing identified an adjustment to decrease cell F005ci by £473,630. • F006ci - '<i>Average Capital Financing Requirement 2010-2011</i>'. Our sample testing identified an adjustment to decrease cell F006ci by £236,815. • F007ci - '<i>Mid year HRA Capital Financing Requirement 2010-2011 calculated in accordance with paragraph 6 of the Item 8 Determination 2010-2011</i>'. Our sample testing identified an adjustment to increase cell F007ci by £227,366. • F008ci - '<i>Higher of the average Capital Financing Requirement and the mid year HRA Capital Financing Requirement ("P" in the formula)</i>'. Our sample testing identified an adjustment to decrease cell F008ci by £202,815. <p>Qualification letter summary</p> <p>We issued a qualification letter with respect to the following 2 issues on the HOU01 grant:</p> <ol style="list-style-type: none"> 1) The above adjustments resulted in a change to a prior year figure '<i>Opening HRA Capital Financing Requirement 2010-2011</i>' and the qualification letter has been issued to highlight this issue to the DCLG. 2) The above adjustments have a knock on impact to cell SF000CF '<i>estimated HRA capital financing requirement ("CFR") as at 31 March 2011</i>' on the HOU02 grant return. We have included this within the qualification letter to highlight this issue to the DCLG.
Deloitte response	<p>We agreed the errors with the Authority and the Authority has not made any changes to the grant return to reflect the errors noted in our certification work. The adjustments had no impact on the overall value of the grant return.</p> <p>In our return submitted to the Audit Commission we reflected the fact that the grant return had been amended and that a qualification letter had been issued with respect to the points described above.</p> <p>The majority of these errors appear to have arisen due to a misunderstanding of the grant instructions. We have agreed to hold a workshop with the various grant leads in 2011/12 to discuss our approach to the grant returns and the various certification requirements.</p>

3. Results of our grant return certification work (continued)

Grant returns certified with adjustment and a qualification letter (continued)

PEN05 – Teachers’ pension return (“TPR”)	
Adjustment details	<p>Our procedures for the certification of the PEN05 grant return identified the following errors:</p> <p>Presentational errors – we identified minor adjustments on 25 cells within the grant return. This error was identified in the prior year and appears to be as a result of a lack of understanding of the PEN05 grant instructions and a lack of thorough review of the grant return. The Authority agreed these adjustments and updated the grant return.</p> <p>Qualification letter summary</p> <p>Our testing identified the following issues which we have included within our qualification letter:</p> <ol style="list-style-type: none"> 1) For 2 teachers in a sample of 4, we identified that the Authority had incorrectly including one-to-one teaching or booster teaching as pensionable salary. The impact of this was that additional pension contributions were taken from teachers during 2010/11. The Authority provided us with a list of teachers impacted by this and quantified the total impact on their contributions. This indicated that the contributory salary figure was overstated by £164,040 which resulted in pension contributions of £33,628 over what should have been made. We understand that the Authority is contacting the individual teachers involved to arrange a refund of the additional contributions during 2011/12 and that this will be disclosed in the 2011/12 teachers’ pension return. 2) Our testing of 100% of the population of additional voluntary contributions for external payroll providers identified that for 1 school, additional voluntary contributions of £1,769.48 made by 2 teachers were incorrectly remitted to Teachers’ Pension instead of Prudential. The Authority has correctly disclosed the additional voluntary contributions deducted and remitted in its 2010/11 teachers’ pension grant return but the error in treatment of the additional voluntary contributions has resulted in this qualification.
Deloitte response	<p>We agreed the errors with the Authority and the Authority has not made any changes to the grant return to reflect the errors noted in our certification work. The adjustments to the grant resulted in a reduction to the overall contributions balance of £42,676.</p> <p>In our return submitted to the Audit Commission we reflected the fact that the grant return had been amended and that a qualification letter had been issued with respect to the 2 points described above.</p> <p>The majority of these errors appear to have arisen due to a misunderstanding of the grant instructions and a lack of thorough review of the grant return. We have agreed to hold a workshop with the various grant leads in 2011/12 to discuss our approach to the grant returns and the various certification requirements.</p>

3. Results of our grant return certification work (continued)

Grant return certified without adjustment but with a qualification letter

The Housing and council tax benefit scheme (“BEN01”) was certified without adjustment but with a qualification letter.

In 2010/11 we identified errors on 13 cases (2009/10: 8 cases), which had up to 4 different errors types within 1 individual case. We were able to group similar errors types together across the 13 cases to give a total of 13 different error types. 12 of these errors resulted in an overstatement of an individual’s benefit entitlement or subsidy or both.

Where overstatement errors are identified in our initial testing we are required by the Audit Commission to undertake prescriptive additional testing to ascertain whether the errors are isolated or require inclusion in the qualification letter.

We undertook additional work on the 12 overstated error types (2009/10: additional work was required on 2 error types) but were unable to conclude that any of the error types included wholly isolated errors. As a result of this all 12 overstated error types were reported within our 2010/11 qualification letter. We were also required to report the understated error type in the qualification letter as this was identified on two cases which meant we were unable to conclude that it was an isolated error.

We were required to include in our qualification letter extrapolation calculations for 10 of the errors (all of the overpaid or overstated errors where we did not test 100% of the population), which compared to 2 extrapolation tables in 2009/10.

The Authority has not updated the 2010/11 claim form for any of the errors we identified and we have included all 13 error types within our qualification letter.

Given the nature of the population and the variation in the errors found, it is unlikely that additional work would have resulted in amendments to the BEN01 grant return that would have allowed us to conclude that it was fairly stated.

We have set out a summary of our findings in the table below:

BEN01 – Housing and council tax benefit scheme	
Qualification details	<p>Rent rebates (Tenants of HRA properties) Total expenditure £30,353,672</p> <p>Our testing of rent rebates (tenants of HRA properties) (“rent rebates”) identified an error on 1 case relating to working tax credits (“WTC”). This error resulted in benefit being underpaid to the claimant by £6.28.</p> <p>This type of error could have resulted in overpayment and therefore we were required to undertake additional testing. Our additional testing identified one case where benefit had been overpaid to the claimant by £156.15.</p> <p><i>Conclusion</i></p> <p>We concluded that the error was not isolated and included this within our qualification letter. We extrapolated the error and this had no impact on subsidy.</p>
	<p>Rent rebates (Tenants of non HRA properties) Total expenditure £13,655,513</p> <p>Our testing of rent rebates LANHRA (tenants of non HRA properties) (“LANHRA”) identified errors on 5 cases. A number of these cases included multiple errors and we have therefore grouped the errors as follows:</p> <ol style="list-style-type: none"> 1. incorrect calculation of earnings; 2. misclassification of overpayments; 3. incorrect rent liability and misclassification of expenditure between cells 12 and 14; 4. misclassification of backdated expenditure; 5. misclassification of employed earnings; and 6. incorrect application of child tax credit.

3. Results of our grant return certification work (continued)

Grant return certified without adjustment but with a qualification letter (continued)

BEN01 – Housing and council tax benefit scheme (continued)	
Qualification details	<p><i>Conclusion</i></p> <p>Errors identified on our additional testing meant that we were unable to conclude that these errors were isolated.</p> <p>Our testing across the 6 different error types identified errors which, when extrapolated, fell within the range of £7 – £125,896. The total impact of this was over claimed subsidy of approximately £49k.</p> <hr/> <p>Rent allowances</p> <p>Total expenditure £87,558,474</p> <p>Our testing of rent allowances (“RA”) identified errors on 5 cases. A number of these cases included multiple errors and we have therefore grouped the errors as follows:</p> <ol style="list-style-type: none"> 1. misclassification of overpayments; 2. incorrect rent liability and misclassification of expenditure between cells 99 and 103; 3. incorrect calculation of earnings; and 4. incorrect application of tax credit. <p><i>Conclusion</i></p> <p>Errors identified on our additional testing meant that we were unable to conclude that these errors were isolated.</p> <p>Our testing across the 4 different error types identified errors which, when extrapolated, fell within the range of £1 – £91,581. The total impact of this was under claimed subsidy of approximately £55k.</p> <hr/> <p>Council tax</p> <p>Total expenditure £22,276,751</p> <p>Our testing of council tax benefit (“CTB”) identified errors on 3 cases. We have grouped the errors as follows:</p> <ol style="list-style-type: none"> 1. cumulative audit knowledge and experience (“CAKE”) of pension credits; and 2. incapacity benefit. <p><i>Conclusion</i></p> <p>Errors identified on our CAKE testing of error 1 meant that we were unable to conclude that this error was isolated. The total value of the errors identified on this test was an overpayment of £59.92 and we included this within our qualification letter. We extrapolated the error and this had no impact on subsidy.</p> <p>Our testing of error 2 indicated that benefit had been underpaid. We understand that this type of error would always result in underpaid benefit. As there is no eligibility to subsidy for the benefit which has not been paid, the underpayments identified have not been classed as errors for subsidy purposes and have not been included in our extrapolation calculations.</p> <p>The error was identified on 2 cases and we have therefore concluded that the error was not isolated.</p>

3. Results of our grant return certification work (continued)

Grant return certified without adjustment but with a qualification letter (continued)

BEN01 – Housing and council tax benefit scheme (continued)	
Deloitte response	<p>Given the number of transactions and the volume of manual processing required for the benefit calculation, we understand that it is not unusual for the BEN01 grant to be qualified. Our experience with this grant on other Local Authorities indicates that the types of errors we have identified at Hillingdon are similar to those identified at other Local Authorities; albeit the volume of errors identified at Hillingdon in 2010/11 appears to be greater than at other Local Authorities.</p> <p>Our sample testing during 2010/11 has identified a number of errors. We agreed the errors with the Authority and the Authority has not made any changes to the grant return to reflect the errors noted in our certification work.</p> <p>In our return submitted to the Audit Commission we reflected the fact that the grant return had not been amended and that a qualification letter had been issued.</p> <p>We have arranged to hold a de-brief meeting with the two Senior Benefit Quality Control Officers on 1 December 2011 to discuss our approach to the grant returns and the various certification requirements.</p>

Grant returns outside of the Audit Commission framework contract

In addition to the grants we have certified under our Audit Commission framework contract, the Authority requested that we undertake agreed upon procedures on 3 additional grants all relating to, Gateway Heathrow 2012: Local Workforce Recruitment (ESF-2007-2010 Round 2) (“Gateway grant”).

The Gateway grant is a London Development Agency (“LDA”) single programme grant which aims to assist individuals in finding work around the Heathrow Airport area. As this grant is outside of the Audit Commission framework contract we signed a tripartite agreement with the LDA and the Authority setting out the exact procedures that we were required to undertake on the Gateway grant return, the Statement of Output Delivery and Expenditure (“SODE”); this agreement also provided the form of our report to the Authority and the LDA.

The report required us to give an opinion on whether the grant was fairly stated and to include details of any of the agreed upon procedures which we were not able to complete.

At the date of this report we have completed our procedures on 2 of the grant returns. We have issued a modified opinion on 1 of these grant returns and have included the detail on this in the table below. We anticipate completing our procedures on the final grant return by 16 December 2011.

Gateway grant	
Adjustment details	<p>Our testing of the Gateway grant, with LDA project reference 25723, identified the following issues:</p> <ul style="list-style-type: none"> • We were unable to verify 1 skills certificate to support an output of £200 in 2010/11. We reviewed an email which indicated that the output was delivered in 2009/10 which indicates that the 2010/11 outputs were overstated by £200. • Our sample testing identified costs of £1,416 recorded in the 2010/11 grant return which related to 2009/10. Expenditure was therefore overstated in 2010/11 by £1,416. • Our sample testing identified that salary costs for one project manager had been over apportioned to the project by 2% or £387 in 2010/11.
Deloitte response	<p>We agreed our findings with the Authority who chose not to amend the grant return.</p> <p>The terms of our engagement with the Authority and the LDA require us to report by exception. We therefore reported that the claim was fairly stated with the exception of the 3 points noted above.</p>

4. Certification information

Our work on the Authority grant certifications for the year ended 31 March 2011 is now predominantly complete and the table below summarises the results of this work and our billings by grant return as at the date of this report. We have an element of work still to complete and we estimate costs for this will be between £7- £9k. We will confirm this with the Chief Finance Officer and issue our final bill on completion. Under the Audit Commission framework agreement we bill our grant work on a time incurred basis. Significant differences on fee when compared to 2010 are explained beneath the table.

Certification instruction	Within Audit Commission framework	Claim/ return	2011 value of claim (£)	2011 results of audit work	2011 audit fee (£)	2010 audit fee (£)
BEN01	YES	Housing and council tax benefits scheme	155,415,259	Qualified	118,511	100,307
CFB06	YES	Pooling of housing capital receipts	3,120,921	Satisfactory	3,770	3,373
EYC02	YES	Sure start, early years and childcare	12,637,384	Amended	6,132	4,460
HOU01	YES	HRA subsidy	-11,304,798	Qualified	8,560	2,953
HOU02	YES	HRA subsidy base data return	N/A	Qualified	19,823	4,213
LA01	YES	National non-domestic rate return	299,608,720	Amended	10,450	10,958
PEN05	YES	Teachers' pension return	18,903,302	Qualified	10,450	7,655
HOU21	YES	Disabled facilities	1,623,000	Satisfactory	4,255	3,320
Gateway	NO	Single programme LDA - Gateway Heathrow 2012: Local Workforce Recruitment (ESF-2007-2010 Round 2)	546,439	Modified	6,544	7,085
Gateway (extension)	NO	As above for Gateway	90,000	Satisfactory	6,544	0
Gateway (final claim)	NO	As above for Gateway	44,772	TBC	6,544	0
RG31	YES	Single programme LDA – Hillingdon LIDO/ Hillingdon sports & leisure centre	Not applicable in 2010/11.		0	2,761
RG31	YES	Single programme LDA – Workmates – West London working persona advice and outreach	Not applicable in 2010/11.		0	2,761
RG31	YES	Single programme LDA – London Youth Offer	Not applicable in 2010/11.		0	2,761
RG31	YES	Single programme LDA – Childcare Affordability Programme 05	Not applicable in 2010/11.		0	2,760
TOTAL					201,583	155,367

4. Certification information (continued)

We have kept the Chief Finance Officer updated on costs on a regular basis. The table below explains variances on fees between 2010 and 2011 which are over £5,000.

Grant return	Variance (£)	Reason for variance
BEN01	18,204	<p>In 2010 we identified errors on 8 cases on the BEN01 grant return; and we received 2 letters from the Department of Work & Pensions (“DWP”) which meant that additional work was required.</p> <p>In 2011 we identified errors on 13 cases on the BEN01 grant return. As at the date of this report we have not received any letters from the DWP.</p>
HOU01	5,607	<p>In 2010 we were able to take reliance on controls and did not undertake detailed testing on this grant.</p> <p>In 2011 we identified issues on the HOU02 grant which meant that we were unable to place reliance on controls for the HOU01 grant. We were therefore required to undertake detailed testing on this grant.</p> <p>In addition to this we issued a qualification letter on this grant.</p>
HOU02	15,610	<p>In 2010 we were able to take reliance on controls and did not undertake detailed testing on this grant.</p> <p>In 2011 we identified issues on the HOU02 grant which meant that we were unable to place reliance on controls for the HOU01 grant. We were therefore required to undertake detailed testing on this grant.</p> <p>In addition to this we issued a qualification letter on this grant.</p>
Gateway grant (3 grants combined)	19,632	<p>This grant was certified for the first time in 2010. In 2011 the Authority requested that we certify 2 additional Gateway grants.</p>

5. Responsibility statement

This letter has been discussed and agreed with the Director of Finance of the Authority and has been presented to the Audit Committee on 8 December 2011.

We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the grant certification procedures. Our aim is to deliver a high standard of service which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your cooperation and support.

Debitte LLP

Deloitte LLP

Chartered Accountants

St Albans

2 December 2011

The Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns, issued by the Audit Commission, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as appointed auditors and this report is prepared on the basis of, and the grant certification procedures are carried out, in accordance with that statement.

The matters raised in this report are only those that came to our attention during our grant certification procedures and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented.

This report sets out those matters of interest which came to our attention during the grant certification procedures. Our work was not designed to identify all matters that may be relevant to the 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, 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.

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Internal Audit Progress Report

Contact Officer; Helen Taylor
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REASON FOR ITEM

This report provides the Audit Committee with a summary of Internal Audit (IA) activity in the period from 1 September 2011 to 13 November 2011. 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 in-year progress against the Internal Audit Plan for 2011-12, and the updated position of those audits undertaken in 2007-8, 2008-9, 2009-10 and 2010-11.

1. INFORMATION

1.1. In addition to the Annual Report, the Head of Audit and Enforcement 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. Progress against Plan and Follow up Status

2.1. There are no significant causes for concern at this time with the levels of assurance being reported to the committee in the current year. Only three audits received Limited Assurance in the current period and plans are in place to address the weaknesses identified which we will be closely monitored for implementation by management. Most other audits had Satisfactory assurance, with three, including one school having Full assurance.

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

2.3. The progress and status of those audits carried out in 2007-8, 2008-9, 2009-10 and 2010-11 is included in Appendices 2, 3, 4 and 5.

2.4. 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 11

November 2011 have been two additions to the planned work which can be accommodated from the contingency provision at this stage.

Payments for Contingent Labour - Agency and Interim approvals was planned for 2011-12. During preliminary discussions HR management felt it would also be useful to have assurance that, once appointments were approved, all subsequent payments were well controlled. This audit was added to satisfy this need for assurance.

Direct Payments – Added to plan by Internal Audit.

- 2.5. The only deletion from the plan is in respect of the audit of Public Health. The Health and Social Care Bill is currently going through Parliament and is expected to receive Royal Assent in December 2011. Any audit in the current year is unlikely to add any value and so this audit will be deferred until 2012/13.
- 2.6. Following the resignation of two trainees I have reviewed the available days and the number of days needed to complete the current plan. At present there is just sufficient resource to complete the plan. However, this will absorb all remaining contingency days and assumes that any new trainees are able to start work in January, there are no significant absences in the team and no major investigations are required. If any of these assumptions are wrong then audits will have to be deleted from the current programme. Any decision on deletions will be made at the time the circumstance arises and will take into account the risk associated with the remaining audits and the skills available in the team.
- 2.7. Unless otherwise stated, all reports have an action plan agreed with internal audit.
- 2.8. Summaries of the outcomes of the audits completed in the period are provided below:

Audit Title: Facilities Management (2010/11)

Assurance level: Limited

The Facilities Management Service (FM) provides a wide range of services to the council's properties and staff. This includes building maintenance and repairs (Hard Services) and catering and cleaning (Soft Services).

Dalkia commenced the FM contract in November 2008. In August 2009, MITIE Technical Facilities Management took over the contract for facilities management from Dalkia.

The objective of the audit was to ensure that the Facilities Management Contract is efficient, effective and economical.

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

- The contract clearly outlines what is expected of both parties and comprehensively covers other aspects such as business continuity planning.
- There is a documented process for approving purchase orders or variation orders.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The Corporate Landlord should set a deadline which ensures that the service charges in Table B, which contains a breakdown of the contract sum by premises and service, is agreed as a matter of priority. Without an agreed Table B the Council cannot make informed business decisions e.g. about savings, investments etc if the current cost of services at respective premises are not agreed.	High	14 th June 2011
Management should investigate the following and provide training and guidance to address any short comings where: <ul style="list-style-type: none"> • there is a high rate of non compliance in providing descriptions on purchase orders. This will ensure that the council understands the purpose of the charges and can challenging the requests for variations. • Purchase Orders are raised after invoices have been received. This will ensure the council is not paying for works that it does not need. • work is being directed to contractors other than MITIE. This will ensure resources are not wasted in awarding, setting up and paying for unnecessary contracts. • staff are commissioning facilities management services directly from contractors. This will ensure that the council can make informed decisions and effectively monitor spending and quality of work. 	High	September 2011
The KPIs in the contract should be reviewed to ensure that they contain adequate resolution targets.	High	September 2011
The Head of Facilities should consider what checks of Soft Services the council needs to undertake to gain assurance the council is receiving value for money.	Medium	September 2011
There should be a process in place which ensures all complaints received and action taken are recorded and reported	Medium	September 2011

to both the council and MITIE managers. This will ensure any recurring issues are discussed and followed up effectively.

Management Comment - Work to improve the description of services on a Purchase Order (PO) has been implemented and the new Oracle system to be introduced on 21st November will require a contractor to be in possession of the Council's PO prior to carrying out any work. Work is also underway in reducing the number of smaller contracts the Council has therefore obtaining greater value from the FM contract.

More challenging KPI'S are in place from the beginning of November and the contract following the audit has been subject to a Rapid Improvement event which has identified the need for a common format for reporting complaints and the auditing of soft services.

Audit Title: Children with Disabilities – Transition (2010/11)

Assurance level: Limited

All young persons who have a statement of special educational needs are required to participate in a transition review. The first transition review should take place when the young person is aged 14, in the academic school year 9.

In July 2008 there were 208 young persons aged 15-19 with a Statement of Special Educational Needs (SEN). It is imperative that every young person with disabilities has a planned, co-ordinated and positive progression plan from childhood to adulthood which is managed effectively. Services are provided by various teams within the Council.

The objective of the audit was to ensure disabled young people's transition through childhood and into adulthood is managed efficiently, effectively and economically.

We were pleased to report the following:

- Criminal Records Bureau checks are in place for key members of staff in the transition process. Renewal dates are recorded and monitored by Business Support.
- An eligibility criteria exists to determine young persons that are eligible for support.
- A waiting list is in place for all young persons that have been accepted to move through the transition process.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date

The Transition Strategy Group should review the Protocol regarding step by step transition processes to ensure resources are not wasted implementing out of date work practices.	High	September 2011
The procedure for preparing the list of young persons requiring an annual/transition review should be documented. In the absence of key staff the list may not be produced.	Medium	September 2011
The Transition Strategy Group should formulate a transition plan template. This will ensure all needs of young persons are captured and a smooth transition from children services to adult services can be planned.	Medium	Immediate
The outcome/decision of referrals should be recorded on both the referral form and the IAS Protocol System to ensure the Transition Team is aware that young persons are due to receive an assessment of eligibility for adult social care.	Medium	Immediate
Management should ensure that exception reports are run on a monthly basis to identify initial assessments and assessment reviews that are overdue. This will ensure that young persons are receiving timely assessments.	Medium	September 2011

Management Comment -

The recommendations have been accepted and are being implemented as required. The Transition Strategy Group continues to work on improving the experience of young people in transition and the protocol has been reviewed, with further work taking place on the pathway. The procedure for preparing the list of young people for review has been produced and is available.

Audit Title: ICT - Protocol Systems – Adult Social Care and Children Services
Assurance level: Limited

The Council replaced a single application CareFirst system with two work-flow based applications called Protocol. Protocol has an integrated Children’s (ICS) and integrated Adults (IAS) Systems both supplied by Liquid Logic for managing children and adult social care work. The ICS went live in 2009 and it was followed shortly after by the IAS.

The objective of the review was to ensure all processing carried out by the system is complete, accurate, timely and secure.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target
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		Date
The Council should confirm with Liquid Logic that security checks are carried out on their staff that have access to the council's IC and IA systems.	High	August 2011
The Council should revise it's password policy to the following settings for IC and IA systems: Minimum password length 8 Account lockout at 3 failed attempts Lock out duration until administrator resets Minimum number of upper case letters 1 Minimum number of low case letters 1 Minimum number of numerical characters 1	Medium	March 2012
The Council should remove redundant profiles on ICS to prevent unauthorised access to sensitive data.	Medium	31/08/2011
The Council should complete the exercise to identify and remove redundant accounts that have been migrated from CareFirst to ICS. Define a timeframe for identifying and removing legacy accounts that are no longer required on the IAS. This will reduce the risk of unauthorised access to systems and data and keep the database clean.	Medium	31/12/2011
The Council should consider implementing monitoring controls for future upgrades for IAS and ICS systems to ensure the Council can detect and address errors in a timely manner.	Medium	31/08/2011
Key Performance Indicators should be set up to manage the performance of the IA and IC system support services provided by Liquid Logic. Properly monitored KPIs will ensure issues are resolved in a timely and satisfactory manner.	Medium	31/08/2011

Management Comment - All management actions are being delivered to timetable and four have already been completed.

Audit Title: ICT - Capita On-line Payment System

Assurance level: Satisfactory

The Council operates a number of online payment portals that are hosted by Capita for taking card payments (such as council tax, housing rents and parking tickets) from customers. Transactions from the online payment portals are then processed by the

Capita Income Management (CIM) application which is hosted with the Council's IT infrastructure. CIM application is managed by the in-house IT Department at the application and server levels. Capita is responsible for maintaining CIM underlying database.

The objective of the review was to ensure all processing carried out by the system is complete, accurate, timely and secure.

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

- An access hierarchy has been defined on CIM application;
- A Check Digit Validation routine is in place for checking the references of payments made on council tax, housing benefits, debtors, social care, business rates, corporate debtors and parking payment portals.
- The CIM application has a number of inbuilt functions to help identify errors on imported files.
- A system log is in place on CIM for capturing user and system activities to provide an audit trail.
- A support contract for CIM is in place between the Council and Capita with response targets.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
Individual accounts should be created for Capita staff and a process should be implemented to review the existing accounts on the CIM application on a periodic basis to confirm that they are still required.	Medium	1 st October 2011
The Council should consider creating a standard format for housing rent payment references in order that validation checks can be implemented on the housing rent payment portal.	Medium	1 st November 2011
Management should review the back-up schedule to ensure full backups are run on a regular basis.	Medium	Immediately

Audit Title: Cemeteries
Assurance level: Satisfactory

There are seven cemeteries within the London Borough of Hillingdon. Four are operational (Northwood, Harmondsworth, Cherry Lane and West Drayton) and the remaining three (Hillingdon & Uxbridge, Harlington and Victoria Lane) are closed as there is no more space for burials. Approximately 400-500 burials take place in LBH each year. In 2010/11, approximately £435,000 in income was received from interments (primarily) and memorials.

The objective of the audit was to ensure that the cemeteries' service administration processes are efficient, effective and economical.

We were pleased to report the following:

- There is an approved fees and charges policy which was last reviewed in April 2011
- All income is banked without delay
- Official receipts are issued for income received
- Income is locked away and there is restricted access to the safe
- There is adequate physical security around Breakspear Crematorium.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The Manager & Registrar should ensure that monies are banked before the cash limit of £2,500 is exceeded. If large sums of cash are transported by a single person then the health and safety of the transporting officer is compromised. In the event any cash is stolen from the officer, the Council will not be able to recover any amount above £2,500; therefore the Council is exposed to a loss of income.	High	Immediate
The Manager & Registrar should use the banking book maintained by the Cemeteries Administrator to check (on a weekly basis) that income has been accurately collected for cemeteries services which have been provided.	Medium	October 2011
A record detailing monies moved in and out of the safe should be maintained. In the event of any discrepancies/theft there is no audit trail of the money, making an investigation difficult. This could lead to bad publicity for the Council if payments are disputed and cannot be identified.	Medium	October 2011
A universal system should be used to record all crematoria, burial and mortuary services to ensure staff can efficiently search information required. If all burials are not recorded on the system and manual burial plans were stolen/destroyed in a	Medium	March 2012

fire then there would be no records of burials.

The business continuity plan (BCP) for bereavement services should be completed in full. If the BCP is not completed, in the event of an incident, the cemeteries service may not be able to restore the service efficiently and effectively.

Medium December 2011

Audit Title: Employability
Assurance level: Satisfactory

Under the Immigration, Asylum and Nationality Act 2006, an employer is responsible for undertaking identification checks to ensure the person being employed is eligible to work in the United Kingdom. Failure to carry out these checks is a criminal offence and penalties are payable under the Act.

The objective of the audit was to ensure that we comply with legislation and only employed individuals, eligible to work in the UK.

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

- Roles and responsibilities
- Policies and procedures
- Monitoring

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
Managers should be provided with clear guidance/training on how to check that documents provided by individuals (to confirm their identity) are genuine. If not provided, the Council will be exposed to fines for not carrying out adequate checks, if found to have employed an individual who is not eligible to work in the UK.	High	October 2011
The HR Shared Services Manager should ensure the four missing personal files are located or reconstructed to ensure the Council would be able to provide proof that identity checks had been carried out should there be an inspection by the UK Border Agency.	Medium	December 2011
The HR Shared Services Manager should examine the reasons why there was non compliance in the two cases	Medium	March 2012

where ID documentation was not in the respective personnel files. If any additional controls required are not put in place, the Council could incur penalties for non compliance.

Audit Title: Housing Rents
Assurance level: Satisfactory

Hillingdon Homes was responsible for collecting and managing rents from LBH tenants. It was operating as a separate entity from LBH until September 2010 when it merged with the LBH. The team responsible for collecting rents is now called Hillingdon Housing Services.

The Corporate Vision is “Putting Our Residents First”, while the objective is to continue to provide good quality housing to our residents, reduce homelessness through effective homelessness prevention services and enabling families to secure homes in the private sector.

The Council has an average housing stock of 10,300 houses. Income from rents was £47.7million in year 2009/10: £48.1million in 2010/11 while a budgeted sum of £50.9 million is expected in year 2011/12.

The objective of the audit was to ensure that the rent management system is efficient, effective and economical.

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

- Roles and responsibilities of staff
- Write-off process for arrears
- Annual rents (Charges) increase process
- Collection of arrears
- Tenants credit balance management
- Budget monitoring system

Improvements are needed to address risks in the following area:

Control improvements required	Risk	Agreed Target Date
The Rent Manager should ensure that the reconciliation statements are reviewed, checked, and signed monthly confirming the suspense account is being managed efficiently and effectively.	High	January 2012

Audit Title: Youth & Connexions

Assurance level: Satisfactory

There are seven Young People's Centres in the borough of Hillingdon, based at Charville, Fountains Mill (Uxbridge), Harlington, Northwood, Ruislip, South Ruislip and West Drayton.

Also based at these centres are other teams such as Alternative Education Team, Accredited Learning Team, Connexions Team, Mobile and Detached Team and the Service Development Team.

The annual budget for the Youth and Connexions Services was £7.8m for 2011/12, though once capital costs have been deducted the budget equates to £5.5m

The audit objective was to ensure that the financial management of the Young People's Centres was efficient, effective and economical.

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

- Detailed policies and procedures are available to all staff through Horizon, including templates of documents required to be completed.
- Income is recorded and receipts issued from a LBH receipt book.
- Income had been banked with references to receipt numbers.
- Ledgers were held that recorded all income and expenditure.
- Amenity funds had been set up where all income from young people had been banked.
- Expenditure had been authorised correctly as per the Schemes of Delegation.
- Receipts were held for all P-card expenditure and all statements had been reconciled.
- The Service Support Team monitors the budget expenditure of each team on a quarterly basis.

Improvements are needed to address risks in the following areas:

Control improvements required

The Youth and Connexions Service Financial Procedures should be updated to include the recording of attendance at chargeable events. This should be reconciled by the Team Support Officers to the income collected by the area officers/youth workers. Without an attendance record

Risk	Agreed Target Date
Medium	December 2011

supporting income receipts, any misappropriation of monies may not be identified.

Two officers should always be present when pool tables are emptied of cash. A standard form should be devised and completed detailing the location of the pool table, the date, the amount collected, the receipt number and the signatures of the two officers present. This form should be incorporated into the procedures and the form uploaded onto Horizon.

Medium August
2011

If two officers are not present, the opportunity for misappropriation of funds is increased, which reduces the income to the Council which could affect services to young people.

Management should liaise with the Insurance team and ensure that all safes in operation across the service have insurance that covers the needs of the youth centres, ensuring that the council is covered against theft or loss of income.

Medium December
2011

The Head of Youth and Connexions should inform all budget holders that suppliers have been written to and invoices will no longer be paid without a valid purchase order. If this is not adhered to there is a potential for delays in payments which could impact on the relationship with suppliers.

Medium Immediate

The Head of Youth and Connexions should liaise with the Head of Finance to clarify the exact process that is required to be followed with regard to expenditure approvals. The previously distributed procedure note should be revised if necessary and re-distributed to the various centres to minimise delays in courses or programmes due to awaiting unnecessary approval.

Medium August
2011

The Head of Youth and Connexions should consult with budget holders regarding common products or services that it may be practical to put together and tender to achieve better value for money.

Medium January
2012

The Head of Youth and Connexions should explore the feasibility and cost of creating a shared drive that enables Area Officers and Team Support Officers to access youth centre data without having to be on site. This access should be restricted to the centres that each officer has responsibility for, otherwise staff resources continue to be wasted due to travelling between various centres.

Medium March
2012

Audit Title: Education – Looked after Children (2010/11)

Assurance level: Satisfactory

Hillingdon Virtual School (HVS) supports the education of Looked After Children (LAC) of statutory school age (5-16 year olds) and Early Years (3-4 year olds); working across the disciplines of education, social care and health to provide education advice, support and challenge schools, social workers, foster carers, and other key professionals (e.g. colleagues in the Health Service) to improve educational outcomes for Hillingdon's Looked After Children.

HVS service was subject to an Ofsted Inspection of Safeguarding and Looked after Children Services in, 26th October – 6th November 2009, (Published 4th December 2009) where it was confirmed that the overall effectiveness of safeguarding services in the area was good.

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

- Hillingdon Virtual School are notified each month of any children who have become looked after by the Council.
- Management are progressing well with developing the database/ spreadsheet which holds most information on Looked After children.
- Hillingdon Virtual School staff attend relevant meetings to discuss the education of Looked After Children
- Staff are provided with the necessary training.
- Hillingdon Virtual School work proactively with schools and social workers to try and keep the Looked After Children in school placements and to avoid moving them often.
- All designated teachers are kept on a register which is easily accessible and regularly updated.
- Hillingdon Virtual School provide training to designated teachers and conferences.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The Looked After Children data base should be reviewed monthly and action taken to address cases where there are no Personal Education Plans or the Personal Education Plans are out of date, so the Council is complying with its statutory requirements.	Medium	Immediate
Management should introduce a monthly check to ensure that	Medium	Immediate

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Virtual School staff are complying with the requirement to check PEPs within one month of being received from the Social Worker, otherwise any non compliance may not be identified.

Personal Education Plans should have a signature and date to show it has been checked for quality, this would enable management to monitor compliance with the requirement for each one to be quality checked within a month. Medium January 2012

A record should be maintained by the Virtual Head detailing the latest CRB checks for staff, to reduce the risk of children and children's information ultimately being put at risk. High Immediate

Compliance with the proposed timetable for implementing the School Information Management System (SIMS) should be monitored by the Virtual Head Teacher and any slippages reported to the Deputy Director of Children and Families, as any slippages on implementing the new system will delay more efficient, less cumbersome monitoring. Medium December 2011

Purchase orders must be raised before the invoice is received to comply with Financial Regulations and to ensure that the Council is aware of its commitments at any point in time. High Immediate

Audit Title: Critical Team

Assurance level: Satisfactory

The Critical Team was created in 2009, following a consultation carried out in 2008, to specifically deal with patients discharged from hospital who require community care services.

The team deals predominately with new hospital discharge cases, with the Substantial, Care Management and Review teams within the Access Service also following similar processes in relation to processing hospital discharges. The Critical Team managers act as the main point of contact for all hospital discharges across the adult service areas in Social Care.

The Community Care (delayed Discharges) Act 2003 allows hospitals to charge social services authorities in cases where discharge is delayed because no community care services have been organised.

When a responsible NHS body considers that it is unlikely to be safe to discharge a patient from hospital unless one or more community care services are provided, it will issue a Section 2 (Notification of services needed) to the relevant local authority. Two days notice must be given of any discharge. Upon receipt of a Section 2, the local

authority must carry out an assessment of the patient's needs to identifying any necessary community care services needed for safe discharge of the patient.

The second discharge notification, Section 5, gives notice of the day on which it is proposed that the patient is to be discharged. If the patient cannot be discharged after this date, the Council is charged £120 per day.

As of 1st April 2011, NHS Trusts are no longer paid for emergency readmissions within 30 days of discharge from hospital, where the reason for readmission is linked to the previous admission.

The audit objective was to ensure that the Critical Team provides an efficient and effective service to all service users discharged from hospital.

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

- Both the Council and NHS Trusts comply with the Community Care Act.
- Procedures and guidance are in place for the Protocol IT system.
- Section 2's, which inform the Critical Team that a patient is likely to require community care, had been raised and received for all patients referred to the Critical Team.
- The Administration Team monitors the dates of the section 5 forms, which inform the Critical Team of a patient's discharge date, to ensure the Council is given enough notification to arrange care.
- The Protocol client record data base only allows the Team Manager or Deputy Team Manager to authorise care packages.
- All invoices received for delayed discharges had been authorised sufficiently, with concerns raised over any disagreements.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
Management should devise a set of procedure notes outlining the processes to be followed across the services provided by the Critical Team. These procedures should include any relevant legislation and be reviewed on a regular basis, ensuring that patients are not placed at risk through inconsistent practice and non compliance with legislation.	Medium	April 2012
Management should implement a strategy that ensures all outstanding 6 week reviews are carried out.	High	Immediate

To clear the backlog, an assessment should be made of the outstanding cases and, where considered appropriate, telephone reviews should be conducted, with visits carried out on more complex cases or where the service user requests one.

If reviews are not carried out, clients may not be receiving the correct care for their specific needs

Management should liaise with HR and undertake a Workforce Plan Review to ensure that there are actions in place to mitigate staffing shortages. If a review is not undertaken, actions may not be put in place to alleviate future staffing problems.	High	Immediate
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Management should liaise with Hillingdon Hospital to formalise the requirement for each party to provide a 0.5 FTE Administrator and for each party to provide appropriate cover for staff absence.	Medium	March 2012
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The Council's Administrator is being put under additional pressures in undertaking the duties of the vacant Hillingdon Hospital's post. This could have a detrimental effect on services and patients.

Management should liaise with ICT (Protocol) Support to design monthly exception reports, detailing any section 2's without a corresponding section 5 (discharge date), readmissions to hospital within 30 days of the last discharge date and outstanding 6 week reviews. This will enable the Critical Team to improve working relationships and reduce work caused by hospital failings.	Medium	Immediate
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Audit Title: Economic Development

Assurance level: Full

As a Council we want to support local businesses and local residents to prosper in the local economy.

Hillingdon's first strategy for a sustainable economy launched in September 2005 set the scene for Hillingdon's aspirations and objectives for a prosperous Borough. Six years on, with a radically different economic and political climate, a new strategy 'Sustain Renew & Prosper' is to be publicly launched at June 2011 Cabinet.

'Sustain, Renew & Prosper' sets key local priorities within three broad themes:

Sustain: Preserving Hillingdon's green spaces, heritage & culture.

Renew: Town Centre development and opportunity areas, ensuring that our town centres become a strong focus for the communities they serve;

Prosper: Up-skilling our residents to support them off benefits and into work. We want Hillingdon to be recognised as a business friendly borough, where businesses grow, creating new jobs for local people;

The Local Strategic Partnership theme group will oversee delivery, reporting performance and planning for future delivery.

The objective of the audit was to ensure that appropriate processes are in place to promote economic development.

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

- Strategy and direction
- Resources
- Partnerships and joint working
- Consultation
- Performance management and outcomes
- Publicity

Audit Title: Housing Supply –First Time Buyers Scheme

Assurance level: Full

The Housing Supply Team provides permanent and temporary affordable housing in partnership with housing associations, private sector landlords and other agencies. Assistance for permanent housing is provided under the First Time Buyers (FTB) scheme.

The First Time Buyers' (FTB) scheme is aimed at first time buyers in the borough, who are currently finding it difficult to get onto the property ladder and are not entitled to the Low Cost Home Ownership.

The audit objective is to ensure that the FTB scheme is administered efficiently, effectively and economically.

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

- Delivering and monitoring of the FTB scheme;
- Roles and responsibilities are clearly defined;
- policy and procedures in place are adequate;
- Authorisation and approval processes were adequate;

- Performance Management

Schools' Audits

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

2011/12	Assurance Level
Schools - Primary	
Yeading Junior	Satisfactory
Frithwood	Satisfactory
Deanesfield	Satisfactory
Ruislip Gardens	Satisfactory
Whiteheath Infant	Full

3. Follow up audits

3.1. We continue to make progress in following up and clearing action points from previous audits. We have also started to follow up on the Hillingdon Homes recommendations that were carried out by Mazars.

3.2. The table below shows the results of follow ups for general audits and school audits. Implementation rates on follow ups have decreased to 77% from 90% in this period. However, the rate is in line with the implementation rates over the last 12 months which have ranged from 73% to 84%.

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
Safeguarding Adults - 2nd follow-up	May-11	0	3	1	0	2	1	0	1	0	Jan-12
McMillan Early Childhood Centre	Dec-10	1	3	0	1	2	0	0	1	0	Mar-12
Write-off Probity	Jul-10	0	4	0	0	4	0	0	0	0	N/A
HGfL Audit	Dec-09	1	0	0	1	0	0	0	0	0	N/A
Financial Assessments	Jul-11	3	0	1	1	0	1	2	0	0	Dec-11
Subsistence	Jul-10	2	0	0	0	0	0	2	0	0	Sep-12
Child Protection	Jun-11	3	3	0	2	2	0	1	1	0	Dec-11
Culture Strategy& Arts	Nov-10	3	1	0	0	1	0	3	0	0	Jan-12
Oracle Financials - Debtors	Jul-11	0	3	1	0	1	1	0	2	0	Jan-12
E-Payments	Apr-11	2	6	3	0	2	2	2	4	1	Jan-12

Information Assurance and Security	Dec-10	0	5	0	0	4	0	0	1	0	Jan-12
Mayoral Services	Aug-11	0	2	4	0	1	4	0	1	0	Aug-12
Pulse (Recruitment)	Aug-11	0	1	0	0	1	0	0	0	0	N/A
Budgetary Control 3rd follow-up	Mar-10	0	6	2	0	5	1	0	1	1	Mar-12
Stray Dogs	Sep-10	0	1	0	0	1	0	0	0	0	N/a
Temporary Accommodation	Aug-10	1	0	0	0	0	0	1	0	0	Mar-12
Targeted Youth Support Team	Jun-11	2	5	3	2	5	3	0	0	0	Jan-12
Parking Cash Collection	Jun-11	1	1	2	0	1	1	1	0	1	Feb-12
Street Cleaning	Dec-10	1	2	0	1	1	0	0	1	0	Jan-12
Section 75	Oct 10	0	1	0	0	0	0	0	1	0	Mar 13
Data Security & Transfer	Mar 09	0	1	0	0	1	0	0	0	0	N/A
Wood End Park Primary (*)	Feb-10	1	0	0	1	0	0	0	0	0	N/A
Cherry Lane Primary (*)	Sep-10	1	0	0	1	0	0	0	0	0	N/A
Chantry (*)	Nov 10	1	0	0	1	0	0	0	0	0	N/A
Grangewood (8)	Oct 10	2	0	0	1	0	0	1	0	0	April 12
Dr Triplets Primary (*)	Sep-10	1	0	0	1	0	0	0	0	0	N/A
Rabbsfarm Primary	Oct 10	1	0	1	1	0	1	0	0	0	N/A
Highfield Primary	Nov-10	1	2	1	1	2	1	0	0	0	N/A
West Drayton Primary	Jan-11	1	2	0	1	2	0	0	0	0	N/A
Lady Bankes Junior	Jan-11	1	5	2	0	4	1	1	1	1	Jan-12
Brookside Primary	Jan-11	2	4	1	2	4	1	0	0	0	N/A
Whiteheath Junior	Feb-11	1	1	1	0	1	1	1	0	0	Jan-12
Newnham Infants	Mar-11	5	5	1	5	5	1	0	0	0	N/A
Laurel Lane Primary	Mar-11	3	5	2	3	5	2	0	0	0	N/A
Harefield Junior	Mar-11	2	1	1	2	1	1	0	0	0	N/A
Sacred Heart Primary	Apr-11	0	1	1	0	1	1	0	0	0	N/A
Warrender Primary	Mar-11	3	3	0	3	3	0	0	0	0	N/A
		43	77	28	31	62	24	15	15	4	
	% Implem ented by Risk				67%	81%	86%				
	Overall % Implem ented							77%			
	Overall % Not Implem ented							23%			

(*) These related to having a School Development Plan that was a requirement of FMSIS. This is no longer a requirement, so we have counted them as implemented.

3.3. Details of audits followed up, but where High or Medium risk issues remain outstanding are as follows:

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Audit Title	No. of Outstanding Recommendations	Revised Target Date	Comment
Carefirst Debtors- 2009/10 Review	1	Mar 2011	Follow up In Progress
Business Continuity Management & Civil Emergency	1	Dec 2011	
Debt Recovery Processes	3	Sep 2011	Follow up in progress
Subsistence	2	Sep 2012	
Utilities Gas and Electricity	2	Jul 2011	Includes 1 Low. Follow up in progress
Budgetary Control	2	Mar 2012	Includes 1 Low
Private Sector Leasing 07/08	1	Dec 2011	
Securicor	1	Apr 2012	
Domestic Waste - Civic Amenity sites	1	Dec 2011	
Highways – Planned Maintenance	3	Mar 2012	
Performance Management	1	Dec 2011	
Ruislip High Secondary School	3	Dec 2011	
Asylum Accommodation	3	Oct 2011	Follow up in progress
Private Sector Renewal Grants & Disabled Facilities Grants	1	Nov 2011	
Glebe Primary	1	May 2012	
Mental Health	1	Aug 2011	To be followed up 4 th Qtr of 2011/12
Parking Permits	2	Sep 2011	Follow up in progress
Culture & Arts	3	Jan 2012	
Local Government Pension Scheme Governance	2	Dec 11	
Street Cleansing	1	Jan 12	
Temporary Accommodation	1	Mar 12	
Section 75 Agreement	1	Mar 13	
Fleet Management (HH)	1	Sep 11	Follow up in progress
Responsive Repairs (HH)	1	Nov 11	

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Audit Title	No. of Outstanding Recommendations	Revised Target Date	Comment
Supporting People	1	Nov 11	Follow up in progress
Lady Bankes Junior	3	Jan 12	Includes 1 Low
Whiteheath Junior	1	Jan 12	
Grangewood School	1	April 12	
Child Protection and Reviewing	2	Dec 11	
McMillan Early Childhood Centre	1	Mar 12	
Financial Assessments	2	Dec 11	
Safeguarding Adults	1	Jan 12	
Parking Cash Collection	2	Feb 12	Includes 1 Low
Investigation 030	3	Dec 11	
Mayoral Services	1	Aug 12	
Oracle Financials - Debtors	2	Jan 12	
E-Payments	7	Jan 12	Includes 1 Low
Information Assurance & Security	1	Jan 12	

4. Advice Guidance and Consultancy

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

5. Anti Fraud Work

5.1. We completed two anti-fraud audits during the period:

Disabled Parking Bays – Controls were found to be operating satisfactorily with the exception of the following areas:

- The applicant's name was not always recorded on the record of all disabled bays which means there is no audit trail of who applied for a bay.
- No periodic checks are carried out to ascertain whether bays are still used by residents who originally requested them. Although, bays are not specific to an individual, if the main user of the bay no longer requires it, its continued existence may be restricting normal parking arrangements by reducing available spaces.

Leisurelink Card – The controls over the issue of Leisurelink Cards at three leisure centres were reviewed. The overall conclusion was that the reason for eligibility was not always stated and evidence of eligibility was not always retained with the application. These weaknesses could lead to fraudulent claims not being identified.

5.2. In both audits, recommendations were made to strengthen controls which were all agreed by management.

Fraud Awareness

5.3. The Fraud Awareness Bitesize session due at the end of September 2011 was deferred until December 2011. This was because the majority of managers had already attended previous sessions and therefore the numbers of new managers attending in September would have been fairly small .

5.4. The new e-Learning Pool module has only been completed by 19 staff (6 new starters 13 existing members of staff). A further 38 new starters have enrolled to start the module but have not yet completed it. Work is underway within the Learning and Development Team to readvertise this e-learning module to all staff. Hopefully, this will increase numbers.

National Fraud Initiative (NFI)

5.5. The data match reports from the NFI continue to be investigated by directorates and we are monitoring progress on the investigations to ensure that they are being investigated promptly and properly.

Other work

5.6. Nine confidential investigations are underway and the results of these will be reported upon conclusion of the investigations.

5.7. 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	Oct 2011	0	0	0
- Disabled Parking Bays	Finalised	07/11/11	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		0	0	2
Other Cross-Cutting							
Annual Governance Statement - Audit	Completed						
Advice and Information (Ad hoc)	Ongoing						
Consultancy Advice - Specific Projects	Ongoing						
Pre-Loaded Cards							
Employee Expenses - Automated Payments							
Establishment Audits - to be determined							
Misc Audit tasks							
Follow ups	Ongoing						
Brought forward Audits	Ongoing						
CENTRAL SERVICES							

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
Finance							
Creditors							
Debtors	Planning						
Budgetary Control	Planning						
Capita On-Line Payments	Planning						
Central Services							
Human Resources							
Agency & Interim Approvals	Drafting						
CRB Checks							
Employability Status - Permanent Staff	Finalised	14/09/2011	Satisfactory		1	2	2
HR Payroll Changes & Trigger Dates							
Audit & Enforcement							
Planning Enforcement	Planning						
SOCIAL CARE HEALTH & HOUSING							
Adult & Older People Services							
Critical Team	Finalised	09/11/11	Satisfactory		2	3	2
Mental Health							
Assessment & Care Management - LD & PD							
Self Directed Support (contingency)							
Stroke Care Grant Certification	Completed	27/06/2011	NA	NA	0	0	0

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
Children's Social Services							
Play Capital Grant Certification	Completed	17/06/2011	NA	NA	0	0	0
Fostering	Drafting						
Adoption							
Emergency Duty Team	In Progress						
Behaviour Support - Financial Systems	Planning						
Hillingdon Housing Services							
Housing Repairs & Maintenance - Responsive	Draft Issued						
Housing Repairs & Maintenance - Planned, including Major Works	In Progress						
Housing Rents	Finalised	11/11/11	Satisfactory		1	0	1
Empty Property Management							
Leasehold Management & Service Charges	Planning						
Tenancy Management	Draft Issued						
Housing							
Housing Needs	Planning						
Private Sector Housing							
Housing Supply	Finalised	08/09/11	Full		0	0	2
Public Health							
Public Health	Deferred to 2012/13						
PLANNING, EDUCATION & ENVIRONMENT, COMMUNITY							

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
SERVICES							
Street Environment							
Street Lighting	Draft Issued						
Highways - Reactive Maintenance							
Corporate Construction							
School Building Programme - Permanent							
School Building Programme - Temporary							
Construction Contracts - Final Accounts	Drafting						
Green Spaces, Sport & Leisure							
Greenwich Leisure Ltd Contract	In progress						
Parking Services							
Penalty Charge Notices and Appeals	Drafting						
Transport Services							
Fleet Management	Drafting						
Harlington Road Depot Stores, including Fuel	Drafting						
Property Services							
Utilities Contracts - Water							
Public Safety							
Investigations Team							

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
Consumer Protection							
Food Health & Safety Services	Planning						
Business Services							
Mortuary	Finalised	23/06/11	Full		0	1	1
Heathrow Imported Food Unit	In progress						
Passenger Services							
Cemeteries	Finalised	12/09/11	Satisfactory		1	4	5
ICT							
Customer Contact Centre	Draft Issued						
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							
School Admissions Service							
Psychology Service	Planning						
Schools - Primary							
Bourne Primary							
Minet Infants							
Firthwood Primary	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
Holy Trinity Primary							
Hillside Infants							
Hermitage Primary							
Whiteheath Infants	Draft Issued						
Ryefield Primary							
Grange Park Infants	Finalised	19/07/2011	Full	N/A	0	0	2
Harmondsworth Primary	In Progress						
Newham Junior	Drafting						
Whitehall Junior	Finalised	29/06/2011	Satisfactory		2	1	1
Yeading Inf	Finalised	23/06/2011	Satisfactory		2	4	1
Yeading Jnr							
Breakespear infants							
Bishop Winnington Ingram	Finalised	03/05/2011	Satisfactory		0	4	1
Coteford Junior							
Deansfield	Draft Issued						
Ruislip Gardens							
St Bernadettes							
St Marys							
St Matthews	Drafting						
St Swithun wells							
Whitehall Infants	Finalised	16/06/2011	Satisfactory		2	6	1
Special							
Meadow							
Moorcroft							
The Willows							
Hedgewood							

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
Nursery Schools							
McMillan Nursery							
ICT audit contract							
Penetration Testing	Drafting						
Adults and Children's Protocol	Finalised	12/09/2011	Limited		1	5	3
IT Strategy							
Disaster Recovery							
CAPITA – Online payments systems - Security	Finalised	12/09/2011	Satisfactory		0	3	2
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	In Progress						
Investigation 046	In Progress						
Investigation 047	Completed	June 2011	N/A	N/A	0	0	0
Investigation 048	Completed	Sep 2011	N/A	N/A	0	0	0
Investigation 049	In Progress						
Investigation 050	Completed	Sep 2011	N/A	N/A	0	0	0
Investigation 051	Completed	Sep 2011	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		0	0	3

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
New Year's Green Lane Weighbridge	Planning						
Payments for Contingent Labour (on and off contracts)	In Progress						
Direct Payments	Planning						
Investigation 052	Completed	Oct 2011	N/A		0	0	0
Investigation 053	Completed	Oct 2011	N/A		0	0	0
Investigation 054	In Progress						
Investigation 055	In Progress						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
					H	M	L
CROSS CUTTING CORPORATE ISSUES							
IT Policy Compliance	Drafting						
Records Management	Finalised	01/06/2011	Limited		2	3	3
Risk Management – Corporate Issues arising from individual Directorate audits	Finalised	03/06/2011	Satisfactory	Follow up in progress	0	4	2
FINANCE & RESOURCES							
Debtors - ASC Protocol – ECMS Manual Logins	Finalised	8/8/11	Limited		3	2	, 0
CT/NNDR - System	Finalised	14/7/2011	Satisfactory	Follow up in progress	1	11	0
LG Pension Scheme - Governance	Finalised	30/09/10	Satisfactory	May 2011 – revised date Dec 2011	0	2	0
Creditors	Finalised	03/06/11	Limited	Follow up in progress	2	5	0
General Ledger	Finalised	31/05/11	Satisfactory		0	2	1
DCEO							
Learning & Development	Finalised	01/07/11	Satisfactory	Follow up in progress	0	4	7
EDUCATION & CHILDREN'S SERVICES							
Schools - Primary							
Cherry Lane Primary	Finalised	02/09/10	Limited	Sep 2011	0	0	0
Glebe Primary	Finalised	19/7/10	Satisfactory	May 2011 - revised date May 2012	1	0	0
Dr Triplets CE	Finalised	16/09/10	Satisfactory	Sep 2011	0	0	0
Highfield Primary	Finalised	12/11/10	Satisfactory	Sep 2011	0	0	0
Rabbsfarm Primary	Finalised	11/10/10	Satisfactory	Oct 2011	0	0	0
West Drayton Primary	Finalised	26/01/2011	Satisfactory	Sep 2011	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		
Guru Nanak Sikh Primary	Finalised	27/04/2011	Limited	Follow up in progress	4	4	1
Lady Bankes Junior	Finalised	26/01/2011	Satisfactory	Sep 2011 - revised date Jan 2012	1	1	1
Brookside Primary	Finalised	20/01/11	Satisfactory	Sep 2011	0	0	0
Warrender Primary	Finalised	30/03/2011	Satisfactory	Sep 2011	0	0	0
Harefield Junior	Finalised	16/03/2011	Satisfactory	Sep 2011	0	0	0
Laurel Lane Primary	Finalised	15/03/2011	Satisfactory	Sep 2011	0	0	0
Whiteheath Junior	Finalised	10/02/2011	Satisfactory	Sep 2011 – revised date Jan 2012	1	0	0
Lady Bankes Infants	Finalised	17/05/2011	Full	Follow up in progress	0	1	1
Oak Farm Junior	Finalised	11/05/2011	Satisfactory	Follow up in progress	0	2	2
Newnham Infants	Finalised	03/03/2011	Limited	Sep 2011	0	0	0
Grange Park Junior	Finalised	18/05/2011	Satisfactory	Follow up in progress	1	5	2
Sacred Heart RC	Finalised	27/04/2011	Full	Sep 2011	0	0	0
Special							
Chantry School	Finalised	11/11/10	No Assurance	Nov 2011	0	0	0
Grangewood School	Finalised	18/10/10	Satisfactory	Nov 2011	1	0	0
Other School Related							
Education - Looked After Children	Finalised	4/11/11	Satisfactory		2	3	0
Overpayments	Finalised	21/03/2011	Satisfactory	No longer apply as Schools HR not in-house anymore	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		
CHILDREN'S SERVICES							
Child Protection and Reviewing (Safeguarding Children)	Finalised	23/06/11	Satisfactory	Oct 11 – revised date Dec 2011	1	1	0
Referral and Assessments	Finalised	21/06/11	Satisfactory	Follow up in progress	0	2	1
Target Youth Support	Finalised	16/06/11	Satisfactory	Nov 2011	0	0	0
Children's Centre's – McMillan Early Childhood Centre	Finalised	16/12/2010	Satisfactory	October 2011 – revised date Mar 2012	0	1	0
Extended Schools	Finalised	30/11/2010	Satisfactory	Not Followed Up as Funding ceased	0	0	0
ADULT SOCIAL CARE HEALTH & HOUSING							
Financial Assessments	Finalised	01/07/2011	Satisfactory	Aug 11 – revised date Dec 2011	2	0	0
Housing							
Supporting People	Finalised	6/7/11	Satisfactory	Aug 11 – revised date Nov 2011. Follow up in progress	1	0	0
Private Sector Renewal & Disability Grant	Finalised	30/09/10	Limited	Apr 2011 – revised date Nov 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		
Older People's Care							
Residential to Independent Living	Finalised	27/07/11	Limited	Follow up in progress	5	9	7
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							
Safeguarding Adults	Finalised	18/05/11	Satisfactory	October 2011 – revised date Jan 2012	0	1	0
ENVIRONMENT AND CONSUMER PROTECTION							
Street Cleaning	Finalised	13/12/10	Satisfactory	May 2011 - revised date Jan 2012	0	1	0
Improvement Projects	Finalised	5/7/2011	Satisfactory		1	5	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	April 2011 – revised date Sep 2011. Follow up in progress	0	2	0
Stray Dog Service	Finalised	14/09/10	Satisfactory	Nov 2011	0	0	0
PLANNING AND COMMUNITY SERVICES							

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
Major Construction Projects							
Individual Project Management x 2	Finalised	06/07/11	Limited		3	3	0
Property							
Facilities Management Contract	Finalised	6/10/11	Limited		3	5	1
Arts, Culture, Libraries & Adult Education							
Adult Education	Finalised	01/07/2011	Satisfactory		0	6	1
Culture and Arts Strategy	Finalised	11/11/10	Satisfactory	Nov 2011 – revised date Jan 2012	3	0	0
Sport and Leisure							
Fusion Management Contract	Finalised	06/07/11	Limited		5	1	0
Contingency							
Investigation 030	Finalised	15/10/10	N/A	Aug 11 – revised date Dec 11	1	2	0
Investigation 035	In Progress						
Court Costs	Finalised	03/06/11	Limited	Follow up in progress	4	2	0
Investigation 037	In Progress						
Investigation 038	In Progress						
Investigation 043	In progress						
Investigation 044	In progress						
ICT audit contract							
Liquid Logic	Finalised	May 11	Limited	Follow up in	0	6	1

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
				progress			
Oracle Financials- Debtors	Finalised	July 11	Limited	November 2011– Revised date Jan 2012	0	2	0
E-Payments	Finalised	April 11	Limited	November 2011 – Revised date Jan 2012	2	4	1
Information Assurance & Security	Finalised	31/1/11	Satisfactory	November 2011 – Revised date Jan 2012	0	1	0
Hillingdon Homes Audits by Mazars							
Housing – Responsive Repairs	Finalised	Aug 10	Substantive	Aug 10 – revised date Nov 2011	1	0	0
Fleet Management	Finalised	Oct 10	Substantive	Aug 10 – revised date Sep 2011. Follow up in progress	0	1	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	May 2011- revised date Dec 2011	0	1	0
DEPUTY CHIEF EXECUTIVE/FINANCE & RESOURCES							
Corporate Property							
Utilities Contracts Gas & Electricity	Finalised	26/03/10	Satisfactory	May 2011 - revised date July 2011. Follow up in progress	0	1	1
Legal							
Debt Recovery Processes	Finalised	10/5/10	Satisfactory	Jun 2011 – revised 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
Domestic Waste Collection & Disposal –Civic Amenity Sites	Finalised	3/6/10	Limited	May 2011 – revised date Dec 2011	0	1	0
PLANNING AND COMMUNITY SERVICES							
Business Continuity & Civil Emergency Audit	Finalised	08/06/09.	Limited	Jul 2011 – revised date Dec 2011	1	0	0
CHILDREN'S SERVICES							

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
Asylum Accommodation	Finalised	23/04/10	Satisfactory	Mar 2011 – revised date Oct 2011. Follow up in progress	0	3	0
Schools - Primary							
Wood End Park	Finalised	11/2/10	Satisfactory	Sep 2011	0	0	0
Schools - Secondary							
Ruislip High Secondary School	Finalised	25/03/10	Satisfactory	May 2011 – revised date Dec 2011	1	2	0
Other School Related							
Hillingdon Grid for Learning	Finalised	2/12/09	No Assurance	October 2011	0	0	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	Sep 2011 – revised date Mar 2012	1	0	0
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 - revised date Aug 2011. To be followed up during the 11/12 audit	0	1	0

Internal Audit Plan 2008-9 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
IT Audits							
IT Data Security and Transfer (from Contingency)	Finalised	26/03/09	Limited	Nov 2011	0	0	0

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

Key

Number of outstanding
recommendations

Comments

PLAN 2007-8

Audit Title

Status

Assurance
Level

High

Med

Low

ADULT SOCIAL CARE, HEALTH &
HOUSING

Private Sector Leasing

✓

✓

1

0

0

Followed up Nov 2011 - Revised date Dec 2011

FINANCE & RESOURCES

Page 86

Securicor Collection

✓

⇩

1

0

0

Followed up August 2011 – Revised date for commencement of new contract March/April 2012

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TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2012-13 TO 2014-15

Contact Officer: Paul Whaymand
Telephone: 01895 566074

SUMMARY

The Annual Treasury Management Strategy is agreed by Council as part of Budget setting each February. The strategy is being brought to Audit Committee in advance of it being taken to Council in order to allow greater scrutiny of the strategy. Whilst responsibility for daily decisions is delegated to the Chief Finance Officer, any changes to the strategy during the year are reported to Cabinet with an explanation of the need for those changes.

RECOMMENDATIONS

That the contents of the report are reviewed.

INFORMATION

Treasury Management Strategy

1. The treasury management strategy is reviewed annually and attached is a draft of the strategy to be agreed by Council on 23 February 2012 (**Appendix 1**). Under delegated authority, the Chief Finance Officer has the authority to take all executive decisions in relation to daily treasury management.
2. The strategy for 2012/13 has been written with the assistance of Arlingclose, the Council's treasury advisors and the strategy has been developed to increase the range of permitted investment vehicles, to allow a greater diversity of investments, whilst maintaining a high degree of caution. The intention is to maintain a broadly risk averse approach, whilst being able to seek an optimum yield within the security and liquidity restrictions.
3. Throughout the year the specific investment guidelines in relation to additions and removals to the counterparty list and to the time and value limits of investments are kept under continual review and changes are agreed by the Chief Finance Officer under his delegated authority.
4. It should be noted that at this stage although the strategy for next year is set, the figures contained within it are not finalised as work will continue on refining the estimates of the balances and reserves position until the budget is completed in February. As a result many of the figures within the report are subject to change such as the CFR, prudential indicators and projected borrowing.

BACKGROUND DOCUMENTS

None.

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Appendix 1

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

Contents

Summary

1. Background
2. Balance Sheet and Treasury Position
3. Borrowing and Rescheduling Strategy
4. Investment Policy and Strategy
5. Outlook for Interest Rates
6. Balanced Budget Requirement
7. 2012/13 MRP Statement
8. Reporting
9. Revised Treasury Management Code of Practice and Guidance Notes
10. Other Items

Appendices

- A. Current and Projected Portfolio Position
- B. Interest Rate Outlook
- C. Specified Investments for use by the Council
- D. Non- Specified Investments for use by the Council
- E. Treasury Management Policy Statement

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 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 representing 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 £192.8m 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 £435.7m, of which £167.5m is attributed to the General Fund with the remaining £268.2m 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 £512m and proposed Operational Boundary is £482m.

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 this strategy several amendments to the investment options have been suggested. These include: the addition of Corporate Bonds, the addition of a new counterparty; Bank Nederlandse Gemeenten and a reduction in Money Market Fund limits (from £10m/15% to £7.5m/10%).

As a result of continued pressure and uncertainty within the financial markets, the security of any investment is the key 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.

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. Balance Sheet and Treasury Position

- 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	167.5	203.7	226.2	232.4
HRA CFR	268.2	268.2	268.2	268.2
Total CFR	435.7	471.9	494.4	500.6
Less: Existing Profile of Borrowing and Other Long Term Liabilities *	165.2	158.4	151.7	145.9
Cumulative Maximum External Borrowing Requirement	270.5	313.5	342.7	354.7
Balances & Reserves**	29.8	26.5	23.9	24.1
Cumulative Net Borrowing Requirement/(Investments)	240.7	287.0	318.8	330.6

* 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 Expenditure	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
General Fund	61.8	61.5	88.7	71.1	39.0
HRA	11.9	13.3	12.4	11.5	11.5
Total	73.7	74.8	101.1	82.6	50.5

- 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	10.6	17.9	12.7	6.3
Government Grants	24.7	34.6	29.6	23.1	16.5
Revenue Contributions	1.9	2.4	2.1	2.1	2.2
Other External Funding	3.0	4.4	3.0	7.3	2.4
Unsupported Borrowing	23.2	22.8	48.5	37.4	23.1
Total	73.7	74.8	101.1	82.6	50.5

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	£16.35	£30.44	£17.25
Increase in Average Weekly Housing	£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 its debt to fund the settlement figure of £192.8m in return for an annual subsidy payment to central government that currently amounts to £15m per annum.
- 2.8. 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 this portfolio will be entirely ring-fenced to the HRA and hence eliminate any potential liability on the GF through complex statutory recharging methodologies. .
- 2.9. **HRA Indebtedness:** As a requirement of the Prudential Code a limit of £269m has been set for HRA indebtedness for 2012/13 and the following two years.
- 2.10. 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	3.07	3.89	5.36	6.21
HRA	31.17	30.24	28.11	27.24	26.61
Weighted Average	9.99	8.65	9.13	10.25	10.87

3. Borrowing and Rescheduling Strategy

- 3.1. The Council's balance of actual external debt at 30 November 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	509	532	539
Other Long term Liabilities	3	3	3	2	2
Authorised Limit	492	492	512	534	541

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	479	502	509
Other Long term Liabilities	3	3	3	2	2
Operational Boundary	462	462	482	504	511

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 to be included once final guidance issued.

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 Existing level (Benchmark level) at 30/11/11 %	Market LOBO 1st call option at 30/11/11 %	Lower Limit for 2011/12 %	Upper Limit for 2011/12 %
under 12 months	0.49	5.20	0	25
12 months and within 24 months	3.43	6.50	0	25
24 months and within 5 years	6.21	10.39	0	50
5 years and within 10 years	30.13	9.09	0	100
10 years and within 20 years	10.00	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	18.58	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 Authority'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 Nederlandse Gemeenten (Long term rating AAA/AAA/Aaa)
 - Reduction of MMF limits from 15%/£10m to 10%/£7.5m

- 4.6. The Council's current level of investments 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 or UK Treasury Bills. (The rates of interest from the DMADF 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 Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority 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 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 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 authority 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	78	44	8

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 £258m with a borrowing cap of £304.5m. 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, including Prudential Indicators, is monitored and reported to Senior Management on a daily and weekly basis. Monthly updates are provided to Cabinet as part of the budget monitoring process. Additionally a six month strategy 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.

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. Other Items

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 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

	30 Nov 11 Estimated Portfolio £m	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	105.9	105.2	99.9	94.7	90.4
Fixed Rate – Market	43.0	40.0	38.0	37.0	33.0
Variable Rate – PWLB	12.8	12.0	10.5	9.0	7.5
Variable Rate – Market	5.0	8.0	10.0	11.0	15.0
Current Borrowing	166.7	165.2	158.4	151.7	145.9
New Borrowing	-	-	287.0	318.8	330.6
Total Borrowing	166.7	165.2	445.4	470.5	476.5
Existing long term liabilities	2.8	2.8	2.5	2.2	2.0
Total Gross External Debt	169.5	168.0	447.9	472.7	478.5
Total Investments	118.4	38.4	39.5	36.7	34.9
Net Borrowing Position	51.1	129.6	408.4	436.0	443.6

APPENDIX B

Arlingclose's Economic and Interest Rate Forecast

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Official Bank Rate													
Upside risk						0.25	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	0.25	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	1.75	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.10	2.20	2.30	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	1.25	1.30	1.35	1.40	1.50	1.60	1.70	1.80	2.00	2.10	2.30	2.40	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	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.20	2.30	2.40	2.45	2.50	2.55	2.60	2.70	2.75	2.80	2.85	2.90	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	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.00	3.05	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	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	0.25	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	3.25	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	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

- Momentum in economic growth is scarce.
- 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 interest rates rise.
- The Bank of England's Monetary Policy Committee has returned to unconventional monetary policy and embarked on a further round of Quantitative Easing. There will be more to come.

Underlying Assumptions:

- Against a backdrop of turmoil within the Eurozone and the unwillingness of its politicians to acknowledge and issue a credible plan to resolve it the result is that financial markets continue to see saw between risk "on" and risk "off" daily patterns. The reality is that the risk "off" days outnumber the risk "on" days with the implication that the growth outlook is an increasing cause for concern.

- Despite the efforts of the politicians at the Brussels summit, the initial optimism of markets has been punctured as, once again, the lack of credible detail on the delivery of action as opposed to aspirations becomes worryingly clear. The detail appears to amount to the news that President Sarkozy will head to China to secure funds for the extended EFSF.
- The MPC's decision to embark on a further £75 billion of QE – which the Minutes showed was unanimously supported – demonstrated the strength of the economic headwinds that are blowing against the nascent UK economic recovery. For growth to occur you need somebody to spend.
- Inflation increased more than predicted to 5.2% in September. Energy prices continued to be the primary cause although the markets are now less interested in inflation given the economic growth focus. The Bank's Inflation Forecasts still point to a sharp downturn in CPI into 2012 as the index effects of VAT and earlier energy price shocks subside.
- Business confidence has yet to recover sufficiently for commitment to new capital investment and employment. Taken together the levels of unemployment remain very high and are a significant drag on consumption despite reasonably robust retail sales data.
- Q3 GDP is expected to be weak but positive.
- Public Finances remain just about on track to meet the Coalition's target. With the risk of lower growth, there is very little scope for tax giveaways to boost business and consumer spending.

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

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	Clydesdale Bank (National Australia Bank Group)	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.

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?
<ul style="list-style-type: none"> ▪ Deposits with banks and building societies ▪ CDs with banks and building societies 	✓	5 Years	40 In Aggregate	No
<ul style="list-style-type: none"> ▪ 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.

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, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.

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.

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Agenda Item 8

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

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

15 March 2012	* Private meeting with the Head of Audit & Enforcement to take place before the meeting	
	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

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Audit Committee Draft Work Programme 2012-13

Contact Officer: Helen Taylor

Telephone: 01895 556132

REASON FOR ITEM

In previous meetings the Committee had noted that the balance of work across the scheduled meetings had become skewed and that this needed to be addressed to ensure proper consideration of all matters at future meetings. This paper proposes a timetable for the coming year.

OPTIONS AVAILABLE TO THE COMMITTEE

To agree the proposed timetable

To propose amendments to the draft timetable

INFORMATION

1. The Committee had noted that some meetings had an excess of agenda items while some had a lighter load. As a consequence there had been a couple of meetings where agenda items had had to be deferred to future meetings. At the same time the recent legislative changes to the requirements for authorising accounts means that the main scrutiny of accounts takes place in September and not June. This affects not only the consideration of the accounts but also some reports which support them such as the Annual Governance Statement, Risk Management reports etc.
2. The Head of Audit and Enforcement first met with the Chairman of the Committee to consider a possible schedule. She subsequently discussed proposed changes with specific officers to ensure that they were happy with any proposed changes.
3. Overall the changes mean that most of the reports that deal with Governance will be presented to the Committee for consideration in June 2012. Consequently they will receive full consideration and scrutiny before the council's governance arrangements are reported in the final accounts. September will be almost entirely devoted to the final accounts, giving adequate time to this important item.
4. The proposed timetable does not as yet have any training sessions included. The impending POC report may have some bearing on the issues members may want sessions on. These can be added in year as necessary. Main changes worthy of comment are noted below.
5. **Risk Management** - The changes to the timetable for Risk Management means the report will now be presented in June and December. The Performance and Intelligence Manager, who co-ordinates risk

management felt that this was acceptable as long as the March 2012 Risk Management report remained on that agenda because otherwise there would be nine months between the June 2012 report and the last report in September 2011. ***The programme for 2011-12 will therefore remain unchanged for this item.***

6. **Annual Governance Statement (AGS)** - The performance manager felt that, in view of the changes to the annual accounts approval that the move to reporting once a year in June only would be welcome. He did not feel that an interim report in March 2012 would add any further value. ***This item should therefore be removed from the March 2012 agenda.***
7. Fraud report - This was a relatively recent addition to the agenda and the Corporate Fraud Manager is happy with a shift to reporting in June and December.

AUDIT COMMITTEE

2012-13 DRAFT Work Programme

June 2012	Fraud Report	Head of Audit & Enforcement
	Annual Review of the Effectiveness of Internal Audit	Head of Audit & Enforcement
	Head of Audit Annual Assurance Statement	Head of Audit & Enforcement
	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
	Treasury Management Practices	Deputy Director of Finance
	Audit Committee work Programme	Democratic Services Manager

September 2012	Internal Audit Progress report	Head of Audit & Enforcement
	External Auditor's report on the Council's Statement of Accounts and the Pension Fund Accounts	Deputy Director of Finance & Deloitte
	External Audit Annual Governance Report	Deputy Director of Finance & Deloitte
	Audit Committee work Programme	Democratic Services Manager

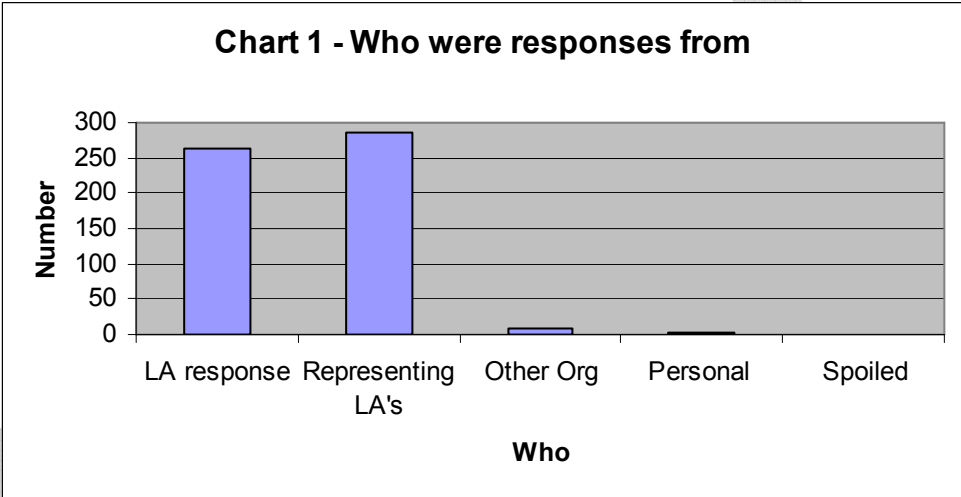
December 2012	*Private meeting with external Auditors to take place before the meeting.	
	Internal Audit Progress report	Head of Audit & Enforcement
	External Auditor Annual Audit Letter	Deloitte
	Treasury Management Strategy 2013/14	Deputy Director of Finance
	Risk Management Report	Performance and Intelligence Manager
	External Audit – Annual Grant Audit letter	Deloitte
	Audit Committee work Programme	Democratic Services Manager

March 2013	* Private meeting with the Head of Audit and Enforcement to take place prior to the meeting.	
	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
	External Audit – 2012/13 Annual Audit Plan	Deloitte
	Balances & Reserves Statement	Deputy Director of Finance
	Revisions to Treasury Management Strategy (if required)	Deputy Director of Finance
	Audit Committee work Programme	Democratic Services Manager

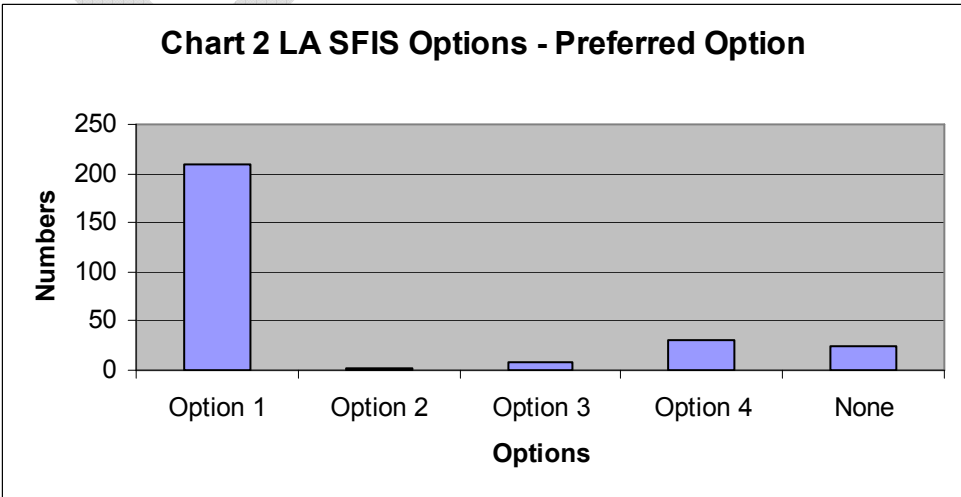
Consultation on Options Paper for the inclusion of Local Authority Benefit Fraud Investigation Teams in the Single Fraud Investigation Service – Summary Report

1. Background

- 1.1 The coalition government’s strategy for tackling welfare fraud and error, published in October 2010, set out a commitment to create a single fraud investigation service (SFIS) to investigate benefit and Tax Credit fraud. This commitment will be achieved by bringing together investigation staff from Local Authorities (LA), Department for Work and Pensions (DWP) and Her Majesty’s Revenues and Customs (HMRC) to create a Single Fraud Investigation Service.
- 1.2 We issued a paper and consultation proforma to LA Chief Executives, Heads of Finance, Heads of Revenues and Benefits and other key stakeholders on 16th September 2011. The closing date for responses was 14th October 2011 and we received a total of 274 responses, of which 263 were LA responses, some combined and representing a total of 285 Local Authorities. This equates to 76% in favour of Option 1.



- 1.3 The consultation showed a clear preference for Option 1 as follows.



1.4 Unfortunately a small number of respondents (24 of the 274 responses received) felt unable to indicate a preferred option, either because of the perceived lack of information, particularly around funding, and specifically around the future of the LA Admin Grant; or because of the perceived lack of time; or both.

2. The Consultation

2.1 we asked the following questions

Do you agree with our selection criteria? If not, please say why and if there are other criteria you think we should have considered please specify. – 198

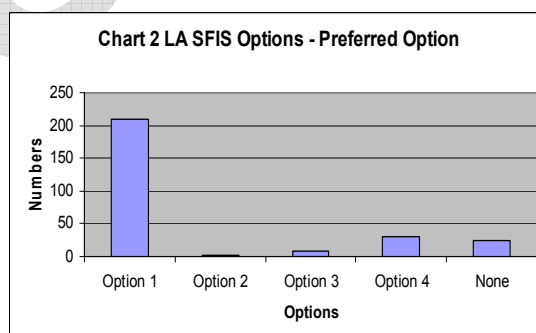
responses agreed, 53 did not and 23 did not comment. The main reason for disagreeing was that there was insufficient detail around the funding regime, especially in terms of fully costed financial impact assessments of each of the options. There was a further concern in that the future of the administration and investigation of Council Tax has yet to be decided.

Do you feel the initial DWP options analysis is fair? If not please let us know what we have missed or not given emphasis to. – 230 responses agreed, 40 did not and 4 did not comment.

The main reasons for thinking DWP analysis was not fair were because of insufficient consideration of LAs position in relation to costs, funding & financial implications and because there is not enough information known about the DWP policies and procedures and the impact these will have financially or otherwise to assess. Comments were also made that the DWP analysis solely considered DWP viewpoint and therefore LAs could not decide if it was fair.

Do you have a preferred option? If so which is it?

Option 1: 210
Option 2: 2
Option 3: 8
Option 4: 30
Could / would not say: 24



Why is this your preferred option / what is particularly good about it – a summary of the responses to each option follows in section 3

Please provide any other feedback on the options if you wish – a summary of the responses to each option follows in section 3

3. The Options

3.1 There were four options in the paper. These are summarised below with a short paragraph encapsulating views from the consultation exercise.

3.2 Option 1. LA staff remain employed by LAs, but operate under SFIS powers, policies, processes and priorities. This brings LA investigation staff into SFIS under a procedural change. By leaving employment and location unchanged this option would allow LAs the flexibility to redeploy resource to meet other LA priorities if required.

This option received 210 responses in favour.

3.2.1 A summary of reasons for preferring this option:

3.2.2 It was felt that this option provided the most flexibility, especially in allowing LA staff to consider other types of fraud, and in developing piloting and testing ways of working. It was recognised that this approach was the most pragmatic and achievable in the timescales. There was strong support for this option when considering the localism agenda and in allowing a more local focus. Many LAs preferred this option because of the potential to retain existing expertise and experience, and allows for continuity with existing cases. The option was perceived to have the lowest impact on the staff and to allow gradual transition to new IT, referral or operating systems. Several LA's reflected that this option allowed for closer working with HMRC and FIS, thus developing new skills. Most significantly it was felt that, as this option did not require changes to the LA Admin grant, it was therefore the most affordable option.

3.2.3 Key concerns around this option included:

3.2.4 Most LAs were concerned by the fact that this paper did not include a breakdown of the costs involved with each option. Obviously a detailed financial impact analysis will need to be completed before the preferred Option is implemented and work on this, and on the future of the Benefit Administration Grant is part of the organisational design work now beginning. LAs feel that they cannot support the investigation of Welfare fraud unless adequate funding is in place.

3.2.5 Other issues raised included the treatment of staff currently contracted out; which staff are included, management and support, financial investigators or just investigators; data protection / data sharing issues; IT considerations; prosecution policies, Tax Credit investigations; and managing performance. These are all issues which will be part of the detailed organisational process which is just beginning.

3.3 Option 2. LA staff remain employed by LAs in LA estate but are seconded to the DWP - this option means all LA investigation staff remain LA employees based in LA estate under formal secondment to DWP and operate under SFIS powers, policies, processes and priorities. This brings LA investigation staff into SFIS under both management and procedural changes. This option would allow LAs a degree of flexibility to recall and redeploy resource to meet other LA priorities, under the terms of the secondment agreement if required.

This option received 2 responses in favour.

3.3.1 A summary of reasons for preferring this option:

3.3.2 The main factor in favour of option 2 is the clear line of responsibility that comes with seconding staff. It is seen as a first step towards Option 4.

3.3.3 Key concerns around this option included:

3.3.4 That secondment is perceived as 'neither one thing nor another' and this option is seen as providing the least certainty or security for staff,

3.4 Option 3. LA staff become DWP employees but deliver investigation locally from the LA estate - this option means all LA investigation staff become DWP employees based in LA estate and operate under SFIS powers, policies, processes and priorities. This brings LA investigation staff into SFIS under both management and procedural changes.

This option received 8 responses in favour.

3.4.1 A summary of reasons for preferring this option:

3.4.2 It was felt that this option retained local knowledge, was not a draw on LA resources and allowed for common management structure and IT systems which would be beneficial to the organisation and to staff.

3.4.3 Key concerns around this option included:

3.2.1 The main concern was the impact this option would have on resourcing in the LAs. There were also concerns around the extra new burdens cost of accommodation for SFIS staff.

3.5 Option 4. LA staff become part of the DWP working within DWP estate as employees - this option means all LA investigation staff become DWP employees based in DWP estate and operate under SFIS powers, policies, processes and priorities. This brings LA investigation staff into SFIS under both management and procedural changes.

This option received 30 responses in favour.

3.5.1 A summary of reasons for preferring this option:

3.5.2 The main pluses of this option appeared to be that it provides a clean break, clear management lines and removes uncertainty. It was felt that it was logical that SFIS should sit alongside the Department responsible for Universal Credit. Option 4 is seen as a long term approach and the only one that delivers a "true uniform service".

3.5.3 Key concerns around this option included:

3.5.4 The main concern with option 4 was the potential cost and staff impact. However many LAs were also worried about the impact on the localism agenda.

4. Other Suggested Options

4.1 The other option most often mentioned was to arrange matters so that LAs manage SFIS. In some cases this was local area specific such as Bournemouth below, and in others it was wider, in that Local Authorities would take responsibility for administering SFIS and all Universal Credit fraud. The main rationale for this was that it would accord with the Government's localism

agenda and exploit the wealth of local data and expertise held by local authorities.

Box 1 - Alternative Option from Bournemouth

It would have been interesting to have had the option that Bournemouth Council be given the opportunity to manage the Bournemouth area investigation teams for both the LA and DWP investigations. LA investigation methods and results have produced good results and may be less restrictive than prescribed procedures issued nationally. Local management of these teams (LA and DWP fraud teams) by Bournemouth Borough Council may be able to deliver the service in a way that is more flexible and adapts more readily to local requirements. Bournemouth Borough Council's prosecution policy is less prescriptive than the DWP version, based more around the evidential and public interest tests than financial thresholds.

- 4.2 Another option proposed was that a brand new National team be created to consider all types of Public Sector fraud, including other LA fraud. It has been suggested that it would have regional offices, and there may be a need to develop new legislation and investigative powers. This option was suggested by several respondents and may warrant further investigation.

Box 2 - Alternative Option from IRRV: Scope for a Specialised Public Sector Fraud Protection and Detection Organisation

The Institute is disappointed that the wider problem of public sector fraud is not being addressed. It is the Institute's view that the Government should give serious consideration to the creation of a specialised public sector fraud protection and detection organisation. This body could be named the National Public Sector Fraud Investigation Service. It would draw together all fraud and investigation units in the public sector and form them into one national team.

It should be developed as a non-departmental public body and should include the investigative services from the DWP, HMRC, NHS, DVLA, local government and any other public sector investigation organisation.

The Institute is also of the opinion that the recent changes in the development of the SFIS has placed the ideal candidate to carry this forward in a position of influence – Lyn McDonald, who as Programme Director of the Tell Us Once Project delivered an effective joined-up service. The Institute believes that the extent of public sector fraud identified by the National Fraud Authority justifies this radical approach. If this new body were considered a viable option, the Institute would respectfully suggest that the involvement of local authority benefit fraud services in SFIS should be delayed until 2015.

Box 3 - Alternative Option from Edinburgh

Set up a National Team to look at all areas of Public Sector Fraud and have regional offices based perhaps in Local authority premises. Would need to develop new legislation and powers. Recruitment could be competitive and would be a brand new agency. Perhaps run by NFA. Data sharing issues.

5. General Comments / Issues / Concerns

- 5.1 Understandably many LAs are concerned about the funding issue and the continuation of the Benefits Administration Grant. Obviously a detailed financial

impact analysis will need to be completed before the preferred Option is implemented and work on this, and on the future of the Benefit Administration Grant is part of the organisational design work now beginning.

- 5.2 Another concern was around prosecution, both policy and the body responsible. There is a perception that Prosecution Division (PD) are very slow and lose a lot of DWP cases compared to LA local arrangements, and a concern that CPS – if the proposed move of PD to CPS happens - will not cope with the increased workload. This will be a major issue to resolved in the organisational design.
- 5.3 LAs have expressed a concern around their capacity to investigate other LA fraud once SFIS is operational.
- 5.4 There is strong concern about the localism agenda. One LA said “The NFA is producing its Local Government Counter Fraud Strategy in the Autumn 2011. Any work to develop the SFIS should be done in conjunction with the NFA’s strategy”.
- 5.5 There was criticism both on the length of the consultation and on the length of time it has taken to reach this point. Several LAs also expressed concern about the perceived lack of consultation to date although many were pleased to be given the chance to comment and looked forward to stronger engagement going forward. A few felt that the consultation was “an attempt to placate local authorities rather than a genuine attempt to engage in a meaningful dialogue”, but many others welcomed both the opportunity to be involved and also DWP attendance at recent IRRV events.
- 5.6 There were concerns around staff, specifically:
- Will 2013 arrangements for the transfer of LA staff to the DWP still exist in 2015?
 - Current plans indicated that in 2013 LA staff would be TUPE’d over to the DWP, but if under Universal Credit fraud diminishes, what will happen? Are the DWP going to say that LA staff are no longer required? And who then bears the cost of potential redundancies for LA staff?
 - If there is a need to reduce Fraud staff will LA staff be treated fairly and equitably with DWP staff given that all are working under SFIS?
 - There is a suggestion that the DWP are going to continue with their plan to recruit 200 extra staff in 2013 – where are these staff going to be based? Why is the DWP not filling the 200 posts with LA staff then considering whether further staff will be required?
 - Which staff are actually included, a decision needs to be reached and communicated very quickly on this.
- 5.7 All of these very valid concerns will be addressed in the organisational design process.

6. Volunteers for pilots or closer working

Several LAs emphasised their desire to work very closely with DWP and HMRC either in running joint working pilots, SFIS trials or pathfinders or simply in developing the organisational design of SFIS. The DWP is encouraged by this and keen to work collaboratively to develop opportunities now and in the future.

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

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