



HILLINGDON
LONDON



Audit Committee

Members on the Committee

John Morley (Chairman)

George Cooper

Raymond Graham

Paul Harmsworth

Richard Lewis

Date: THURSDAY, 6 DECEMBER
2012

Time: 5.00 PM

Venue: COMMITTEE ROOM 5 -
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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Contact: Khalid Ahmed

Tel: 01895 250833

Fax: 01895 277373

Email: kahmed@hillington.gov.uk

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<http://modgov.hillingdon.gov.uk/ielistDocuments.aspx?CId=256&MId=1399&Ver=4>

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



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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 Apologies for Absence
- 2 Declarations of Interest in Matters coming before this meeting
- 3 Minutes of meeting held on 20 September 2012 (**Pages 1-8**)
- 4 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.
- 5 Internal Audit Corporate Fraud Report (**Pages 9-20**)
- 6 Treasury Management Strategy Statement and Investment Strategy 2013-14 to 2015-16 (**Pages 21-44**)
- 7 Internal Audit Progress Report and Plan amendments (**Pages 45-86**)
- 8 Work Programme 2012/13 (**Pages 87-90**)
- 9 Annual Review of Internal Audit – Proposal (**Pages 91-92**)
- 10 Changing Legislation and Current Issues
Audit Commission document: 'Protecting the Public Purse'

The link to this document was emailed out to Members of the Audit Committee on 9 November 2012.

Agenda Item 3

Minutes

Audit Committee

Thursday, 20 September 2012

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 Raymond Graham, John Hensley, Phoday Jarjussey and Richard Lewis.</p> <p>Apologies: Councillors Paul Harmsworth (Councillor Phoday Jarjussey substituting) and George Cooper (Councillor John Hensley substituting).</p> <p>Officers Present: Fran Beasley (Deputy Chief Executive and Corporate Director of Central Services), Kevin Byrne (Head of Policy, Performance and Partnerships), Harry Lawson (Corporate Accountancy Manager), Nancy Le Roux (Head of Corporate Finance), Helen Taylor (Head of Audit), Paul Whaymand (Deputy Director of Finance) and Khalid Ahmed (Democratic Services Manager).</p> <p>Others Present: Heather Bygrave and Jonathan Gooding (Deloitte)</p>
17.	<p>DECLARATIONS OF INTEREST</p> <p>Councillors Raymond Graham and Richard Lewis both declared Non-Pecuniary interests in Agenda Item 6 –External Auditor Report on the Pension Fund Annual Report and Accounts as they were both Members of the Pensions Committee. They both remained in the room and took part in discussions on the item.</p> <p>Councillor John Hensley declared a Non-Pecuniary interest in Agenda Item 6 – External Auditor Report on the Pension Fund Annual Report and Accounts as he was in the receipt of a Local Government Pension. He remained in the room and took part in discussions on the item.</p>
18.	<p>MINUTES OF THE MEETING HELD ON 26 JUNE 2012</p> <p>Agreed as an accurate record.</p>
19.	<p>EXCLUSION OF THE PRESS AND PUBLIC</p> <p>It was agreed that Agenda Item 11 – Risk Management Report which was in Part II of the Agenda be considered in private. The rest of the Agenda was considered in public.</p>

<p>20.</p>	<p>APPROVAL OF THE 2011/12 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2012</p> <p>The Chairman made reference to the late circulation of the Statement of Accounts.</p> <p>Consideration was given to a report which summarised the findings of the External Auditor on the audit of the 2011/12 Statement of Accounts and the Value for Money audit.</p> <p>Deloitte reported that, subject to completion of some minor procedures, an unmodified opinion would be given and the Statement of Accounts would be given a 'true and fair' view. In addition an unqualified conclusion would be issued on the Council's arrangements for securing value for money.</p> <p>Deloitte reported that the audit process for 2011/12 was efficient and rigorous and commenced a little earlier than in previous years and was carried out by auditors familiar to Hillingdon which required less officer input and time.</p> <p>Reference was made to the following significant audit risks:</p> <p>Revaluation of properties – The auditors considered the process undertaken for the valuation of assets which included community halls, allotments and farms, assets which had changed status through being completed in the year or had been deemed surplus to requirements or planned for sale. It was concluded that the process undertaken was reasonable.</p> <p>Valuation of the pension liability – Assumptions used to calculate the liability relating to the Hillingdon Pension Fund fell within a reasonable range.</p> <p>Recognition of capital and revenue grant income – This had identified some instances where the grant recognition criteria had not been correctly applied. The adjustment had resulted in a reclassification of income and expenditure but had no net impact on the net cost of services.</p> <p>Completeness of bad debt provision for sundry debt – Testing had concluded that overall the level of provision for this balance was reasonable.</p> <p>Housing Revenue Account Self Financing settlement payment- This was identified as a risk because of the size of the settlement (£192m) and the fact that it was a one-off transaction. There were no issues noted from testing.</p> <p>Recording of capital spend – Inconsistencies were identified in the treatment of capital and revenue spend, particularly with</p>	<p>Action By:</p>
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	<p>respect to Council dwellings. Management did not consider adjustments to be material but had agreed to adopt a consistent treatment going forward.</p> <p>Accounting for schools – This related to schools changing status, particularly those changing to Academies, and the appropriate accounting treatment of removing fixed assets relating to community schools from the Council’s accounts. No issues arose from testing.</p> <p>Management override of key controls – No significant issues were identified but whilst management judgements were considered reasonable on an individual basis, taken together they were at the more prudent end of a range considered to be acceptable.</p> <p>Discussion took place on the fees the Council paid for External Auditors and the Committee was informed that the Audit Commission set the scale fee for the external audit of the Council. For 2012/13, fees to local authorities would drop by 40% and, in addition to the fee paid by the Council; the external auditor would receive an amount from the Audit Commission.</p> <p>Reference was made to the Value for Money conclusions in relation to Capital budgeting and forecasting, and Members were informed that this could be improved by using more timely information, ensuring fewer delays and reviewing the process for the Council’s Capital Budget.</p> <p>The Committee then considered the Statement of Accounts for the year ended 31 March and the following points were discussed:</p> <ul style="list-style-type: none"> • Reference was made to the comprehensive income and expenditure statement and it was noted that the Council would have made a surplus of around £8m if it had not made a one-off payment to Central Government as settlement on the introduction of the HRA self-financing regime • It was noted that a good indicator of the Council having a good system of internal controls in place was ending the year with an under spend and close to budget • Heritage Assets – These included Mayoral Regalia and the statue ‘Anticipation’ which was situated outside Uxbridge Station. These had been included on the balance sheet. In terms of insurance these items were insured through the Council’s general insurance scheme as they did not hold specific valuations • Income and Expenditure Statement – Non-Distributed costs of £1.1m. Last year was a surplus due to the transition from Retail Prices Index to Consumer Prices Index 	<p>Action By:</p>
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- Reference was made to Icelandic Impairments and the Deputy Director of Finance reported that the Council was being cautious on the expected recovery estimates because of the present economic uncertainties with the Eurozone, foreign currency exchange rates risk and fluctuating asset values
- Notes to Main Financial Statement – Exit Packages. It was noted that the number of Exit packages for this year had been 162 compared to 64 of last year
- Notes to Main Financial Statements – Liquidity Risk – The profile of the Council’s debt had altered and been adjusted as a result of HRA self-financing
- Pension Fund Accounts - Notes to Main Financial Statement –A new column (with significant unobservable inputs) was contained in the valuation of financial instruments carried at fair value table.

The Deputy Chief Executive and Corporate Director for Central Services attended the meeting to present the Annual Governance Statement (AGS) which was included in the Statement of Accounts. Points discussed and raised included:

- The Code of Conduct was included in the AGS
- Review of Effectiveness, paragraph 4.1, reference was made to the comment of “a comprehensive annual programme of scrutiny and review by the Policy Overview and Scrutiny Committees and the Audit Committee.”
- Reference was made to the role of the Section 151 Officer and his position in the structure of the organisation. The Deputy Chief Executive and Corporate Director for Central Services reported that the Section 151 Officer was part of the Corporate Management Team of the Council and held separate meetings with the Chief Executive
- Significant Governance Issues – The Head of Audit reported that in relation to the weaknesses that had been identified in the monitoring and control of some construction projects, specialist auditors were undertaking an investigation into this area, looking at the processes and procedures robustly, with a view to improved procedures being in place by next April

The Deputy Chief Executive and Corporate Director for Central Services informed the Committee that the Council had implemented a range of improvement actions as part of its overall continuous improvement programme, to strengthen governance arrangements and control systems. In all the five areas where governance issues had been identified, proposals were in place to address these issues which would further strengthen the governance arrangements of the Authority.

	<p>RESOLVED -</p> <ol style="list-style-type: none"> 1. That the Committee considered and approved the Statement of Accounts for 2011/12. 2. That the Auditors findings and adjustments as outlined in Appendix 1 to the report be noted. 3. That officers be congratulated for presenting an excellent Statement of Accounts. 	
21.	<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 19 September 2012.</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.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1. That the auditor's findings contained in the report be noted and agreed. 2. That the Committee considered and approved the Accounts of the Pension Fund. 	
22.	<p>DELOITTE – ANNUAL AUDIT LETTER – DRAFT</p> <p>Members were informed that the Audit Commission had brought forward the submission date for the Annual Audit Letter to 26 October 2012 and the report before Members was in draft form. The final version would be circulated to Members before submission to the Audit Commission with any changes highlighted.</p> <p>Deloitte's Draft Annual Audit Letter provided a summary of the expected conclusions from their audit work undertaken for the year ended 31 March 2012.</p> <p>RESOLVED –</p>	

	1. That the report be noted.	
23.	<p>INTERNAL AUDIT PROGRESS REPORT</p> <p>The Head of Audit provided Members with a summary of Internal Audit activity in the period from 1 June 2012 to 31 August 2012.</p> <p>During the period five completed audits in the current report had received limited assurance (all relating to 2011/12) and three had received Satisfactory Assurance.</p> <p>The following issues were raised by Members:</p> <ul style="list-style-type: none"> • IT Security & Data Handling Controls in Schools – The Head of Audit informed Members this had been carried out in a sample of schools and the outcomes had been communicated to all schools. Members asked that the Chief Education Officer writes to the Chairs of Governors of all the schools which the Council was responsible for asking them to confirm that they had implemented recommended actions in their schools. • New Years Green Lane Civic Amenity Site Weighbridge – The Committee expressed concern at the findings of the audit and asked that for the next meeting of the Committee an update be provided by the Head of Audit on the progress of the implementation of the improvements and controls requested • Food Health & Safety Team – The Committee asked for an update at the next meeting of the Committee on the realistic implementation dates for the outstanding actions • Leasehold Management & Service Charges – The Head of Audit said she would update the Committee outside the meeting on the high risk action which had been identified and the likely implementation date • Planning Enforcement – 2011/12 Review – Members noted that this function of the Council had now been transferred back to Planning, Environment, Education and Community Services and improvements were being made to the service • Cloud Computing Advisory Review – The Head of Audit reported that this would be an area which Internal Audit would be monitoring as part of the Audit Plan <p>The Committee agreed that the follow up audits contained in the report be considered at the next meeting of the Committee.</p> <p>RESOLVED -</p>	<p>Helen Taylor / Julien Kramer</p> <p>Helen Taylor</p> <p>Helen Taylor</p>

	1. That the progress against the Internal Audit Plan for 2012/13 and the updated position of those audits undertaken in 2009-10, 2010-11 and 2011-12 be noted.	Action By:
24	<p>WORK PROGRAMME 2012/13</p> <p>The Head of Audit reminded Members that consideration needed to be given to the annual review of the Audit Committee and how this would be undertaken.</p> <p>Noted. Members requested that this be an agenda item for December 2012.</p>	
25.	<p>CHANGING LEGISLATION AND CURRENT ISSUES</p> <p>The Committee was provided with an update on the implementation of the recommendations of the Corporate Services & Partnerships Policy Overview Committee review into the Effectiveness of the Audit Committee and its Terms of Reference.</p> <p>Members were informed that the proposals from the review were being considered in conjunction with a review which was taking place into the decision making structure of the Council. Members would be updated on the progress of this.</p>	Khalid Ahmed
16.	<p>RISK MANAGEMENT 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 Committee notes the quarter one 2012/13 risk management report as providing evidence of the Council's ongoing actions to actively access and manage risks.</p>	
	<p>The meeting which commenced at 5.00pm, closed at: 6.45pm</p> <p>Next meeting: 6 December 2012 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.

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INTERIM CORPORATE FRAUD REPORT

Contact Officers: Garry Coote
Helen Taylor
Telephone: 01895 250369
01895 556132

REASON FOR ITEM

The Committee approved the first Corporate Fraud plan in June 2012. It was designed to provide transparency over the inputs and outputs of fraud work and to help Hillingdon to focus its fraud resources for the future. This interim review provides an update on that plan.

Some recent developments and changes in the wider fraud landscape also need to be brought to the committee's attention, along with the response of officers. The main issues are;

- The Single Fraud Investigation Service (SFIS)
- Publication of the Audit Commission document, Protecting the Public Purse
- Changes in the Regulation of Investigative Powers Act (RIPA), affecting local authorities

OPTIONS AVAILABLE TO THE COMMITTEE

Review the interim fraud report

INFORMATION

1. Progress against the Fraud Plan

1.1. For the 2012-13 Corporate Fraud plan, presented to the Audit Committee in June 2012, officers estimated the time the Corporate Fraud team would spend on various aspects of fraud detection, investigation and prosecution. This section of the report reviews the progress against that plan up to the end of October 2012. These results are presented in summary form in Table 1. Where there is a monetary measure available for success this has been entered. Some estimates of resources have been altered in-year and figures adjusted appropriately. This is explained in more detail in the narrative below.

Table 2 – Estimate Vs Actual Resources and Outcomes

Activity	Estimated Resource (days)	Expected outcome	ESTIMATED SAVINGS £'000	Actual Resource (7 months)	% of Estimate	Actual outcome	% of annual achieved	Savings £000
Benefit Investigation	818	75 sanctions	500	484	101	43 sanctions	57	291 911 ¹
Visiting Programme	812	Increased revenue	300	487	101			
Social Housing Fraud	376 ²	Recover 41 ³ properties	738 ⁴	222	101	28	68	504
Intelligence and Admin	187 ⁵	Calls/ case preparation		110	100			
Internal & other Investigations	100	Dismiss and Prosecute		63	108	1 prosecution ⁶		
Overpayment Recovery	81	Increased recovery	50	33	70	12	24	
Blue Badge Inspections	30	Identify and stop misuse	9	17.5	100	See narrative		3

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¹ £291K was the value of the benefit frauds. Taking the annual value of each fraud and extrapolating it over the next three years gives a further saving of £911K of prevented fraud.

² The original estimate was 279 days but the project was extended in-year. The increased resources were seconded from Housing. Figures have been based on the increased resource of 376 days

³ Target increased to 41 properties in-year to account for additional resources

⁴ Increased from £540k to 738K to take account of increased resources

⁵ Original Estimate was 270 days but one member of staff is on a career break so this reduced the number of days available

⁶ There are four on-going cases in this category.

Benefit Fraud

- 1.2. So far this year 43 sanctions have been issued. This is slightly above target but this work can vary though the year because it is very much dependent on the nature of the fraud and court availability.
- 1.3. The breakdown of the figure is 15 successful prosecutions, 15 cautions and 13 administrative penalties. The latter are offered as an alternative to full prosecution. Parties are offered the alternative of court or repaying the benefit and an additional monetary penalty. Legislation has recently changed and there will be no option of a caution going forward. Parties will be prosecuted or offered Administrative Penalties.
- 1.4. The value of the frauds we prosecuted was £290K. Some of these frauds spanned more than one year. These frauds have now been stopped but would have continued had we not taken action. Taking the annual value of each fraud and extrapolating that over three years then the value of prevention is £911K, giving a total saving of £1.2M

Visiting Programme

- 1.5. The visiting programme covers a number of areas which affect council revenues both on the domestic and non-domestic side.
- 1.6. Council tax payers can benefit from over twenty discount schemes. These cover circumstances such as
 - Properties unoccupied and undergoing major refurbishment.
 - Unoccupied and substantially unfurnished (includes new builds) where a maximum of six months discount applies.
 - Unoccupied while awaiting probate – six months maximum
 - Occupied solely by students
- 1.7. Visits are undertaken to ensure that there has been no change in the status of these properties. 3847 visits have been undertaken so far this year
- 1.8. The visiting officers also carry out visits to ensure that the integrity of the council tax base. Officers have identified 690 properties under development that will be expected to be brought into the council tax base in 2013-14. They have also identified sites where there is an intention to build but the actual number to be completed in the forthcoming year is uncertain.
- 1.9. Visits to Domestic rated properties are carried out either because they have been referred to the team for some reason or because the team has identified an issue while carrying out other work in the borough. Examples of referrals could be notifications from Food Hygiene or Planning of an apparent change of use. Changes of use often fall into a different rating category and the council needs to be alert to this. The officers are also the eyes and ears on the ground and take note of changes during their rounds of the borough. For example a car washes

turning up in the car parks of disused properties will be noted by the officers and rating notices issued. So far this year 1537 visits have been carried out under this programme.

- 1.10. Compliance visits are undertaken when Benefit staff are unable to get responses to letters or phone calls to recipients or where complaints have been raised via the hotline alleging benefit fraud. So far this year 359 compliance visits have been carried out. These visits are the first steps in the prosecution cycle. Intelligence gathered is often passed to the Investigation team for further action.
- 1.11. Officers are still investigating methods of measuring the output of this work. It is difficult to measure what would have happened had the visits not been carried out. E.g. would the liable payer have notified the Council of any changes of use or the exact date of occupation or of a change of circumstances that mean that council tax would then be due? Anecdotally at least one London council which abandoned its visiting programme experienced a significant reduction in its domestic and non-domestic rateable base and had to reinstate its programme.
- 1.12. Moving forward maintaining and increasing the Non Domestic Rate base will be vital to council revenues and will need to keep a high profile in anti-fraud work. This is dealt with in more detail later in this report under the section on Protecting the Public Purse.

Social Housing Fraud

- 1.13. This continues to be a successful project. At the start of the year officers were not sure if we had already obtained most of the benefit from this project. Experience showed that this was not the case and Housing agreed to second their officer for the whole year, rather than the six months originally agreed. Resources in the table have been altered to reflect this change and the target increased accordingly. At this stage we are on target to meet and possibly exceed the target.

Internal and Other Investigations

- 1.14. These have taken up more time than anticipate. The varying complexity of these frauds and the unpredictability of occurrences make estimating the time needed difficult. The successful prosecution was of a teacher for ID fraud who was identified through the NFI data matching exercise. She was dismissed as soon she was arrested. She has since received a four-month suspended prison sentence with 50 hours of community service.

There are currently two cases scheduled for trial in March 2013, both of which had originally scheduled for trial in November 2012. Two investigations have not yet reached a trial stage.

- 1.15. In addition to the fraud team work the Internal Audit team have carried out and are continuing with a number of investigations. The outcomes of these are reported quarterly to the Audit Committee. If prosecution is

thought to be appropriate, such cases are then referred to the Corporate Fraud Team.

Overpayment Recovery

1.16. Less time than anticipated has been spent on overpayment recovery as some of the time has been diverted to the visiting programme. However, £12k has been directly recovered this year, which is still below a straight line prediction of around £18k. However, this work fulfils a deterrent role as it seeks to recover the overpayments due to us and sends the message that benefit overpayments are not simply forgotten once the conviction is obtained. No figures have been entered in the savings column for this work as they will have already been counted in initial prosecutions.

Blue Badge Inspections

1.17. One exercise was carried out in July this year. On the day 31 badges were examined and five were seized; of those, four people have been convicted for fraudulent abuse of badges. Six penalty notices were issued on the day.

1.18. The success of the programme and surrounding publicity has also resulted in a number of referrals from the public. As a result of these a further five cases resulted in convictions.

POCA

1.19. In July the council's Proceeds of Crime Officer was transferred to the Corporate Fraud team. Officers are currently looking at ways of presenting meaningful measures for this work as there is a considerable lag between getting convictions, applying to the court for Proceeds of Crime and receiving the money.

2. Partnership Working

2.1. We continue to work in partnership with other local authorities, the police and UKBA. Earlier in the year Hillingdon was asked to become a pilot site for the DWP led Single Fraud Investigation Service, SFIS and agreement for this course of actions was obtained from the Leader. Hillingdon is one of four pilot sites nationwide; the others being Wrexham, Corby and Glasgow. Hillingdon is the only site being managed by a local authority; the others being managed by DWP.

2.2. As a result of this change five members of DWP's benefit fraud team joined Hillingdon's Corporate Fraud team on 5 November 2012 to form a SFIS. Staff working under the SFIS umbrella will investigate the entirety of DWP benefits and the HMRC working families' tax credits. While Hillingdon has always co-operated with other government departments where there were joint interests in a case, this is a new dimension. Hillingdon staff may be investigating cases where there is no Housing or Council tax interest and DWP seconded staff may be investigating issues that would normally have been dealt with solely by Hillingdon staff.

2.3. The DWPs intention is that all benefit fraud investigation will be under the SFIS by 2015. This will eventually include the new universal credit as it starts to replace other benefits. As a pilot site Hillingdon will be exploring and developing working methods that will eventually be used by all SFIS sites.

3. Protecting the Public Purse

3.1. In November the Audit Commission issued its annual publication, Protecting the Public Purse, (PPP) which focuses on the progress local government has made in tackling fraud. This was circulated to Audit Committee members separately.

3.2. In its summary at pages four and five, PPP includes some recommendations for those charged with governance in local authorities. The first of the recommendations is that PPP checklist is used to review counter-fraud arrangements. Officers have carried out this exercise and the results, with commentary, are in Appendix 1 to this document. Completing this assessment has confirmed that all current fraud risks are being managed

3.3. Some of the emerging risks are already being tackled and others will be planned into the work programme in the coming year. A summary of the status of the emerging risks is below

- ***Business Rates Fraud***

As described earlier in this report, Hillingdon already has an active visiting programme that proactively looks at business rates. The team will be working closely with the Revenues Manager in the coming year to ensure that this programme continues to be effective and is enhanced if issues emerge.

- ***Right to Buy***

We have been carrying out checks on right to buy (RTB) applications, especially where claimants are solely reliant on benefits. This has already prevented one fraudulent RTB case. Internal Audit has reviewed the valuations of properties to ensure that they were in line with market rates.

- ***Social Fund***

Internal Audit will review the proposed system once the scheme has been developed. Work on the operation of the system will be included in the Audit Plan for 2013-14 and it is likely that this will develop into a compliance programme going forward.

- ***Local Council Tax Scheme***

This will also be programmed for a systems audit in 2013-14 when the system is live and results will determine our strategy going forward.

- ***Fraud risk in schools***

We include tests that will identify fraud in our routine audit programme for schools. The document Fraud Risks in Schools was circulated to all schools last year and is available on the HGfL website. We produce regular newsletters for schools alerting them to external fraud risks and circulate fraud alerts to them as we become aware of them.

- **Grant Fraud**

Internal Audit will add grants to its systems work in 2013-14 and will develop some compliance work going forward.

4. Changes to RIPA legislation

4.1. From 1 November 2012 Changes to the Regulation of Investigative Powers Act (RIPA) have been enacted. The main effect of this is that local authorities can no longer authorised directed surveillance themselves. All directed surveillance must be authorised by a Justice of the Peace. The legislation only applies to non-benefit cases. Any benefit cases will be authorised by the DWP under the powers of the Single Fraud Investigation Service. Arrangements are in place with Legal to deal with non-benefit cases.

Protecting the Public Purse Checklist

Question	Response	Evidence
1. Do we have a zero tolerance policy towards Fraud	Y	Enshrined in anti-fraud and corruption policy and evidenced by action taken when fraud is discovered.
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with fighting fraud locally	Y Y	Yes brought to Audit Committee regularly
3. Do we have dedicated counter fraud staff	Y	
4. Do counter fraud staff review all the work of our organisation?	Y	Fraud plans are in place for the Corporate fraud team and in the Audit team; where individual audits consider the fraud risk and there is a separate detection programme for know risk areas.
5. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes	Y	Biannual reports to audit committee and quarterly updates on the outcomes of investigations.
6. Have we assessed our counter fraud work against good practice	Y	Protecting the Public Purses is used to assist in identifying new and emerging risks and to check that we are tackling all current issues.
7. Do we raise fraud risks with <ul style="list-style-type: none"> • New staff • Existing staff 	Y	E-learning fraud training is included in the induction checklist for new staff. Existing staff have e-learning and Bitesized training form managers.

Question	Response	Evidence
<ul style="list-style-type: none"> • Elected members and • contractors 		<p>Specific sessions have been run for elected members.</p> <p>A Compliance and Probity section is included in all Invitations to Tender, which asks for assurances on issues such as corruption, fraud and money laundering. Terms and conditions of contract allow Hillingdon the right of access to records and premises and for explanations to be provided when requested.</p>
8. Do we work will with national. Regional and local networks and partnerships to ensure we know about current fraud risks and issues?	Y	LBH is a corporate member of the National Anti- Fraud Network (NAFN), Local Authorities Investigation Officers Group (LAIOG), London Borough's Fraud Investigation Group (LBFIG) and the London Audit Group (LAG) fraud sub-group. We are represented on the executive of some of these bodies and various staff attend meeting and present papers from time to time. We also attend meetings run by the National Fraud Authority.
9. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	Y	We are currently a pilot site for the new Single Fraud Investigations Service (SFIS). Five DWP staff are now located at Hillingdon. SFIS necessitates significant liaison with DWP and HMRC. We are also working with some other local authorities on investigations of joint concern.
10. Do we identify areas where our internal controls my not be performing as well as intended? How quickly do we take action	Y	Much of this is identified through audit or investigation. Actions plans are agreed and these are monitored by the service and ultimately the audit committee. The committee has the power to ask Officers to appear

Question	Response	Evidence
		before it if resolution does not seem to be given appropriate urgency and the committee has exercised this power in the past.
11. Do we maximise the benefit of our participation in the audit commission National Fraud Initiative and receive reports on our outcomes	Y	Outcomes are reported to the committee. Where a specific case is pursued as a result of and NFI match this is included in the information provided to the committee at the time.
12. Do we have arrangements in place that encourage our staff to raise concerns about money laundering?	Y	These are published on Horizon
13. Do we have effective arrangements for <ul style="list-style-type: none"> • reporting fraud; • recording fraud; and • whistle-blowing 	Y	Set out in the anti-fraud and corruption policy, strategy and guidance. Suspected frauds and irregularities are recorded on appropriate systems and records are kept of whistleblowing allegations. The audit committee receives reports of outcomes of investigations.
14. Do we have fidelity insurance arrangements in place?	Y	
15. Have we assessed our fraud risk since the change in the financial climate?	Y	A structured anti-fraud plan based on risk was presented to the audit committee in June 2012.
16. Have we amended our counter-fraud action plan as a result	Y	See 15
17. Have we reallocated staff as a result	Y	Staff allocation is included in the plan, which indicated the days expected to be spent on various anti-fraud activities in-year
18. Do we take proper action to ensure we only allocate	Y	The housing allocation team apply rigorous checks

Question	Response	Evidence
social housing to those who are eligible?		
19. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	Y	We have an extensive anti-fraud detection programme running at the moment. 28 Properties were recovered in the last six months of 2011-12 and 30 properties have been recovered so far in 2012-13.
20. Are we satisfied our procurement controls are working as intended?	Partial	<p>There is an appropriate delegation and authorisation process in place.</p> <p>E-procurement controls for on-line day-to-day purchases are sound..</p> <p>Extensive work has been on-going to tighten controls in the construction area. Rapid improvement events have taken place and root and branch redesign is taking place in the area of major projects.</p>
21. Have we reviewed our contract letting procedures since the investigation by the Office of Fair Trading into cartels and compared them with best practice.	Y	This was done at the time and the project to enhance controls over major construction projects are and continuation of this work.
<p>22. Are we satisfied our recruitment procedures</p> <ul style="list-style-type: none"> • prevent us employing people working under false identities • confirm employment references effectively • ensure applications are eligible to work in the UK; and 	Y	<p>Our identity checks and right to work checks are strong and we impose the same strict conditions on our agencies.</p> <p>We may explore enhanced reference checks as part of our 2013-14 proactive anti-fraud work.</p>

Question	Response	Evidence
<ul style="list-style-type: none"> require agencies supplying us with staff to undertake the checks that we require? 		
23. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice.	Y	Internal Audit has been keeping up to date on developments and has done some work in the area. Some clients have moved over and more will follow this year. This area will be included for a full systems audit in 2013-14 and will be come part of our proactive anti-fraud work thereafter.
24. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	N	The monitoring officer will ensure that the whistleblowing policy is updated before the end of the financial year.
25. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	Y	We are current running a pro-active detection exercise in this area.
26. When we tackle housing and council tax benefit fraud do we make full use of; <ul style="list-style-type: none"> National Fraud initiative Department for Work and Pensions Housing Benefit Matching Service Internal data matching; and Private sector data matching 	Y	All of these techniques are used extensively in this area, Often highlighting other frauds in the process of investigation.

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2013-14 TO 2015-16

Contact Officer: Paul Whaymand
Telephone: 01895 566074

SUMMARY

The Annual Treasury Management Strategy is agreed by Full Council as part of the budget setting process each February. A draft of the strategy is brought before Audit Committee prior to Council to allow greater scrutiny. Whilst responsibility for daily decisions is delegated to the Corporate Director of Finance, any changes to the strategy during the year are reported to Cabinet with an explanation of the need for those changes. Cabinet are fully involved in Treasury Management activity and discuss the current position on a monthly basis at Cabinet meetings, as part of the budget monitoring report.

RECOMMENDATIONS

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 28 February 2013. Under delegated authority, the Corporate Director of Finance has the authority to take all executive decisions in relation to daily treasury management.
- 2 In developing the Treasury Management Strategy analysis of the latest market conditions is undertaken alongside a review of the Council's borrowing requirements, allowing experienced officers to develop a draft strategy for review. In considering the Council's investment opportunities, consideration is given to advice from Arlingclose, the Council's Treasury advisors, particularly in relation to where they advise against inclusion on the Council's Counterparty List. Less reliance is placed on their advice in relation to adding new counterparties to the list as the Council's strategy and the Corporate Director of Finance place much stricter conditions than those imposed by Arlingclose.
- 3 At this stage, the draft borrowing strategy for 2013/14 will maintain the approach of utilising internal resources to fund the majority of capital expenditure. The current interest rate environment of low investment returns compared with borrowing costs, results in a cost of carry on borrowed funds awaiting deployment. Where internal resources are unable to meet the capital expenditure requirement a variety of options will be appraised, but in reality, the Public Works Loan Board remains the primary and most likely source.
- 4 The investment strategy has been developed with the intention to maintain a broadly risk averse approach, whilst being able to seek an optimum yield within the security and liquidity restrictions. As uncertainty remains within the financial markets no

changes have been introduced into the Investment Strategy. However, the wording and formatting have been updated to make the strategy more readable.

- 5 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 Corporate Director of Finance under his delegated authority.
- 6 It should be noted that at this stage although a draft strategy for next year has been developed, 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. This will be fully reviewed by Cabinet on 14 February 2013, prior to the Strategy being presented to Council for approval on 28 February 2013.

BACKGROUND DOCUMENTS

None

Treasury Management and Investment Strategy 2013/14 to 2015/16

CONTENTS

1. Summary
2. Background
3. Balance Sheet and Treasury Position
4. Borrowing and Rescheduling Strategy
5. Annual Investment Strategy
6. Outlook for Interest Rates
7. Balanced Budget Requirement
8. Adoption of the CIPFA Treasury Management Code
9. 2013/14 MRP Statement
10. Reporting
11. Other Items

Appendices

- A. Current and Projected Portfolio Position
- B. Estimates of Capital Expenditure and Affordability Indicators
- C. Interest Rate Outlook
- D. Specified Investments for use by the Council
- E. Non-Specified Investments for use by the Council

1. Summary

- 1.1 This report sets out the context within which the Council's treasury management activity operates and outlines a proposed strategy for the coming year. The report considers the Council's borrowing and investment strategy alongside required Prudential Indicators. It also identifies risk reduction strategies that have been established to ensure the fundamental aims of security, liquidity and only then the optimisation of yield are successfully executed.
- 1.2 The Council is required to actively manage its substantial cashflows on a daily basis. The need to place monies in investments 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 2013 the Council's loan portfolio is expected to be £347m and the total value of investments are forecast to be £72m.
- 1.3 The Council's Capital Financing requirement (CFR) is a function of the Council's balance sheet and measures the underlying need to borrow for capital purposes. The projected CFR for 31 March 2013 is £425m, of which £179m is attributed to the General Fund (GF) with the remaining £246m within the Housing Revenue Account (HRA). The HRA CFR includes £191.6m of settlement debt undertaken in March 2012.
- 1.4 The Council's current and proposed ongoing strategy is to minimise borrowing to below the level of its net borrowing requirement. This is lower than the CFR and requires the use of internal borrowing. This approach reduces interest costs, lowers credit risk and relieves pressure on the Council's counterparty list. The debt portfolio will be monitored to take advantage of any potential refinancing opportunities that would deliver interest cost savings or rebalance the maturity structure of the portfolio.
- 1.5 Borrowing is restricted by two limits: the Authorised Limit, a statutory limit that sets the maximum level of external borrowing and the Operational Boundary, which is determined by both the estimated CFR and day to day cash flow movements. For 2013/14 the proposed Authorised Limit is £517m and the Operational Boundary is £487m.
- 1.6 In order to service the Council's day to day cash needs, the Council maintains a portfolio of short term investments and deposits. 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. This 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 holdings with institutions.
- 1.7 The security of any investment remains the primary consideration in decision making and a cautious approach is always 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. Officers regularly monitor all institutions on the counterparty list and will maintain an extremely cautious approach in determining counterparty institutions, maximum investment and length of investment.

- 1.8 Whilst potential developments to the investment strategy are monitored and reported throughout the year via monthly budget monitoring reports, continued pressure and uncertainty within the financial markets have led to no changes or extensions being proposed for the 2013/14.

2. Background

- 2.1. 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 consider and publish a Treasury Management Strategy Statement (TMSS), Prudential Indicators and Minimum Revenue Provision (MRP) Statement on an annual basis. The TMSS also incorporates the Annual Investment Strategy as required under the CLG's Investment Guidance.
- 2.2. The Council's Treasury Management operations are fundamentally concerned with the management of risk. The Council is responsible for its treasury decisions, management of loan/investment portfolios and cashflow activities. Whilst the regulations and controls that the Council elects to put in place are designed to minimise or neutralise risk, no treasury management activity is completely devoid of risk.
- 2.3. The purpose of this TMSS is to facilitate Council to approve:
- Treasury Management Strategy for 2013/14
 - Annual Investment Strategy 2013/14
 - Prudential Indicators for 2013/14, 2014/15 and 2015/16
 - MRP Statement
- 2.4. These strategies are formulated in conjunction with the Council's Medium Term Financial Forecast (MTFF) and consider the impact on the Council's Revenue and Capital Budgets. Prudential Indicators and the forecast Treasury position, alongside the projected outlook for interest rates, are key economic drivers in the development of the Treasury Management Strategy.
- 2.5. There exist numerous safeguards and regulations for which local authorities must have regard when creating their treasury strategies. Hillingdon complies with all relevant statute, guidance and accounting standards and in general maintains a precautionary, vanilla approach towards its treasury operations.
- 2.6. The average rate of interest paid on Council borrowing for 2012/13 will be 2.96% representing one of the lowest portfolio rates achieved in London in recent years. However, rates on investments are also very low and the Council's cautious strategy of only investing in highly rated UK banks has impacted returns resulting in an expected average rate of 0.68%. Rates are projected to be similar for 2013/14.

3. Balance Sheet and Treasury Position

- 3.1. The underlying need to borrow for capital purposes is reflected by the Capital Financing Requirement (CFR) which measures the cumulative capital expenditure that has not yet been financed from council resources. This, together with Balances and Reserves, are core drivers of treasury management activity. Estimates of the

CFR, based on the projected Revenue Budget and Capital Programmes over the next three years are shown in Table 1.

Table 1

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
General Fund CFR	179	221	226	232
HRA CFR ¹	246	251	251	243
Total CFR	425	472	477	475
Existing Profile of Borrowing and Other Long Term Liabilities ²	(349)	(339)	(329)	(317)
Cumulative Maximum External Borrowing Requirement	76	133	148	158
Usable Reserves ³	(47)	(39)	(36)	(34)
Cumulative Net Borrowing Requirement	29	94	112	124

1. The HRA CFR includes £191.6m of borrowing paid to central government in settlement on the introduction of the self financing regime introduced in March 2012.
2. The existing profile of borrowing does not include potential LOBO loan maturities which may or may not occur. Over the next three years, loans totalling £10m, £11m and £13m respectively will be in a state of call. Other long term liabilities include commitments under finance leases and private finance initiatives (PFI's).
3. The balances and reserves figures quoted above relate to core General Fund and HRA balances only. They do not include those balances on the Balance Sheet where the Council has no direct control, such as schools' reserves.

3.2. The Cumulative Maximum External Borrowing Requirement shown in Table 1 represents the projected amount of internal borrowing (the difference between CFR and actual physical borrowing undertaken) and is determined by available balances and reserves, plus working capital generated via daily cashflow activity. The current portfolio position is set out in Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining borrowing and investment decisions that are taken against the backdrop of 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 emergency short term cash flow requirements.

3.3. The Council's projected Capital programme over the next three years alongside the projected financing of this is fundamental in determining a borrowing strategy. The Prudential Indicators associated with capital expenditure projections and its incremental impact on council tax and housing rent levels are shown in Appendix B.

4. Borrowing and Rescheduling Strategy

4.1. The Council's external debt at 31 March 2013 (gross borrowing plus other long term liabilities) will be £349.2m (Appendix A). This is currently considerably lower than both the Operational Boundary and Authorised Limit.

- 4.2. During 2012/13 £10.3m of borrowing was repaid through scheduled installments and maturities with £6.8m attributable to the GF and £3.5m to the HRA. These repayment figures will be replicated during 2013/14.
- 4.3. The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is a statutory limit for borrowing determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Table 2

Authorised Limit for External Debt	2012/13 Approved £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Borrowing	496	515	513	518
Other Long term Liabilities	3	2	2	2
Authorised Limit	499	517	515	520

- 4.4. 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 scenario but without the additional headroom included within the Authorised Limit. This facilitates short term additional borrowing in the event of unforeseen adverse events.

Table 3

Operational Boundary for External Debt	2012/13 Approved £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Borrowing	466	485	483	488
Other Long term Liabilities	3	2	2	2
Operational Boundary	469	487	485	490

- 4.5. The Corporate Director of Finance has delegated authority, within the above limits, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such decisions will be based on the outcome of financial option appraisals and best value considerations based on current market and macroeconomic conditions. Cabinet is notified of any use of this delegated authority through monthly budget monitoring reports.

Gross Debt compared to the Capital Financing Requirement

- 4.6. This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for capital purposes, councils should ensure that debt does not, except in the short term, exceed the total Capital Financing Requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. The Council's gross debt is projected to be £76m below the CFR as at March 2013.

- 4.7. The Corporate Director of Finance will report that the Council has had no difficulty meeting this requirement in 2012/13, nor are there any difficulties envisaged for future years.
- 4.8. **Sources of Borrowing:** 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
- 4.9. During 2012/13 the PWLB introduced a new “Certainty Rate” which allowed council’s to avail themselves of a 0.2% reduction against normal PWLB lending rates if they were able to satisfy criteria regarding the use of future borrowing. The Council successfully applied for inclusion onto the “Certainty Rate” list of borrowers. Although a mix of borrowing options will always be considered, the PWLB will remain the primary source of borrowing whilst rates remain closely linked to government gilts that are at all time lows.
- 4.10. 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
- 4.11. Projected capital expenditure levels, market conditions and interest rate levels are monitored throughout the year in order to adapt borrowing strategies to minimise borrowing costs over the medium to longer term whilst maintaining financial 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 2013/14. 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 2013/14, be the most cost effective means of financing capital expenditure, however it is projected these will not fully defer the borrowing requirement and new loans of £30m are anticipated to be undertaken towards the end of the year. Financing costs associated with these are factored into future year’s revenue budgets via the MTFF process.
- 4.12. PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. The use of variable rate borrowing saves the Council revenue resources in the ‘cost of carry’ and is a very cheap form

of finance. However this type of borrowing injects volatility into the debt portfolio in terms of interest rate risk and exposure to variable interest rates will be kept under regular review. The Council currently has variable rate borrowing of £51.3m (of which £40m is HRA) at a rate of 0.62%.

- 4.13. The Council has £48m, of LOBO loans (Lender's Options Borrower's Option) of which £10m will be in their call period in 2013/14. 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 the option of 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. However the default response will be early repayment without penalty although it is highly unlikely that the loans will be called given interest rates are now lower than those at the inception of the loan.
- 4.14. There is a difference of £39m between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's balances and reserves. Under current market conditions, the Council intends to maintain its present strategy to only borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's counterparty list and to avoid the 'cost of carry'.
- 4.15. **Debt Rescheduling:** 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 and the Council's treasury advisors to identify opportunities for rescheduling.

- 4.16. Any borrowing and rescheduling activity is reported in monthly budget monitoring to Cabinet. However, unless premiums are significantly reduced, it is unlikely any debt rescheduling will be undertaken.
- 4.17. Where temporary borrowing is required this will be attributed directly to either the GF or HRA pools. Interest costs will be separated between the two pools and allocated accordingly.
- 4.18. The following Prudential Indicators shows the extent to which the Council is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not unduly exposed to interest rate rises, which could adversely impact its revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short term rates on investments.

Table 4

Upper Limits for Interest Rate Exposure	Estimated Level (or benchmark level at 31/03/13 %)	2012/13 Approved %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Upper Limit for Fixed Interest Rate Exposure on Debt	72	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	25	50	50	50	50
Upper Limit for Variable Interest Rate Exposure on Investments*	(100)	(100)	(100)	(100)	(100)

*Investments with duration less than one year are classified as variable.

4.19. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits shown in table 5 are intended to control excessive exposures to volatility in interest rates on the refinancing of maturing debt. The first scheduled LOBO call option has been included as the maturity date is within this indicator.

Table 5

Maturity structure of fixed rate borrowing	PWLB Estimated level (Benchmark level) at 31/03/13 %	Market LOBO 1st call option at 31/03/13 %	Lower Limit for 2013/14 %	Upper Limit for 2013/14 %
under 12 months	2.97	3.38	0	25
12 months and within 24 months	2.63	3.72	0	25
24 months and within 5 years	10.92	9.12	0	50
5 years and within 10 years	21.10	0.00	0	100
10 years and within 20 years	18.24	0.00	0	100
20 years and within 30 years	18.26	0.00	0	100
30 years and within 40 years	0.00	0.00	0	100
40 years and within 50 years	9.66	0.00	0	100
50 years and above	0.00	0.00	0	100
Total	83.78	16.22	0	100

5. Annual Investment Strategy

- 5.1. In accordance with Investment Guidance from CLG and best practice, the Council's primary objective in relation to the investment of public funds remains:
- security of the invested capital;
 - liquidity of the invested capital;
 - an optimum yield which is commensurate with security and liquidity.
- 5.2. Investments are categorised as 'Specified' or 'Non Specified' based on the criteria set out in the CLG Guidance. Definitions of these and financial instruments for the Council's potential use within its investment strategy are contained in Appendices D and E. The Corporate Director of Finance under delegated powers will, on a daily operational basis determine the most appropriate form of investments in keeping with investment objectives, income and risk management requirements and with reference to the Prudential Indicators. Decisions concerning the core strategic investment portfolio will be reported monthly to Cabinet.
- 5.3. Financial markets remain in a state of volatility as a result of European difficulties, policy uncertainties in US and generally weakened forecasts for growth. It is against this backdrop of uncertainty that the Council's investment strategy is framed and remains unchanged for 2013/14.
- 5.4. The Council's estimated level of investments at 31 March 2013 is projected to be £72m (Appendix A).
- 5.5. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate, money market rates and other macroeconomic factors. In any period of significant stress in the markets or heightened counterparty risk, the fall back position is for investments to be placed with central government's Debt Management Office (DMO) or UK Treasury Bills. The rates of interest from the DMO are below the equivalent money market rates, but this is an acceptable counterbalance for the guarantee that the Council's capital is secure.
- 5.6. Investment returns attributable to the HRA will be credited to the HRA and calculated in accordance to the CLG's Item 8 determination.
- 5.7. **Credit Risk:** The Council considers security, liquidity and yield, in that order when making daily investment decisions. Credit ratings remain an important element of assessing credit risk but they are not the sole feature in the assessment of counterparty credit risk. The Council also considers alternative assessments of credit strength and information including corporate intelligence 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.
 - 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.

- 5.8. The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2013/14. 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. Projected future interest rates provided by the Council's treasury advisors are shown in Appendix C.
- 5.9. With short term interest rates forecast to be 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.
- 5.10. In order to spread an investment portfolio largely invested in cash, investments will be placed with a range of approved counterparties designed to achieve a diversified portfolio of prudent counterparties, varying investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved and this is reviewed regularly
- 5.11. Money market funds (MMFs) are utilised, but good treasury management practice prevails and, whilst MMFs provide good diversification, the Council will also seek to diversify any exposure by utilising more than one MMF. The Council will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. Where MMF's participate, the Council utilises the facilities of a MMF portal to make subscriptions and redemptions. The portal procedure involves the use a clearing agent however the Council's funds are ring fenced throughout the process.
- 5.12. **Collective Investment Schemes (Pooled Funds):** The Council has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. Any investment in pooled funds will be regularly monitored for both performance and to ensure their continued suitability in meeting the Council's investment objectives.
- 5.13. **Investments which constitute capital expenditure:** Investments meeting the definition of capital expenditure can be financed from capital or revenue resources. They are also subject to the CLG's Guidance on "non-specified investments". Placing of such investments has accounting, financing and budgetary implications. Whilst it is permissible to fund capital investments by increasing the underlying need to borrow, it should be noted that under the CLG's Minimum Revenue Provision

(MRP) Guidance, MRP should be applied over a 20 year period. The Council has determined that it is not currently prudent to make investments which constitute capital expenditure. These would presently need to be sourced from revenue and therefore the requirement for MRP would make the investment unviable.

- 5.14. **The use of financial instruments for the management of risks:** Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the Council does not intend to use derivatives. Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.
- 5.15. The Council banks with HSBC Bank plc and it meets the minimum long term credit criteria of A- (or equivalent). 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.
- 5.16. 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. However, the Council's current strategy excludes investments for over a year and in the absence of borrowing in advance of need, this is likely to remain in place.

Table 6

Upper Limit for total principal sums invested over 364 days	2012/13 Approved £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
	80	64	58	66

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

6. Outlook for Interest Rates

- 6.1. The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose, is attached at Appendix C. 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.

7. Balanced Budget Requirement

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

8. Adoption of the CIPFA Treasury Management Code:

- 8.1. The Council approved the adoption of the CIPFA Treasury Management Code at its full Council meeting on 23 Feb 2012.

9. 2013/14 MRP Statement

- 9.1. 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.

- 9.2. 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.

- 9.3. MRP in 2013/14: 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.
- 9.4. The HRA will make a form of MRP to pay down its self-financing settlement debt of over the 30 year business cycle on which the settlement is based.

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

- 10.1. Treasury activity is monitored and reported to Senior Management on a daily and weekly basis. Monthly updates including Prudential Indicators are provided to Cabinet as part of the budget monitoring process.
- 10.2. 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.

11. Other Items

- 11.1. **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.

- 11.2. The Council adopts a continuous performance and development programme to ensure officers are regularly appraised and any training needs addressed. Treasury Officers 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.
- 11.3. Council Members receive information regarding treasury management as part of their general finance training. Access to additional training is provided where required.
- 11.4. **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.
- 11.5. The Council has a contract in place with Arlingclose Ltd to provide a treasury advisory service, which details the agreed schedule of services. Performance is measured against the schedule of services to ensure the services being provided are in line with the agreement.

EXISTING PORTFOLIO PROJECTED FORWARD

Table 7

	Estimated Portfolio as at 31/03/13 £m
External Borrowing:	
Fixed Rate – PWLB	248.0
Fixed Rate – Market	38.0
Variable Rate – PWLB	50.5
Variable Rate – Market	10.0
Total External Borrowing	346.5
Other Long Term Liabilities:	
PFI	2.4
Finance Leases	0.3
Total Gross External Debt	349.2
Investments:	
Short-term & Instant Access	72.0
Long-term investments	0.0
Total Investments	72.0

Estimates of Capital Expenditure and Affordability Indicators:

- i. 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. In an environment of 'low rates for longer' the Council's strategy is currently to defer external borrowing and use internal borrowing where possible, thus saving revenue interest cost of carry and simultaneously reducing counterparty investment risks.
- ii. Estimates for Capital expenditure shown in Table 8 and are estimates of likely capital cash outflows.

Table 8

Capital Expenditure	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
General Fund	87.3	57.5	91.6	56.0	41.5
HRA	17.9	6.7	26.0	17.0	10.0
Total	105.2	64.2	117.6	73.0	51.5

- iii. Capital expenditure is expected to be financed as follows:

Table 9

Capital Financing	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital Receipts	15.5	6.5	10.0	22.0	6.5
Government Grants	28.5	28.4	35.8	21.0	20.0
Major Repairs Allowance	8.3	8.3	8.3	8.4	8.5
Revenue Contributions	2.4	2.3	3.5	2.5	3.5
Total Financing	54.7	45.5	57.6	53.9	38.5
Other External Funding	3.3	-	-	-	-
Unsupported Borrowing	47.2	18.7	60.0	19.1	13.0
Total Funding	50.5	18.7	60.0	19.1	13.0
Total	105.2	64.2	117.6	73.0	51.5

- iv. **Actual External Debt:** This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Table 10

Actual External Debt as at 31/03/2013	£m
Borrowing	346.5
Other Long-term Liabilities	2.7
Total	349.2

- v. **HRA Indebtedness:** Following settlement and the introduction of the self-financing regime, a borrowing cap of £303.3m has been imposed by HM Treasury on HRA indebtedness. This gives the HRA potential headroom borrowing of upto £51.5m to finance future capital programmes following the first settlement debt principal repayment in 2012/13

Incremental Impact of Capital Investment Decisions:

- vi. As an indicator of affordability, Table 11 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 there are no consequential increases to Council Tax or Rents as much of the capital programme is funded from grants, the sale of released or newly created assets, revenue savings for invest to save schemes and additional rental income streams for HRA developments.
- vii. In addition, the notional increase shown in Council Tax is further exacerbated by reforms to the Council Tax benefit system which has the effect of reducing the tax base thus increasing the amount attributable to each band D property.

Table 11

Incremental Impact of Capital Investment Decisions	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Increase in Band D Council Tax	£15.27	£1.20	£13.18
Increase in Average Weekly Housing Rents	£1.20	£1.06	(£0.34)

- viii. 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 future revenue budgets required to meet borrowing costs. The ratio is based on costs net of investment income.

Table 12

Ratio of Financing Costs to Net Revenue Stream	2012/13 Approved %	2012/13 Revised %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
General Fund	4.00	3.58	3.83	4.05	4.78
HRA	28.11	19.58	20.05	20.36	19.46
Weighted Average	9.07	6.80	7.30	7.72	8.24

Arlingclose's Economic and Interest Rate Forecast

Table 13

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	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	-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
3-month LIBID													
Upside 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
Central case	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
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
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	1.50	1.40	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.80
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	0.25	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	0.60	0.60	0.70	0.70	0.70	0.80	0.80	0.90	0.90	0.90	0.90	0.90	0.90
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	0.50	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	1.50	1.40	1.50	1.60	1.60	1.70	1.70	1.80	1.80	1.80	1.90	1.90	1.90
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	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.50	2.40	2.40	2.40	2.50	2.50	2.60	2.50	2.50	2.60	2.60	2.60	2.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
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	3.00	2.90	2.90	3.00	3.10	3.10	3.20	3.20	3.20	3.20	3.20	3.30	3.30
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Underlying Assumptions:

Consumer Price Inflation is 2.5% having fallen from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated.

The third consecutive quarterly contraction in Q2 of 0.4% left the UK economy lagging behind its main competitors. There is renewed optimism for Q3 supported by strong employment data and declining inflation that should feed through some stability in real incomes. Underlying growth will probably remain soft in the near term whilst uncertainty over Europe persists.

Having voted to increase asset purchases (QE) by £50bn in July, the MPC will wait to assess its effectiveness and that of the Funding for Lending Scheme (FLS) which started in August. We do not expect a further monetary policy response until the final quarter of 2012.

Despite poor growth resulting in much weaker public finances than forecast and a slower pace of fiscal consolidation, the Chancellor is expected to maintain the deficit-cutting strategy in the Autumn Statement.

The US Federal Reserve has responded to the slowdown in growth and employment with QE3 with large scale asset purchases of \$40bn a month until the outlook for the labour market improves substantially. The US public finance 'fiscal cliff' nevertheless remains a serious risk unless a political solution is reached soon.

The optimism after the announcement of the ECB's Outright Monetary Transactions (OMT) initiative has eroded after Germany and other core Eurozone countries scuppered a deal that would have allowed Spain's banks to recapitalise. Contagion risk remains high; a solution to the Eurozone crisis is some way off as there is little appetite for fiscal reform and mutualisation of Eurozone sovereign debt liabilities remains politically unpalatable.

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; and
- 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.

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).

Specified investments will be made within the following limits:

Table 14

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

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty / Group Limit £m	Maximum Counterparty / Group Limit %
Term Deposits /Call Accounts	UK	Lloyds Banking Group (Including Bank of Scotland)	20	15
Term Deposits /Call Accounts	UK	Barclays Bank Plc	20	15
Term Deposits /Call Accounts	UK	HSBC Bank Plc	20	15
Term Deposits /Call Accounts	UK	Nationwide Building Society	20	15
Term Deposits /Call Accounts	UK	RBS Group (Royal Bank of Scotland and Nat West)	20	15
Term Deposits /Call Accounts	UK	Standard Chartered Bank	20	15
Term Deposits /Call Accounts	Australia	Australia and NZ Banking Group	15	15
Term Deposits /Call Accounts	Australia	Commonwealth Bank of Australia	15	15
Term Deposits /Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	15	15
Term Deposits /Call Accounts	Australia	Westpac Banking Corp	15	15
Term Deposits /Call Accounts	Canada	Bank of Montreal	15	15
Term Deposits /Call Accounts	Canada	Bank of Nova Scotia	15	15
Term Deposits /Call Accounts	Canada	Canadian Imperial Bank of Commerce	15	15
Term Deposits /Call Accounts	Canada	Royal Bank of Canada	15	15
Term Deposits /Call Accounts	Canada	Toronto-Dominion Bank	15	15
Term Deposits /Call Accounts	Finland	Nordea Bank Finland	15	15
Term Deposits /Call Accounts	France	BNP Paribas	15	15
Term Deposits /Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	15	15
Term Deposits /Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	15	15

Term Deposits /Call Accounts	France	Société Générale	15	15
Term Deposits /Call Accounts	Germany	Deutsche Bank AG	15	15
Term Deposits /Call Accounts	Netherlands	ING Bank NV	15	15
Term Deposits /Call Accounts	Netherlands	Rabobank	15	15
Term Deposits /Call Accounts	Netherlands	Bank Nederlandse Gemeenten	15	15
Term Deposits /Call Accounts	Sweden	Svenska Handelsbanken	15	15
Term Deposits /Call Accounts	Switzerland	Credit Suisse	15	15
Term Deposits /Call Accounts	US	JP Morgan	15	15

Note:

- The above list would change if a counterparty/country is upgraded, and meets our other creditworthiness tools or if a counterparty is downgraded.
- 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:

Table 15

	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 	<p>✓</p> <p>✓</p>	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 	<p>✓ (on advice from treasury advisor)</p>	6 Years	40 In Aggregate	No
Money Market Funds and Collective Investment Schemes, which are not credit rated	<p>✓ (on advice from treasury advisor)</p>	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.

Internal Audit Progress Report

Contact Officer: Helen Taylor
Telephone: 01895 556132

REASON FOR ITEM

This report provides the Audit Committee with a summary of Internal Audit (IA) activity in the period from 1 September 2012 to 22 November 2012. This fulfils the requirements of CIPFA's Code of Practice for Internal Audit in Local Government to bring to Members' attention periodic reports on progress against planned activity and any implications arising from Internal Audit findings and opinions.

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

OPTIONS AVAILABLE TO THE COMMITTEE

To note progress against the Internal Audit Plan for 2012-13 and the updated position of those audits undertaken in years 2009-10 2010-11 and 2011-12.

1. INFORMATION

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

2. Resources

2.1. Recruitment for a trainee auditor has been completed and the appointee will be starting in January 2013.

3. Progress against Plan and Follow up Status

3.1. During the period, four completed audits received Limited Assurance. Six received Satisfactory Assurance and three Full Assurance.

3.2. The current status of the 2012-3 plan is included in Appendix 1.

3.3. The progress and status of those audits carried out in, 2011-12 2010-11 and 2009-10 is included in Appendices 2, 3 and 4. The implementation rate for follow ups is 64% but this masks good progress in some audits, where all recommendations have now been cleared.

3.4. A short audit of Right to Buy Valuations was added to the plan because changing legislations led to a sudden increase in Right to Buy applications, which had tailed off in recent years.

3.5. The following Audits have been deleted from the 2012-13 Programme.

- **Schools' HR** – This was included because it was operating from a Hillingdon school. The school has since become an academy and the HR Cooperative has become a private company.
- **Highways Rhino Machines** – The Audit of Highways Reactive Maintenance included a review of this area and the business model was found to be operating satisfactorily.
- **Harlington Road Depot - Fuel** – Internal Audit have been tracking the progress of the 2010-11 audit, where the last recommendation has been implemented by the department but needs to operate for a few months to allow us to form an opinion on its day to day operation. Another audit this year will not add to what we already know about the improvements in this service.
- **Energy Usage** - the audit was originally planned to undertake post implementation review of projects relating to Energy Usage. However, the projects are in their infancy and are being discussed as part of the overall Carbon Reduction Strategy therefore this audit will be deferred.

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

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

Audit Title: Contracts – Final Accounts (Corporate Construction) (2011-12)

Assurance level: Limited

The Corporate Construction Projects Service (CCPS) is the support function to other services of the Council that project manages the construction of new facilities or refurbishment of existing facilities from which improved services can be provided to the community. Projects are developed in conjunction with the Client Service, from the design process and planning stages through to construction, completion and hand-over.

Upon completion of a contract, the contractors will submit their final account. This is comprised of detailed statements for any variations from the original contract sums and calculations of the final costs of works. The Council should ensure that it is accurate and relevant and confirm that prior payments, outstanding claims and retained values have been accurately accounted for.

The audit objective was to ensure that when final accounts are produced they are complete and accurate.

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

- Adjustment of contract provisional and contingency sums

- Release of retention monies

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
Contract variation instructions should be fully completed and record how each variation adjusts the contract sum total. If not recorded, the financial effect of variations may not be fully recognised resulting in poor contract cost control. The instructions should be subject to management overview and checking otherwise incorrect information may be recorded, resulting in contract and financial error not being realised.	High	08-02-13
All authorised copies of certificates issued under a contract should be retained on the project file. Authorisation should be evidenced by the relevant officer's manual written signature and printed name. Without such evidence, certificates may not be bona fide and any disagreements may be difficult to resolve.	High	08-02-13
Standards should be set for file structures with a checklist of the necessary documents and a system of cross referencing to the relevant document. Compliance with these standards should be regularly checked and evidenced by management to ensure records are complete and controls not missed or overlooked.	High	08-02-13
A comprehensive filing system should be established. Contract files should be numbered and securely filed and accessible from one location with restricted access, to prevent files being lost or destroyed and the information trail not being supported. Periodical management compliance checking should be undertaken and evidenced.	High	08-02-13
Contract information held electronically by staff should be saved to a shared computer drive so that information can be easily accessed if an officer leaves the Council. Guidelines should be developed and implemented for the electronic storing of contract information otherwise there would be difficulty in getting a complete view of a contract to ensure that the consistency of file information is being maintained. Without this,	High	08-02-13

management would not be aware if filing expectations are being met.

Project officer actions should be subject to regular checking by management during the currency of a contract otherwise inconsistent practices and error may result. The checking should be evidenced via a checklist. High 08-02-13

When a contract instruction is issued by an external consultant based on a contractor quotation, the quotation should be supplied to the Council for verification and agreement prior to the issuing of an instruction to the contractor. Without this, the quotation may be inflated resulting in the Council incurring extra expenditure than may otherwise apply. Medium 08-02-13

Staff should be reminded of Council policy and requirement for the application of liquidated and ascertained damages as allowed by contract, otherwise damages may not be recovered and incurring a loss to the Council due to staff misconceptions. The need to apply damages or otherwise should be verified by management and evidenced via a checklist. Medium 08-02-13

Fully certified Statements of Account should be held by the Council otherwise agreement to it by the Council and contractor would not be evidenced which could lead to difficulties in resolving disputes. Medium 08-02-13

Contract tender specifications held should include a breakdown of all costs so that the document can be used for accurate reference purposes and to defend any associated post contract claims. Medium 08-02-13

Management Comment

Corporate Construction have been the subject of a thorough review under the BID process. This has resulted in detailed working procedures and standardised templates being created. These are due for implementation by the end of November.

The Service is moving away from the retention of paper records and has devised a detailed file structure that accommodates the storage and usage of electronic information. This will be aligned with the processes and documents that have been devised as part of the BID review.

A Commercial team has been created, under the new post of Commercial Manager. This post has the remit to manage all financial aspects of the

construction process, including the production and reconciliation of the final account. This change has already resulted in improvements to the processes described above.

Although the results of the BID review will be implemented by the end of November, there have already been a number of improvements brought about by improved practices within the team. There has been a target date set for 8th February 2013 to resolve the issues identified in the audit. The points raised will all be adequately addressed by these dates, in accordance with the plan outlined above.

Audit Title: Direct Payments 2011/12 review

Assurance level: Limited

Concerns over the use of Direct Payments and the review processes in place for these clients were raised with Internal Audit. As a result, it was agreed with the Corporate Director of Social Care, Health and Housing that an audit of this service would be undertaken.

The Corporate vision is “Putting our residents first”. The objective is to improve and promote the health and well being of adults and older people.

Direct payments were introduced under the Community Care (Direct Payments Act) 1996. They are monetary payments made to individuals to purchase all or part of the care services that are required to meet their assessed needs.

The audit objective was to provide assurance to management on the adequacy, effectiveness and application of the key controls in relation to those service users in receipt of Direct Payments.

The audit was conducted just as the Functional Assessment in Care Environment, FACE, Resource Allocation System, RAS, and support planning processes in conjunction with pre-paid cards were being introduced as part of rolling-out Personal Budgets. The programme included transition of existing Direct Payment users to a pre-paid card and new ways of working. Given the timings, the audit scope did not include reference to these changes or how they would impact and improve current ways of working. This context needs to be borne in mind when reading the findings and recommendations in the summary and report.

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

- Assessment and Eligibility
- Roles and Responsibilities
- Completion of service users agreement

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed
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Audit Committee 6 December 2012
PART I – MEMBERS, PUBLIC & PRESS

		Target Date
There should be a formalised protocol between DASH and the Direct Payment Team on the exchange of information. This should include set timescales for DASH to notify the Direct Payments Team of any changes in circumstances to ensure services users' needs are met and correct payments made.	High	December 2012
The protocol should cover the requirement for DASH to report any findings to the DP Team on the quarterly monitoring reviews to ensure any findings of misuse of funds, unspent accounts or possible changes to service requirements are quickly followed up and promptly reclaimed.	High	December 2012
DASH quarterly service performance reports should include key performance indicators and outcomes regarding the support services they have provided during the quarter as this will ensure proper evaluation of DASH performances and outcomes.	High	December 2012
DP cases should be risked assessed as High, Medium or Low, and a decision made on how often and what type of financial review should be carried out for each risk category because without monitoring and review, DP funds could be open to abuse, misappropriation or mismanagement.	High	December 2012
A consistent procedure should be developed, agreed by senior management and implemented by the Direct Payment Team to suspend direct payments and put alternative care arrangements in place, if service users do not return their quarterly monitoring returns promptly otherwise there will be no incentive for service users to complete and return the form	High	December 2012
Revisions and updates to The Direct Payments policies and procedures should be finalised and circulated at regular intervals. Without circulation of policies and procedures, inconsistencies and errors might occur or decisions may be based on incorrect information leading to the wrong amount of direct payment being paid.	Medium	December 2012
Care management and/or Social Care Teams should put in place an action plan to clear any	Medium	December 2012

cases that have not had a care manager review within the last 12 months, prioritising those cases that have not had a review for the longest period. Without carrying out annual care package reviews on a timely basis the service users' needs might not be met and changes in circumstances might not be brought to the attention of Care Workers for appropriate action.

The DP service users' satisfaction survey format and content should be scrutinised by the Commissioning and the DP teams. DASH should be requested to send the completed client questionnaires with a summary of the results to the DP Team so that they can review the results and take any necessary action to address users' concerns.

Medium

December
2012

The ContrOCC payment system should be interfaced with Oracle Accounts Payable system to ensure faster, complete and accurate transactions

Medium

December
2012

The quarterly monitoring return form should be reviewed and updated with a view to adding a Data Protection declaration / statement, a clearer request to return the form with bank statements, other supporting documentation and a statement that if they do not return the form their direct payment might be stopped as this will serve as an incentive for service users to complete and return the form

Medium

December
2012

The excel checklist which records the submission and checking of quarterly returns and financial reviews should be kept up to date, password protected and regularly reviewed by management to ensure monitoring records of quarterly returns or annual financial reviews are kept up to date.

Medium

December
2012

Investigations into large unspent funds should be adequately recorded with activities undertaken, reasons and resolutions noted. This will reduce time being wasted on duplicating tasks and queries from service users cannot be clearly resolved which will lead to complaints.

Medium

December
2012

Management Comment

Since the audit was conducted a significant amount of work has been undertaken to address the risks identified and put in place improvement controls.

Over half of existing direct payment bank users have now been transferred to pre-paid cards. A reassessment programme for existing DP bank users has commenced and further service users will be transferred to pre-paid cards.

Prepaid cards give real time information on service user spend, identifying spend patterns which require investigation. The DP team are now determining risk based on the assessment of need and the amount of funds which are to be allocated, and are working with the person and their social worker on a case by case basis where anomalies are detected.

Fortnightly monitoring meetings now take place with DASH to cover service and performance and actively address any concerns regarding service users where there are anomalies.

The revised DP Policy has been drafted and is reviewed. Process maps have been drawn up and procedures drafted. A revised service user agreement has been prepared. The ContrOCC payment system is now interfaced with Oracle Accounts Payable system to ensure faster, complete and accurate transactions

Audit Title: Golf Courses Audit
Assurance level: Limited

This audit was identified as part of the annual audit plan for 2012/13.

Golf Hillingdon comprises of three golf courses within the Borough (Haste Hill, Ruislip & Uxbridge Golf Courses). In December 2011 management of the Golf Hillingdon transferred back to LBH from a company called Mack Trading. A fourth golf course, Stockley Pines, is managed in partnership with Picasso Stockley Restaurant Limited.

Mack Trading currently owes LBH a total sum of £275,669.32, for unpaid rents for the three golf courses relating to the last 12 months. The outstanding debt has been transferred to the Corporate Legal Section to arrange collection.

The objective of the audit was to ensure Golf Hillingdon is managed efficiently, effectively and economically.

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

- Golf courses rota system
- Public liability insurance

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed
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Audit Committee 6 December 2012
PART I – MEMBERS, PUBLIC & PRESS

		Target Date
The Green Spaces, Sport & Leisure Senior Manager should put in place a Golf Hillingdon Strategy with clear milestones and target dates, Once the strategy has been documented it should be formally approved, made accessible and circulated to all parties responsible and involved in Golf Courses. This will ensure resources are used efficiently, effectively and economically and the council's objectives and priorities are being achieved.	High	March 2013
Comprehensive procedures (covering Financial Management, Health and Safety, Performance Management and Customer Services) should be developed in line with the council's Financial Regulations and policies. To ensure consistent practices are adopted.	High	December 2012
The Golf Business Manager should ensure that daily income is independently checked by a second officer. This will ensure transactional errors and fraud do not go undetected and the Customer Services Assistant is not vulnerable to accusations of misappropriation.	High	December 2012
A safe register should be put in place to record all items going in and out of the safe at every golf course. This will ensure an audit trail is maintained.	High	December 2012
The Golf Business Manager should ensure an inventory is produced of stock in each shop and of equipment and vehicles on site and that subsequently regular checks are made. This will ensure that any misappropriation can be identified and that in the event of a fire there is a record of assets.	High	Implemented
The Head of Planning, Sport & Green Spaces should monitor progress of the implementation of the Health & Safety action plan. To ensure all Health and Safety regulations are being compiled with and council is not held liable for being negligent in the event of an injury or death.	High	April 2013
The documented financial procedures should include how any shortfalls identified on the daily income sheet should be recorded, investigated and reported. This will ensure short falls are recorded, investigated and reported.	High	December 2012
The Golf Business Manager should put in place arrangements to arrange for cash collection when	Medium	December 2012

the total in the safe is over £10,000. This will ensure cash and cheques do not remain vulnerable to theft.

All income should be reconciled on a daily basis. Reconciliations should be signed and dated by the officer who has prepared and reviewed reconciliation. This will ensure unauthorised transactions are detected. Medium December 2012

Management should ensure security alarms are operational at every golf course. This will ensure council property and assets are kept secure. Medium December 2012

The Green Spaces, Sport & Leisure Senior Manager should ensure a complaints procedure is developed and introduced to capture complaints regarding the golf course service and facilities. To ensure facilities and services at golf courses can be improved effectively. December 2012

Management Comment

The report was only issued on the 21st November. Officers are currently working through the recommendations to the agreed timelines. In the absence of corporate cash handling policy a draft has been written and is currently being tested to ensure its recommendations are practical, further amendments will be made to ensure it can be implemented successfully.

Audit Title: Harlington Road Stores – 2011/12 review

Assurance level: Limited

At Harlington Road depot, there is a store which stocks over 200 different lines of supplies and equipment worth over £65k. Although, it is mainly for the highways, street lighting and waste services divisions, other services can also utilise it.

The overall responsibility for this service rests with the Corporate Director of Planning, Environment, Education and Community Services (PEECS). Under the recent restructure, the responsibility for this store has been delegated to the Deputy Director - Public Safety (PEECS), who is based at the Civic Centre. However, the operational responsibility for managing this service on a day to day basis is delegated to the Waste Services Manager, based at the depot.

The viability of keeping this store open at Harlington Road depot has been under scrutiny and it has been decided to retain it for the foreseeable future. The Deputy Director - Public Safety is therefore seeking assurance on the adequacy and effectiveness of the systems and controls in place for requisitioning, storing, issuing, billing and security aspects of the current stores management service. Hence, this audit will be carried out as part of the annual audit plan for 2011/12.

The objective of the audit was to provide management with an assurance that the current systems and controls in place for managing the stores at Harlington Road depot were adequate and effective.

We were pleased to note that the Waste Services Management team of PEECS group took over responsibility for managing the stores at Harlington Road depot, at a short notice.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The Waste Services Manager should ensure that there are formally documented policies and procedures, on the day to day management of the stores service, which include appropriate management checks and that staff are trained in these. Without documented policies and procedures, inconsistent practices may develop which could lead to stores not being properly accounted for. Also, business continuity may be jeopardised in the absence of a key member of staff.	High	Dec 2012
The Waste Services Manager, in conjunction with corporate ICT, should consult the TRANMAN system supplier to confirm whether the crystal reporting software is the barrier, preventing the extraction of relevant information for recharging purposes. Without doing this it is not possible to ascertain if the problem is software or training related.	High	Jan 2013
If corporate ICT and the TRANMAN supplier confirms that crystal reporting software is an essential requirement, the Waste Services Manager should ensure that the Office Manager is immediately provided with that software and appropriate training. Without appropriate management information, a lot of unnecessary time and resources could be wasted.	High	Jan 2013
Until such times as the process is automated the Office Manager should produce monthly manual journals, for the accountant to recharge appropriate cost centres. If the relevant cost centres are not charged promptly and the service users not kept informed about those charges, there is a risk of them overspending.	High	Dec 2012
Relevant invoices / recharge schedules for all	High	Dec 2012

2012/13 requisitions should be produced from the TRANMAN system and sent to the relevant service users / budget holders for scrutiny. If adequate management information is not made available, the service users cannot comment on the accuracy of charges applied to their cost centre or manage their budgets efficiently.

The Waste Services Manager should ensure that there is a system in place, which ensures that the budget holder gets a copy of the SRIN showing what their staff have drawn from the stores. The budget holder should check those SRINs against the recharge schedules they receive from the Office Manager, to ensure that their cost centre is only charged for items they had drawn. Without a copy of SRIN, the budget holder may not be able to confirm conclusively whether they had been accurately charged.

High Nov 2012

Waste Services Manager should ensure that facilities management arrange the inspection of fire detecting and fighting equipment forthwith. There are Health and safety and other legal risks of not having a valid inspection certificate

High Nov 2012

The Deputy Director of Public Safety in the PEECS group should obtain Human Resources advice to revise the job descriptions of officers whose roles, responsibilities and reporting lines have changed. If the job description does not reflect the anticipated role and responsibility of the officer concerned, there may be implications when holding staff to account.

Medium Dec 2012

The Waste Services Manager should arrange TRANMAN training for himself, the Office Manager, the Technical Procurement and Stores Control Officer. Without appropriate training and knowledge of the full potential of any system, it is difficult to produce relevant management information.

Medium Feb 2013

The Waste Services Manager should compile a formal authorised signatory list, including the specimen signatures, of all bona fide line managers and supervisors from the different service areas, who can raise Stores Requisition and Issue Notes (SRINs). This should be periodically updated. Without a formal authorised signatory list, there is a risk of unauthorised withdrawal / issue of stock items.

Medium Dec 2012

The Technical Procurement and Stores Control Officer should have access to the authorised

Medium Dec 2012

<p>signatory list, which he should refer to when in doubt. Without specimen signatures, it cannot be established conclusively whether it has been issued by an authorised manager or team leader.</p>	Medium	Dec 2012
<p>The Waste Services Manager should ensure that the SRIN template is revised to include details of who has authorised, collected and issued items, with dates, and there is an agreed protocol for completing / using the SRINs, which is communicated to all concerned and is adhered to by all users of the stores service. If the protocol for requisitioning stock from the stores is not agreed and properly communicated to staff concerned, accountability will be diminished.</p>	Medium	Dec 2012
<p>The relevant Deputy Directors in the PEECS group should review and jointly decide who is responsible for managing the CCTV system. This should include a review of whether the CCTV cameras and/or the monitoring/recording system should be repositioned. Without clearly defined responsibility and monitoring, CCTV system may not be effective.</p>	Medium	Mar 2013
<p>The Waste Services Manager should ensure that periodic and documented sample checks of physical stock against the TRANMAN record are carried out by an officer independent of the day to day operation of the stores. Without these checks, the integrity of stock valuation may be compromised.</p>	Medium	Oct 2012
<p>A complete stock check, with the involvement of an independent officer, should be undertaken at least on a six monthly basis. Discrepancies may be difficult to investigate and resolve, if stock take / reconciliations are not done at reasonable duration.</p>	Medium	Nov 2012
<p>The Waste Services Manager should ensure that the Technical Procurement and Stores Control Officer processes all transactions on the TRANMAN system on the same day, or latest by the next working day, that the deliveries are received or stock is issued. Without up to date records, low stock level reports cannot be relied upon for decisions to re-order the stock.</p>	Medium	Nov 2012

Management Comment

Operation of the stores and the various systems and procedures are now undergoing a thorough overhaul in anticipation of merging with the much larger Housing Services stores function in early 2013.

As noted in the report, work had already started on systems and procedures since the the take over of the original stores function from fleet Services in April 2012.

It is noted that 6 monthly stock checks were already being carried out and that the other key audit recommendations will be implemented as per the Action Plan, and to align with the work now being done to combine Harlington Road stores with the Housing Services stores function.

Officers are in agreement with the final audit report and are pleased that their views were taken on board in the final version of the report

Audit Title: ICT Strategy
Assurance level: Satisfactory

An audit of the IT Strategy was undertaken as part of the approved internal audit plan for 2012/13.

The objective of the audit was to ensure an appropriate IT strategy has been documented and procedures are in place to oversee its implementation and delivery.

Hillingdon has a documented ICT Strategy 2012-2016 which is reassessed on an annual basis. The draft strategy was reviewed by each directorate's Change Board and then approved at the Business Transformation Board in March 2012. The strategy is accompanied by an action plan known as the 'Single Development Plan' which outlines projects driven from the strategy. Projects are managed by ICT Business Partners assigned to each Directorate. The overall strategy is monitored weekly by the individual Change Boards and monthly by the Business Transformation Board.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The ICT Strategy should be updated to ensure appropriate and effective alignment of technology and business objectives.	Medium	Completed 11/10/2012
A formal timeframe for council wide communication of the ICT Strategy should be agreed and adhered to. This will ensure staff are kept informed of their responsibilities with regards to implementing and adhering to the Strategy.	Medium	End of Nov 2012
During the initial specification of the tender process for the Legal Service Case Management	Medium	Completed 11/10/2012

System, consideration should be given to renting rather than purchasing the application. This will ensure compliance with the strategic aims outlined in the ICT Strategy.

Audit Title: Creditors
Assurance Level: Satisfactory

The Creditor’s team recognises the effect of the economic recession and aims to provide residents with value for money, through better control over ordering and paying for goods, works and services.

In November 2011, the e-Procurement solution was implemented which enabled goods, works and services to be procured in an approved and compliant manner and automated the application of corporate financial controls.

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

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

- Policies and procedures;
- Roles and responsibilities;
- Requesting, approving and receipting orders on i-Procurement;
- Urgent payments made in respect of non-invoices transactions;
- Performance management.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed target date
A monthly exception report should be devised from the Oracle Financials system which itemises all invoices on hold and requiring corrective action. Details should be sent to relevant line managers to ensure corrective action is taken and monitored. Failure to clear queried invoices could adversely effect supplier relations and Hillingdon’s credit rating.	High	October 2012
Management should explore the option of having an automated control (built into the Oracle Accounts Payable system) which forces a hold on payment for any new or changed creditor’s bank details until a second officer has verified them. Without this there is a risk that payments could be made to the wrong accounts either accidentally or deliberately.	High	October 2012

Audit Title: Hillingdon Grid for Learning
Assurance level: Satisfactory

Hillingdon Grid for Learning (HGfL) provides modern networking and computing services to local educational establishments and libraries.

The overall audit objective was to ensure that the HGfL has an appropriate control environment in place which provides for economy, efficiency and effectiveness of operations, with reference to policies and processes, procurement, service delivery, asset control and accounting and budget monitoring.

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

- Procurement
- Service Level Agreements
- Income
- Budget monitoring
- Staff declaration of interests

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The recording of assets in the inventory and their control should be compliant with Financial Regulations, otherwise ownership may be difficult to confirm and missing assets may not be realised.	High	December 2012
Appropriate asset disposals should be supported by signed written authority, cross referenced to an inventory recording. Without this, disposals could be made without good reason.	Medium	November 2012
An independent reconciliation of inventory records to purchase orders should be introduced by management, otherwise omitted assets may not be included in the annual check	Medium	March 2013
Staff should sign an acknowledgement where they hold an HGfL asset out of the office / at home otherwise the retrieval of an asset may be forgotten if a staff member leaves. Without this acknowledgement, inventory reconciliation checking could be compromised. Asset ownership	Medium	November 2012

and whereabouts could be disputed.

A written policy should be agreed on the use, storage and disposal of obsolete equipment taken from customers, otherwise the physical storage capacity would be reduced if obsolete equipment is inappropriately stored and stored for longer than needed and not disposed of within agreed timescales. Equipment could be used for unauthorised purposes.

Medium November
2012

Audit Title: Early Years Centres
Assurance Level: Satisfactory

The Early Years Centres provide day care, education and support to families with children under 5 years old.

There are different types of childcare and early years provision within the borough:

- Private nurseries which are independently run
- Local authority childcare and early years services which are managed by the local authority for children and their families
- Workplace nurseries run by employers for children of their employees

This audit focussed on those nurseries, known as Early Years Centres (EYC) that are run by the London Borough of Hillingdon (LBH). These centres provide both paid childcare places and supported access provision for vulnerable parents and children within the borough.

- The Early Years Centres we looked at were:
- Nestles Avenue, Hayes
- South Ruislip
- Uxbridge

The centres provide childcare and Early Years Foundation Stage (EYFS) learning, and development programmes for 0 – 5 year olds. The provision is delivered in conjunction with Children's Centre services that provide a range of complimentary services for children and families.

All Early Years Centres have had recent OFSTED inspections which looked at staff background checks, Criminal Records Bureau checks, qualifications and adherence to the curriculum. These matters were therefore not included within the scope of the audit.

The Early Years Provision has recently undergone changes in management and there are several areas, such as the fees, which are going to be reviewed. South Ruislip Early Years Centre moved to new premises in June 2011.

The objective of the audit was to test systems and processes for managing the financial and administrative business of the centres with a view to ensuring they are efficient, effective and economical.

We were pleased to find that all three centres had adequate controls in place for most areas.

There are some areas of weakness which relate to certain centres and some that are common to all centres. Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target date
At Nestles Avenue a 100% check on all childcare contracts should be carried out to ensure they are signed. If not, the Council effectively has no contract to care for the child which could lead to disputes over the care provision	High	April 2013
Each centre should ensure they maintain a comprehensive, up to date inventory which is checked by an independent officer on an annual basis. Failure to do so means that Financial Regulations are not being complied with and increases the risk of loss/theft of assets.	Medium	April 2013
The authorising officers at South Ruislip Early Years Centre should be reminded to sign the permission to spend vouchers for petty cash. Periodically, an independent check should be carried out by senior management to ensure this is being done, otherwise there is no evidence of who authorised the expenditure which could lead to problems if there was a dispute over the validity of a payment.	Medium	April 2013
The Manager of Nestles Avenue should ensure that delivery notes (where provided) are signed by the receiving officer to show that goods have been received and checked. If they are not signed there is no evidence to show who was responsible for taking delivery.	Medium	April 2013
The Child Care Voucher system needs to be reviewed as it currently causes problems due to the lack of standardised systems. Unnecessary, additional work is undertaken by staff trying to discover which child the voucher payments relate to.	Medium	April 2013
Fees should be compared to other nurseries on an annual basis to ensure they are not too high or too low which could have an adverse effect on placement take up and/or effect income levels.	Medium	April 2013

All centres should have a comprehensive checklist at the start of each file to ensure that all documents are accounted for and that agreements are signed. If the necessary documents are not obtained, the eligibility of the child cannot be proven.

Medium

April
2013

Audit Title: Commercial Waste Collection
Assurance level: Satisfactory

The Council has a legal obligation under the Environmental Protection Act 1990 to collect household domestic waste. There is no legal duty for a local authority to provide an added commercial waste service to businesses and other institutions. However, as there is no need to separate domestic waste collection from commercial waste collection, Hillingdon Council can provide a commercial waste service at a minimal extra cost. By charging for the service, a surplus can be generated which goes towards subsidising the costs of other waste and street cleansing services provided by the Council. The Council generates approximately £1.3 million from fees and charges in providing this service

In providing a commercial waste service, the Council is operating in an extremely competitive market, alongside private waste companies.

Currently, the provision of this service is going through a major modification, specifically related to income collection. At the time of writing this report, a new direct debit system of receiving payments is in the process of being implemented to replace the existing semi-annual invoicing method.

The objective of the audit is to review the arrangements in place to ensure the effectiveness, efficiency and effectiveness of the Commercial Waste Service.

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

- Commercial Waste Agreements
- Service Delivery
- Income
- Trading Account performance

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
Clear written policies, regarding the trade waste service's overall objective and strategy should be	High	March 2013

produced in addition to documented procedures detailing the process of completing the key administrative and operational tasks. Without polices and procedures there are risks to business continuity and inconsistent practices.

<p>A system of recording and monitoring the return of key documentation such as Agreements/Contracts, Bulk Bin Hire Agreements and Duty of Care Forms from customers should be implemented as the Council maybe held liable to certain risks, such as non payment and non compliance by customers, if a service was provided without the existence of appropriate documents.</p>	<p>Medium</p>	<p>December 2012</p>
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<p>Procedures should be written, detailing the actions and time limits, for pursuing outstanding payments under the new Direct Debit arrangement for collecting payment to prevent future losses in income and the inconveniences of late payments.</p>	<p>Medium</p>	<p>December 2012</p>
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<p>Credit notes should be raised by the Trade Waste & Recycling Officer and then checked and authorised by the Waste Development Manger, or in his absence the Waste Division Manager. Otherwise, without having a segregation of duties, errors in the amount calculated may not be identified or invalid credit notes may be raised resulting in a potential loss for the Council.</p>	<p>High</p>	<p>March 2013</p>
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<p>The Trade Waste & Recycling Officer should maintain a record of all deleted customers which have been processed through Onyx; and on a monthly basis, this Onyx report should be reconciled back to the TRAX (Trade Refuse Accounting) system to ensure it is up-to-date. Without this, there is a risk of customer's details remaining on the Trade Sheets and result in subsequent collections of commercial waste and losses for the council.</p>	<p>Medium</p>	<p>January 2013</p>
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Audit Title: Highways Reactive Maintenance
Assurance level: Satisfactory

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

Under the Highways Act 1980 London Borough of Hillingdon (LBH) has a statutory duty to repair and maintain its Highways. Works include road and

footway maintenance, drainage work, signs and street furniture, public footpaths and statutory bridle ways and winter road services. The Street Scene Maintenance Service looks after 682km of carriageway and 1,411km of footways.

The objective of the audit was to ensure that the Highways – Street Scene Maintenance Service is efficient, effective and economical.

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

- There is an annual inspection programme in place with an improving target achievement rate; from an overall 82% in 2009-10 to 96% in 2011-12 with 100% in all Primary and Secondary roads and footways.
- There is a rapid response team in place which carries out emergency repairs and 100% of the target is achieved.
- Post inspection checks are carried out to ensure quality and reduce repeat repairs.
- Appropriate permits that aim to minimise traffic congestion and hold ups are issued for street and highway works undertaken by utility companies.
- These permitted works are inspected during and post completion with fines applied and collected in appropriate cases.
- Budgetary control and monitoring procedures are in place and consistently applied.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The service should review the process for less urgent jobs to reduce the delays in the system and send jobs to the depot to be programmed into the next months schedule at the same time as they enter the approvals system. This will reduce the time between receipt of approval and carrying out the work.	High	January 2013
The team should review and analyse highways insurance settlements with a view to identifying ways of reducing risk.	Medium	January 2013
The Street Environment Service Manager (and Traffic Manager) should put in place a detailed timetable for completing the backlog of repairs. If the backlog of repairs is not completed within the set timescales the council may be exposed to greater risk of unnecessary insurance claims.	Medium	January 2013

Audit Title: Emergency Duty Team
Assurance level: Full

The Council has statutory duties and responsibilities under the Local Authority Social Services Act 1970 to provide services. Other related Acts are the Children's Act, Community Care Act, CSDPA, Mental Health Act, Asylum Act, and many more. The Emergency Duty Team is responsible for services provided for every other hour outside 9am to 5pm, totalling 128 hours per week.

Services also include assessing people under the Mental Health Act (MHA) as it is where the body is, not where the home responsibility lies. So, if they are from abroad the responsibility lies with Hillingdon Council. Anybody that is detained under the MHA from another country also becomes a temporary resident and some people can obtain rights under S117 Aftercare of the MHA.

There are also the asylum seeking children who become the responsibility of Hillingdon Council where we often have to provide placements etc.

The Emergency Duty Team (EDT) provides social care services to both adults and children outside of normal office opening hours. Calls are initially received by Careline staff from members of the public or from other agencies. The calls are passed to the EDT officer on duty who will prioritise calls and either deal with the queries over the telephone, redirect callers to another, more appropriate agency (such as the Police, ambulance etc) or become directly involved by face to face visits.

The objective of the audit is to ensure the Emergency Duty Team is working effectively, efficiently and economically.

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

- Procedures
- Case Management
- Staffing
- Performance Management
- Data Security
- Budget Monitoring

Improvements are needed to address risks in the following areas:

Control improvements required**Risk****Agreed
Target Date**

The call logs should be revised so that there is a column for both the time the Emergency Duty Team (EDT) officer was contacted by Careline and the time the EDT officer contacted the service user. Without both times recorded, it is difficult to monitor response times.

Medium

Implemented

**Audit Title: Adoption
Assurance Level: Full**

The Adoption Permanence Team (APT) recruit prospective adopters, carry out family finding when it is decided a looked after child or children should be put up for adoption and arrange for their placement once a match has been approved.

There are three types of placement the APT deal with – adoption, special guardianship (since 2006), and long term fostering (up to the age of 14). The APT also deals with step parent adoptions and inter-country adoptions.

The service is responsible for administering adoption allowances and other forms of financial support.

There are many statutory obligations they must abide by, such as the Adoption and Children Act 2002.

There is currently a national drive aimed at reducing the bureaucracy involved in the adoption process and the time it takes from identifying that a child would benefit from adoption to when the child is adopted by a suitable and stable family.

Ofsted have recently stated that any council which fails to place a child identified for adoption in a stable home within 12 months will be barred from achieving an outstanding rating.

The objective of the audit was to ensure that the Adoption Service is efficient, effective, and economical.

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

- Policies and procedures
- Recruitment of Adopters
- Placement of Children
- Payments
- Staffing
- Performance and Information Management
-

Improvements are needed to address risks in the following area:

Control improvements required

Social Workers should take copies of the evidence they obtain for financial assessments and retain it on file. Otherwise, there is no evidence that financial assessments have been calculated correctly which could lead to difficulties if an assessment was queried in the future.

Risk

Medium

Agreed target date

March 2013

Audit Title: Right to Buy Valuation (RTB)**Assurance level: Full**

The right to buy (RTB) process was introduced in 1980 to allow council tenants to buy their council homes at a discounted price. To qualify, tenants must have lived in their council house for five years as per section 51 Housing Act 2008.

The maximum RTB discount in Hillingdon was increased on the 2nd April 2012 from £16,000 to a maximum of £75,000. The valuation process was brought in house in November 2011 and assigned to the Estates team.

The Council has an average stock of 10,300 houses. The corporate vision is "Putting Our Residents First" while the objective is to continue to provide good quality housing to our residents.

The objective of the audit was to review the controls in place which ensure that the RTB valuation process is efficient, effective and economical.

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

- Valuation Process
- Roles and responsibilities
- Policies & Procedures

Employee Expenses

In 2011/12, Internal Audit provided advice on the proposed new system for employees to claim expenses and car mileage electronically. In 2012/13, we reviewed the controls and participated in the pilot scheme. Initially, this involved submitting test data to ensure that in-built controls were operating satisfactorily. This was followed by using the system to process valid claims for audit staff (in parallel with the paper based system). Our findings and recommendations have been fed back to Human Resources who have taken them on board. It is expected that the system will be rolled out to all Administration Services by March 2013. A full audit will be included in the plan for next year.

Investigation 63 was an allegation that information had been emailed to a third party. An examination of emails did not substantiate the allegation.

Schools' Audit

One school audit was finalised, Belmore Primary, which received Limited Assurance.

4. Follow up Audits

4.1. We continue to make progress in following up action points from previous audits. The table below lists those audits followed up in the period.

AUDIT TITLE	DATE ORIGINAL AUDIT ISSUED	HIGH	MEDIUM	LOW		IMPLEMENTED HIGH	IMPLEMENTED MEDIUM	IMPLEMENTED - LOW		NOT IMPLEMENTED HIGH	NOT IMPLEMENTED MEDIUM	NOT IMPLEMENTED LOW	REVISIED TARGET DATE
Investigation 56	Feb-12	3	1	0		3	1	0		0	0	0	N/A
Payments for Contingent Labour (on & off contract)	Jul-12	0	4	0		0	4	0		0	0	0	N/A
Investigation 30 (Rural Activities Garden Centre)	Oct-10	1	2	0		0	0	0		1	2	0	Nov-12
Glebe Primary	Jul-10	1	0	0		1	0	0		0	0	0	N/A
Whitehall Junior	Jun-11	0	1	0		0	1	0		0	0	0	N/A
Disabled Parking Bays (Anti Fraud)	Nov-11	0	1	2		0	1	2		0	0	0	N/A
IT Security & Data Handling	Jun-12	0	8	3		0	8	3		0	0	0	N/A
Carbon Reduction Commitment CRC	Feb-12	5	1	0		2	1	0		3	0	0	Nov-12
Leasehold Management and Service Charges	Jul-12	1	4	2		1	0	2		0	4	0	Dec-12
Mayoral Services 2nd Follow Up	Aug-11	0	1	0		0	1	0		0	0	0	N/A
Utilities Gas and Electricity	Mar-10	0	1	0		1	0	0		0	0	0	N/A
Hillingdon Homes Responsive Repairs 4th Follow Up	Oct-10	1	0	0		1	0	0		0	0	0	N/A
ICT Oracle Financial Debtor 3rd Follow Up	Jul-11	0	1	0		0	1	0		0	0	0	N/A
Improvement Projects 4th Follow Up	Jul-11	0	2	0		0	2	0		0	0	0	N/A
e-Invoicing System Follow Up	Apr-11	1	0	0		0	0	0		1	0	0	May-13
Fuel at Harlington Road Depot 3rd Follow Up	Jan-12	1	1	0		1	0	0		0	1	0	Dec-12
Subsistence 3rd Follow Up	Jul-10	2	0	0		2	0	0		0	0	0	N/A
Liquid Logic - PIR Review-Protocol	May-11	0	2	0		0	2	0		0	0	0	N/A

Fusion Contract Management 6th follow up	Jun-11	2	0	0		0	0	0		2	0	0	Feb-13
ICT Protocol - Adults and Children	Sep-11	0	1	0		0	1	0		0	0	0	N/A
Food Health and Safety 1st Follow-up	Aug-12	3	9	6		2	3	0		1	6	6	Apr-13
HR Payroll and Trigger Dates	May-12	0	8	0		0	5	0		0	3	0	Feb-13
3rd Greenwich Leisure Centre	Feb-12	2	1	0		0	0	0		2	1	0	Mar-13
ICT Penetration Testing Arrangements (HGfL)	Jan-12	0	1	2		0	0	2		0	1	0	Dec-12
Council Tax and NNDR 4th Follow Up	Jul-11	0	1	0		0	1	0		0	0	0	N/A
Passenger Services	Jun-12	1	3	0		0	2	0		1	1	0	Jan-13
2nd Debtors	May-12	0	1	0		0	1	0		0	0	0	N/A
		24	55	15		14	35	9		11	19	6	
% Implemented by Risk						58%	64%	60%					
Overall % Implemented										62%			
Overall % Not Implemented										38%			

5. Anti-Fraud work

Audit Title: Use of Purchase Cards

We carried out probity checks with the Council's Purchasing Card - "Rules of Use". We selected a sample cardholders and checked compliance with the following rules:

- Purchase cards were only used for low value, urgent items, when raising of a purchase order was not suitable;
- Users were not using cards in instances where there is an existing purchasing policy;
- All transactions greater than £250 for a single transaction and overall monthly spend limit of £1,000 were approved by the respective Head of Service prior to the transaction taking place;
- Users had evidence of purchases to support all transactions (i.e. receipts and delivery documents).

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

- The Contracts & Resources Manager at Brookfield must work with Procurement to ensure an adequate tender process is implemented for florists and contracts with suppliers put in place.
- The Head Procurement should liaise with the e-Procurement Manager and explore the benefits and possibility of procurement officers, receiving information on expenditure on an annual basis.

- The Purchase Card Policy should be amended to include a maximum ceiling which is in line with the Scheme of Delegation.
- Specific training should be provided to some managers on the rules around splitting purchases and requirements for reviewing P-card expenditure.
- The Purchase Card Rules of Use should be revised to provide clearer guidance on the control for card with a limit greater than £250, including the requirement to comply with delegation.
- An exception report should be produced of P-card items over £500 so that compliance checks can be carried out.
- The Purchase Card Agreement should be updated to include the clause, “In the event that a card holder repetitively does not retain receipts, the purchase card will be withdrawn.”
- A review of the P-card Agreements should be completed. New agreements should be signed for individuals where no agreement can be located.
- “Leaving Procedures” should be updated to specify that P-cards must be cut and returned to e-Procurement by managers.

Audit Title: Bribery Act

The Bribery Act 2010 came into force on the 1 July 2011. The Act is designed to address bribery and corruption in the public and private sector. Section 7 states organisations could be liable to unlimited fines if they fail to implement adequate procedures to prevent bribes being paid or received on their behalf.

However, there is a defence under section 9 for the organisation if it can prove it had adequate procedures designed to prevent persons associated with it from undertaking such conduct. If the council can demonstrate they have implemented “adequate procedures” to prevent bribery, this provides a defence.

We were pleased to report the Bribery Act 2010 is adequately covered in existing policies i.e. Anti Fraud and Corruption, Anti-Money Laundering Policy, Gifts & Hospitalities, Code of Conduct for Staff and Members.

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

- A periodical survey should be undertaken to confirm staff awareness.
- The Fraud Awareness E-Learning course should be amended to include content from the “Bribery Act 2010” and give some examples.

National Fraud Initiative

5.1. All data sets have now been sent to the Audit Commission for matching. Results are expected in January 2013, when they will be examined and followed up as necessary.

The teacher highlighted by a NFI match as having committed ID fraud was sentenced to four months in prison suspended for two years and 50 hours of community service.

Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
CROSS CUTTING CORPORATE ISSUES							
Anti Fraud and Investigation							
National Fraud Initiative (NFI)	Ongoing						
Fraud Awareness	Ongoing						
Fraud/Irregularity Investigations							
Planned proactive:							
Professional Fees	Finalised	23/4/2012	N/A	May 2012	0	0	0
Employee Expenses	Finalised	12/11/2012	N/A		1	1	0
Use of Purchase Cards	Finalised	20/09/2012	N/A		6	3	0
Single Tender Actions							
Compliance with Quotes & Tenders							
Council Tax Student Exemptions							
Succession Tenancies							
Bribery Framework – specific service	Finalised	01/10/2012	N/A		0	3	1
Data Matches							
Other Cross-Cutting							
Annual Governance Statement - Audit	Completed		N/A				
Advice and Information (Ad hoc)	Ongoing						
Consultancy Advice - Specific Projects							
Employee Expenses - Automated Payments	Completed		N/A		0	0	0
Insurance - Risk Mitigation							
Voluntary Organisations Support							
Supplier Viability							
Establishment Audits - to be determined							
Misc Audit tasks							
Follow ups	Ongoing						
Brought forward Audits	Ongoing						
CENTRAL SERVICES							

Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Democratic Services							
Registration Services	In progress						
Finance							
NNDR							
Value Added Tax	Planning						
Treasury Management							
Human Resources							
Personnel Records							
HR Operations Processing							
Sickness Absence	Drafting						
Schools' HR	Deleted						
Overtime and Standby Payments							
CRB and Professional Association Checks							
Policy, Performance & Partnerships							
Performance Management							
PLANNING, ENVIRONMENT, EDUCATION & COMMUNITY SERVICES							
Corporate Property & Construction							
School Building - Project Mgt Phase 2							
Education							
Childrens' Centres							
Music Service	In progress						
Rural Activites Garden Centre							
School Admissions Service	Planning						
Schools - Primary							
Belmore Primary	Finalised	21/11/12	Limited		4	5	3
Charville Primary							
Colham Manor Primary	Draft issued						

Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Cranford Park Primary							
Field End Junior							
Harlyn Primary	Drafting						
Hayes Park Primary							
Hillingdon Primary							
Hillside Junior	In Progress						
Pinkwell Primary							
William Byrd Primary							
Wood End Primary							
Schools - Special							
Chantry	Drafting						
Schools - Secondary							
Abbotsfield							
Harlington Community	Draft Issued						
Ruislip High School							
ICT, Highways & Business Services							
CRC Efficiency Scheme	Completed data check	July 2012	N/A	N/A	0	0	0
IT Security & Data Handling	Completed	June 2012	Limited	October 2012	0	0	0
Highways – Rhino Machines	Deleted						
Harlington Road Depot – Fuel	Deleted						
Energy Usage	Deferred						
Facilities Mgt - Mechanical & Electrical	Drafting						
Planning, Sport & Green Spaces							
Mayoral Community Infrastructure Levy	Planning						
Trees - Compensation Claims							
Golf Courses	Finalised	November 2012	Limited		7	5	1

Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Blue Badge Scheme	In progress						
Public Safety							
Investigations Team							
Public Safety Contracts	Planning						
Commercial Waste Collection	Finalised	November 2012	Satisfactory		1	5	3
Waste Disposal - All Waste	Planning						
Libraries	In progress						
Licensing Services	Drafting						
Application Processing Team							
Transportation & Planning Policy							
Chrysalis	In progress						
SOCIAL CARE, HEALTH & HOUSING							
Access & Assessment							
Self Directed Support							
Assessment & Care Mgt - Adults	Planning						
Mental Health Service	Planning						
Children & Families							
Children's Placements							
Looked After Children 21-25 Education	In progress						
Residential Services - Children	In progress						
Referral & Assessments - Children	Planning						
Youth Offending Service	Planning						
Personalised Services							
Homecare - External Provision	Drafting						
Adult Care Scheme	In progress						
Disabilities Service - Adults							
Homecare In-House Provision							
Commissioning, Contracts & Supply							

Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Contracts & Inspection Service - SCHH							
Brokerage - Social Services	Planning						
Commissioning Third Sector Providers	In progress						
Other							
Support to Carers	In progress						
Housing Needs							
Private Sector Housing							
HMO Licensing	Draft issued						
Housing Benefit Subsidy	In progress						
Empty Property Management	Draft issued						
Council House Aids & Adaptations	In progress						
Housing Maintenance							
Housing Services Major Works							
Housing Gas & Other Servicing Contracts							
Housing Stock Data	Drafting						
Housing Management							
TeleCareLine	In Progress						
Caravan Site	In Progress						
Caretaking Services on Estates	Planning						
ICT auditors - various - contractor							
Disaster Recovery	Draft Issued						
ICT Strategy	Finalised	Oct 2012	Satisfactory		0	3	0
Desktop Refresh Programme							
Web & Network Security							
Electronic Document Management - Setting up Storage and automatic deletion of records	In Progress						
Onyx upgrade							
Technical Input							

Internal Audit Plan 2012-13 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Contingency							
Hillingdon Grid for Learning	Completed	29/10/12	Satisfactory	N/A	1	5	4
Building Maintenance - Statutory Requirements	Drafting						
Housing Repairs							
Right to Buy Valuations	Completed	1/10/2012	Full	N/A	0	0	0
Investigations							
Investigation 061	Closed						
Investigation 062	Closed						
Investigation 063	Closed						

Internal Audit Plan 2011-12 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
CROSS CUTTING CORPORATE ISSUES							
Anti Fraud and Investigation							
- Disabled Parking Bays	Finalised	07/11/11	N/A	October 2012	0	0	0
- Mayoral Services	Finalised	22/8/11	Satisfactory	October 2012	0	0	0
- Compliance with Driving Policy (Non council vehicles)	Finalised	24/05/12	N/A	In progress	2	2	0
CENTRAL SERVICES							
Finance							
Creditors	Finalised	04/10/2012	Satisfactory		2	1	1
Debtors	Finalised	17/05/2012	Satisfactory	November 2012	0	0	0
Human Resources							
HR Payroll Changes & Trigger Dates	Finalised	02/05/2012	Satisfactory	November 2012 – Feb '13	0	3	0
Audit & Enforcement							
Planning Enforcement (Back into PEECS)	Finalised	9/8/2012	Satisfactory	In Progress	3	12	0
SOCIAL CARE HEALTH & HOUSING							
Adult & Older People Services							
Critical Team	Finalised	09/11/11	Satisfactory	August 2012 – Revised date Dec 2012	1	1	0
Self Directed Support	Draft issued						
Children's Social Services							
Fostering	Draft issued						
Adoption	Finalised	24/09/12	Full	N/A	0	1	3
Emergency Duty Team	Finalised	21/11/12	Full		0	1	0
Hillingdon Housing Services							
Housing Repairs & Maintenance -	Finalised	30/11/2011	Limited	In Progress	2	2	0

Internal Audit Plan 2011-12 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Responsive							
Housing Repairs & Maintenance - Planned, including Major Works	Finalised	05/01/2012	Satisfactory	Followed up May 2012 revised date April 2013	0	1	0
Leasehold Management & Service Charges	Finalised	26/07/2012	Satisfactory	October 2012, revised dates December 2012	0	4	0
PLANNING, EDUCATION SERVICES	ENVIRONMENT & COMMUNITY						
Street Environment							
Street Lighting	Finalised	29/11/11	Limited	August 2012 Revised date December 2012	1	2	0
Highways - Reactive Maintenance	Finalised	21/11/2012	Satisfactory		2	2	1
Corporate Construction							
School Building Programme - Permanent	Draft issued						
School Building Programme - Temporary	Draft issued						
Construction Contracts - Final Accounts	Finalised	08/11/12	Limited		9	5	0
Green Spaces, Sport & Leisure							
Greenwich Leisure Ltd Contract	Finalised	13/02/12	Limited	Nov 2012 – Revised date Mar 2013	2	1	0
Transport Services							
Fuel at Harlington Road Depot	Finalised	24/01/12	Limited	Nov 2012 – Revised date Dec 2012	0	1	0

Internal Audit Plan 2011-12 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Stores at Harlington Road Depot	Finalised	8/11/12	Limited		7	10	1
Property Services							
Utilities Contracts - Water	Finalised	30/05/2012	Limited	Dec 2012	3	0	1
Consumer Protection							
Food Health & Safety Services	Finalised	20/08/12	Limited	Nov 2012 – Revised date Apr 2013	1	6	6
Business Services							
Heathrow Imported Food Unit	Finalised	4/4/12	Satisfactory	Revised date Nov 2012 – Follow up in progress	0	4	0
Passenger Services	Finalised	25/06/12	Limited	November 2012 revised date Jan 13	1	1	0
Cemeteries	Finalised	12/09/11	Satisfactory	June 12 – revised date Dec 12	0	1	0
ICT							
Customer Contact Centre	Finalised	15/12/11	Satisfactory	Revised date Aug 12 – Follow up in progress	1	1	0
Youth Services							
Youth and Connexions Services	Finalised	7/10/11	Satisfactory	August 12 - Revised date March 13	0	1	0
Other Education							
Pupil Referral Unit	Finalised	20/07/12	Limited	Follow-up in progress	3	7	3

Internal Audit Plan 2011-12 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Early Years Centres	Finalised	21/11/12	Satisfactory		3	7	3
Schools - Primary							
Minet Infants	Finalised	16/11/11	Satisfactory	June 12 revised date Dec 12	0	1	0
Holy Trinity Primary	Finalised	29/03/2012	Satisfactory	In progress	0	4	2
Hermitage Primary	Finalised	21/11/11	Satisfactory	In progress	0	4	0
Harmondsworth Primary	Finalised	16/1/12	Satisfactory	In progress	1	3	1
Whitehall Junior	Finalised	29/06/2011	Satisfactory	September 2012	0	0	0
Deansfield	Finalised	3/11/11	Satisfactory	October 2012	0	0	0
St Bernadettes	Finalised	1/03/12	Satisfactory	In progress	1	2	3
St Swithun Wells	Finalised	26/03/2012	Full	In progress	0	1	0
Special							
Meadow	Finalised	26/04/2012	Satisfactory	In progress	1	4	2
Nursery Schools							
McMillan Nursery	Finalised	12/12/11	Satisfactory	In progress	1	3	1
ICT audit contract							
ICT Penetration Testing Arrangements (HGfL)	Finalised	18/01/2012	Satisfactory	November 2012 revised date December 2012	0	1	0
Adults and Children's Protocol	Finalised	12/09/2011	Limited	November 2012	0	0	0
IT Security and Data Handling	Finalised	2/07/2012	Limited	October 2012	0	0	0
Contingency Audits							
New Year's Green Lane Weighbridge	Finalised	19/06/12	Limited	Follow up in progress	5	8	7
Payments for Contingent Labour (on and off contract)	Finalised	17/07/12	Satisfactory	September 2012	0	0	0

Internal Audit Plan 2011-12 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
Direct Payments	Finalised	6/11/12	Limited		6	6	0
Investigation 056	Finalised	Feb 2012	N/A	September 2012	0	0	0
CRC Energy Efficiency Scheme	Finalised	15/02/2012	Limited	Follow up Oct 2012 revised date Dec 2012	3	0	0
Investigation 057	Closed	20/08/2012	N/A	N/A	N/A	N/A	N/A
Investigation 060	In Progress						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
CROSS CUTTING CORPORATE ISSUES							
Subsistence	Finalised	9/7/10	Satisfactory	November 2012	0	0	0
FINANCE & RESOURCES							
CT/NNDR - System	Finalised	14/7/2011	Satisfactory	November 2012	0	0	0
DCEO							
Learning & Development	Finalised	01/07/11	Satisfactory	March 2012 revised date Aug 2013	0	1	0
EDUCATION & CHILDREN'S SERVICES							
Schools - Primary							
Glebe Primary	Finalised	19/7/10	Satisfactory	September 2012	0	0	0
People with Physical and Sensory Disability							
Children with Disabilities - Transition	Finalised	14/09/11	Limited	In progress	1	1	1
OTHER ADULT SERVICES							
Safeguarding Adults	Finalised	18/05/11	Satisfactory	August 2012 revised date Dec 2012	0	1	0
ENVIRONMENT AND CONSUMER PROTECTION							
Improvement Projects	Finalised	5/7/2011	Satisfactory	November 2012	0	0	0
Property							
Facilities Management Contract	Finalised	6/10/11	Limited	In progress	1	2	1
Arts, Culture, Libraries & Adult Education							

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
Culture and Arts Strategy	Finalised	11/11/10	Satisfactory	In progress	1	0	0
Sport and Leisure							
Fusion Management Contract	Finalised	06/07/11	Limited	November 2012 revised date February 2013	2	0	0
Contingency							
Investigation 030	Finalised	15/10/10	N/A	September 2012 revised date November 2012	1	2	0
ICT audit contract							
Liquid Logic – PIR Protocol	Finalised	May 11	Limited	November 2012	0	0	0
Oracle Financials- Debtors	Finalised	July 11	Limited	In progress	0	0	0
E-Payments	Finalised	April 11	Limited	Followed up November 2012 – Revised date May 2013	1	0	0
Information Assurance & Security	Finalised	31/1/11	Satisfactory	November 2011 – Revised date Dec 2012	0	1	0
Hillingdon Homes Audits by Mazars							
Housing – Responsive Repairs	Finalised	Aug 10	Substantive	Nov 2012	0	0	0

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up and Revised Date	Number of outstanding recommendations		
					H	M	L
DEPUTY CHIEF EXECUTIVE/FINANCE & RESOURCES							
Corporate Property							
Utilities Contracts Gas & Electricity	Finalised	26/03/10	Satisfactory	November 2012	0	0	0
ENVIRONMENT & CONSUMER PROTECTION							
Highways Planned Maintenance	Finalised	26/01/10	Satisfactory	Revised date Sept 2012 – Follow up in progress	0	3	0
CHILDREN'S SERVICES							
Asylum Accommodation	Finalised	23/04/10	Satisfactory	Revised date Sept 2012 - Follow up in progress	0	3	0
Learning Disabilities							
Sec 75 Agreement (Funding of LD Services)	Finalised	6/10/10	Satisfactory	Nov 2011 – revised date Mar 2013	0	1	0

Agenda Item 8

WORK PROGRAMME 2012/13

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
26 June 2012	CR 2
20 September 2012	CR 3
6 December 2012	CR 5
12 March 2013	tbc

AUDIT COMMITTEE

2012/13 DRAFT Work Programme

26 June 2012	Corporate Fraud Team Work Plan	Head of Audit & Enforcement
	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 and Corporate Director of Central Services / Head of Policy
	Head of Audit Annual Assurance Statement	Head of Audit & Enforcement
	Internal Audit Progress Report	Head of Audit & Enforcement
	Audit Committee Annual Report to full Council	Head of Audit & Enforcement
	Audit Committee Work Programme	Democratic Services Manager

Meeting Date	Item	Officer/member
20 September 2012		
	Approval of the 2011/12 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2012	Deputy Director of Finance/Deloitte
	Deloitte Annual Audit Letter	Deputy Director of Finance/Deloitte
	External Audit Report to the Audit Committee on the 2011/12 audit of the Pension Fund Financial Statements	Deputy Director of Finance/Deloitte
	Internal Audit Progress Report and plan amendments	Head of Audit & Enforcement
	Risk Management Quarter 1 Report – PART II	Head of Policy
	Audit Committee Work Programme	Democratic Services Manager

6 December 2012	* Private Meeting with External Auditors to take place before the meeting	
	Internal Audit Progress Report and plan amendments	Head of Audit & Fraud
	Treasury Management Strategy 2013/14	Corporate Director of Finance
	Internal Audit Corporate Fraud Update	Head of Audit & Fraud
	Audit Committee Work Programme	Democratic Services Manager

12 March 2013	* Private meeting with the Head of Audit & Enforcement to take place before the meeting	
	Internal Audit Progress Report	Head of Audit & Fraud
	Internal Audit Strategy	Head of Audit & Fraud
	Internal Audit Operational Plan	Head of Audit & Fraud
	Review of Internal Audit Terms of Reference,	Head of Audit & Fraud
	Annual Governance Statement – Interim Report	Chief Executive and / Head of Policy
	Report on the Revisions to the Treasury Management Strategy Statement and Investment Strategy	Corporate Director of Finance
	Balances and Reserves Statement	Corporate Director of Finance
	Deloitte Annual Grant Audit Letter	Corporate Director of Finance/Deloitte
	Deloitte – 2012/13 Annual Audit Plan	Corporate Director of Finance/Deloitte
	Risk Management Report Part II	Head of Policy
	Audit Committee Work Programme	Democratic Services Manager

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Annual Review of Internal Audit - Proposal

Contact Officer: Helen Taylor
Telephone: 01895 556132

REASON FOR ITEM

The Accounts and Audit regulations 2011 require that the organisation conduct annually a review of its Internal Audit.

The committee now needs to decide how this review should be carried out for the 2012-13 year.

OPTIONS AVAILABLE TO THE COMMITTEE

To accept the proposal that the Head of Audit carry out a self assessment of Internal Audit for the 2012-13 year; or.

To propose and alternative arrangement

1. INFORMATION

1.1. The Accounts and Audit regulations 2011 require that the organisation conduct annually a review of its Internal Audit. Guidance on what should be included in the review is currently provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its publication, The Code of Practice for Internal Audit in Local Government in the United Kingdom.

1.2. In previous years this review has taken various forms, such as self assessment, review by the committee itself and an external review. Last year an external review was carried out by the Head of Audit at the City of London. This was reported to the committee in June 2013 and included some best practice recommendations. The committee now needs to decide how it would prefer this review to be carried out in 2012-13.

1.3. In August 2012 CIPFA issued a consultation document to ask for local government views on the UK Public Sector Internal Audit Standards (PSIAS); as set of standards agreed by the CCAB accounting bodies and the Institute of Internal Auditors (IIA). The purpose of the PSIAS is to have a set of common standards for internal audit across all the bodies, which align to the overarching IIA standards. The consultation closed on 1 October 2012 and the standard is expected to be issued as a final and applicable by March 2013. Therefore any assessment of internal audit will be against this revised standard. It is expected that CIPFA will issue guidance on compliance in March 2013.

1.4. Officers have reviewed the draft standards and there is nothing fundamentally different from the current standards. It is therefore not expected that there will be substantial deviation from the new standards.

1.5. One point of note in the new standard is that it recommends only a periodic review of Internal Audit, though we will be bound by the Accounts and Audit regulations to carry out an annual review. However, the standard recommends that an independent external review is carried out at least every five years. There are no indications to suggest that this will be any more frequent for local authorities.

1.6. Having had an external review for the last financial year, it is therefore recommended that the assessment in 2012-13 be carried out as a self-assessment by the Head of Audit and that the assessment is against the revised standards.