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Audit Committee

Date:	**TUESDAY, 12 MARCH 2013**
Time:	**5.00 PM**
Venue:	**COMMITTEE ROOM 3A - CIVIC CENTRE, HIGH STREET, UXBRIDGE UB8 1UW**
Meeting Details:	Members of the Public and Press are welcome to attend this meeting

Members on the Committee

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

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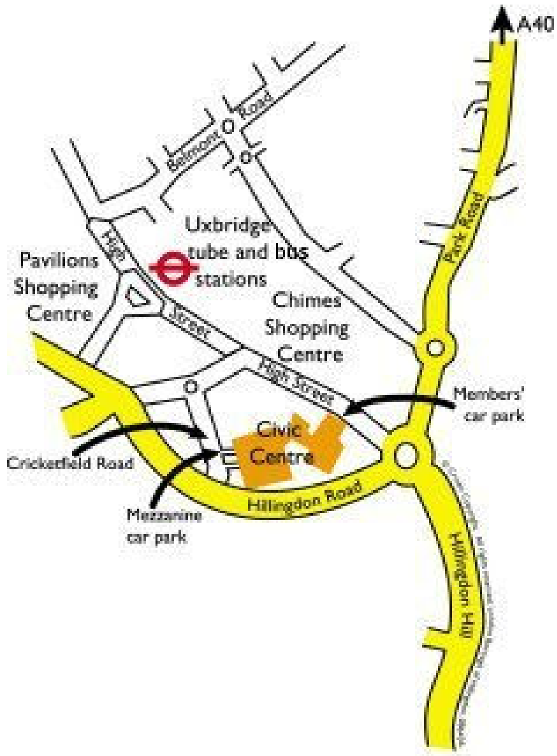
Useful information



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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 the meeting held on 6 December 2012 **(Pages 1-6)**

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 Deloitte Annual Grant Audit Letter **(Pages 7-20)**

6 Deloitte - 2012/13 Annual Audit Plan **(Pages 21-68)**

7 Internal Audit Progress Report **(Pages 69-106)**

8 Internal Audit Strategy and Review of the Terms of Reference **(Pages 107-112)**

9 Internal Audit Operational Plan 2013-14 **(Pages 113-120)**

10 Delivering the Annual Governance Statement (AGS) 2012-13 **(Pages 121-122)**

11 Revisions to the Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16 **(Pages 123-148)**

12 Balances and Reserves Statement 2013/14 **(Pages 149-158)**

13 Work Programme 2012/13 **(Pages 159-162)**

14 Changing Legislation and Current Issues

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

The Committee is informed that the Leader of the Council is considering changes to the Audit Committee Terms of Reference in light of the Corporate Services & Partnerships Policy Overview Committee's review. The Leader is aware that the current Terms of Reference need to be updated and better aligned with the new Cabinet and Officer structures that came into force in late 2012.

The Audit Committee will be consulted on any proposals, with any changes likely to take effect at the Annual meeting of the Council to be held in May. It should be noted that any constitutional proposals, recommended to Council for approval, should come from the Leader in the first instance.

PART II

15 Risk Management **(Pages 163-186)**

16 Internal Audit Progress Report (**Pages 187-188)**

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Minutes

Audit Committee
Thursday, 6 December 2012
Meeting held at Committee Room 5 - Civic Centre, High Street, Uxbridge UB8 1UW

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	Independent Member: John Morley (Chairman) **Members Present:** Councillors George Cooper, Raymond Graham, Paul Harmsworth and Richard Lewis. **Officers Present:** Garry Coote (Corporate Fraud Investigations Manager) Nancy Le Roux (Head of Corporate Finance), Helen Taylor (Head of Audit and Fraud), Paul Whaymand (Director of Finance) and Khalid Ahmed (Democratic Services Manager). **Others Present:** Heather Bygrave (Deloitte) **Apologies:** Jonathan Gooding (Deloitte) The Chairman reported that Members had held a scheduled private meeting with the external auditors (Deloitte) prior to this meeting.	
27.	**DECLARATIONS OF INTEREST** Councillor George Cooper declared a Non-Pecuniary interest in Agenda Item 7 – Internal Audit Progress Report and Plan amendments as his wife was a Governor of one of the schools in the report. He remained in the room and took part in discussions on the item.	
28.	**MINUTES OF THE MEETING HELD ON 20 SEPTEMBER 2012** Agreed as an accurate record. [The Chairman reported that the final version of the Annual Audit letter had been circulated to the Members before submission to the Audit Commission.]	
29.	**EXCLUSION OF THE PRESS AND PUBLIC** It was agreed that all items of business would be considered in public.	
30.	**INTERNAL AUDIT CORPORATE FRAUD REPORT** Members were reminded that the first Corporate Fraud Plan was approved by the Audit Committee in June 2012 and it was reported that progress against that plan was mostly on track.	**Action By:**

	Particular reference was made to the activity of Social Housing Fraud where 28 properties had been taken back by the Council which had generated savings of £504,000. The Committee praised officers for their work in this area. Reference was made to the Protecting the Public Purse checklist which was a process which reviewed counter-fraud arrangements, and the high degree of compliance the Council had with this. Members expressed some concern regarding the comments on Procurement which referred to extensive work which was taking place to tighten controls in on construction work. The Director of Finance reported that Contract Standing Orders had been updated which tightened controls in this area. The Committee asked that an update on Procurement be given to the June meeting to give Members assurance that procurement controls were working. Reference was made to the Whistle-blowing policy which was to be updated by the Council's Monitoring Officer before the end of the financial year. The Committee noted the significant progress which had been made in relation to the introduction of proper safeguarding proportionate to risk, in the use of personal budgets for adult social care, in particular direct payments. **RESOLVED -** 1. That the contents of the report be noted.	**Action By:** **Garry Coote**
31.	**TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2013-14 TO 2015-16** Members were informed that the Annual Treasury Management Strategy was agreed by Full Council as part of the budget setting process in February. However, a draft of the strategy was brought before this Committee to enable greater scrutiny. The Director of Finance informed Members that, when considering the Council's investment opportunities, consideration was given to advice from Arlingclose, the Council's Treasury advisors. Reference was made to paragraph 2.6 of the report which referred to the average rate of interest paid on Council lending, which was very low but was based on this Council's cautious strategy of only investing in highly rated UK banks. Reference	

	was made to Government backed guarantees as an option for investment and the Director of Finance said he would investigate this as part of the Council's Investment Strategy. The Committee noted that the Cumulative Net Borrowing Requirement for 2012/13 had dropped substantially: this was largely because of the HRA settlement. The Director of Finance reported that the contents of Table 14 on Specified Investments would be updated prior to submission to February Council, with a view to reducing the list to those investments likely to be used. In addition in relation to Non-Specified Investments, , the Director of Finance said he would also investigate further Sterling denominated bonds by non-UK sovereign governments. **RESOLVED –** 1. That the Committee reviewed and noted the information contained in the report.	**Paul Whaymand** **Paul Whaymand**
32.	**INTERNAL AUDIT PROGRESS REPORT** The Head of Audit provided Members with a summary of Internal Audit activity in the period from 1 September 2012 to 22 November 2012. During the period four completed audits in the current report had received Limited Assurance, six had received Satisfactory Assurance and three Full Assurance. The Committee noted that the recruitment for a trainee auditor had been completed and the appointee would commence duties in January 2013. This vacancy had arisen because a trainee auditor had resigned. The following issues were raised by Members: • Contracts – Final Accounts (Corporate Construction) (2011-12) – the Committee expressed concern at the number of high risk actions from this audit. The Head of Audit recognised this but reported that these were currently being addressed and would be included in the update report which the Committee would receive in June. • Direct Payments 2011/12 review – the objective of this audit 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 Head of Audit reported that since the audit had been conducted a significant amount of progress had been made in	**Helen Taylor** **Helen Taylor**

	addressing the identified risks. An update on progress made would be submitted to the next meeting. • Golf Courses Audit – Members expressed some concern regarding the number of high risk actions. The Director of Finance reported that the Golf Courses had been previously managed by a contractor and the Council had taken control less than a year ago. The Head of Audit reported that officers were currently working through the recommendations to the agreed timelines. The Committee asked that the appropriate Management representative be invited to the next meeting of the Committee to update Members on progress. • Creditors – The Committee was assured that the two high risk areas had now been addressed. • Hillingdon Grid for Learning – The Committee noted the progress which had been made on addressing the previous risk areas. • Emergency Duty Team – The Committee noted that this audit had now received full assurance level. The Members questioned whether the increase in high risk actions identified in audits may indicate a possible reduction in internal control. The Head of Audit reported that the Council had undergone many structural changes which had impacted on some of the audit areas but Internal Audit were trying to ensure control was maintained in these areas. Discussion took place on Follow Up audits and the following points were made : • Investigation 30 – the Head of Audit reported that no progress had been made • Carbon Reduction Commitment CRC – Members were informed that this was hoped to have been implemented by November. An update would be given to Members • IT Security & Data Handling in Schools– the Head of Audit had followed this up with the Chief Education Officer and would update Members. • Food Health & Safety 1st Follow Up – the Head of Audit reported that good progress was being made on outstanding recommendations • Fusion Contract Management 6th Follow up – The Committee was informed that the two outstanding high level recommendations were subject to legal discussions. • New Year's Green Lane Weighbridge – Members were informed that 15 of the 20 outstanding recommendations had been implemented.	**Helen Taylor** **Helen Taylor** **Helen Taylor** **Helen Taylor**

	• Adoption – The Committee noted that there were still 4 outstanding recommendations • Children with Disabilities – Transition – concern was expressed at outstanding recommendations from this audit from 2010-11, particularly as this was a vulnerable group. The Head of Audit undertook to investigate this further and report back at the next meeting. • Asylum Accommodation – there are outstanding recommendations from 2009/10 audit. The Head of Audit undertook to investigate this further and report back at the next meeting. **RESOLVED -** 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.	**Helen Taylor** **Helen Taylor**
33.	**WORK PROGRAMME 2012/13** Noted.	
34.	**ANNUAL REVIEW OF INTERNAL AUDIT** The Committee agreed that the annual review in Internal Audit should take the form of a self assessment carried out by the Head of Audit.	
35.	**CHANGING LEGISLATION AND CURRENT ISSUES** **Audit Commission Document – Protecting the Public Purse** – Members noted the document which had been sent to them on 9 November 2012 **Corporate Services & Partnerships Policy Overview Committee review into the Effectiveness of the Audit Committee and its Terms of Reference** – Members asked for a progress report on this for the next meeting.	**Khalid Ahmed**
	The meeting which commenced at 5.15pm, closed at: 7.00pm **Next meeting: 12 March 2013 at 5.00pm**	

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

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DELOITTE - ANNUAL GRANT AUDIT LETTER

Contact Officer: Nancy Leroux
Telephone: 01895 250353

SUMMARY

This report provides a summary of the key findings on the grant work undertaken by Deloitte for the year ended 31 March 2012.

RECOMMENDATIONS

The Committee is asked to note the report.

INFORMATION

The attached report addressed to the Audit Committee on 2012 Grant Certifications has been completed by the Council's external auditors Deloitte to communicate the key issues arising from their 2011/12 grant certification work.

Deloitte were responsible for certifying 6 claims and returns, all of which were certified by the required deadline and their key findings from this work were that as a result of errors identified during the audit, adjustments were made to 3 of the 6 grant claims prior to certification and qualification letters were issued in respect of 2 grant claims. The reasons for the qualifications were as follows:

- Housing and council tax benefit scheme (BEN01) – initial testing of 80 cases identified errors on 10 cases. As a result further testing was carried out including cases with a past history of error. However, the estimate of the potential under claim on subsidy is only £15k.

- Single Programme (RG31) – a qualification letter was issued in respect of 3 points: the statement of grant expenditure included expenditure incurred in 2012/13; the form was revised to reclassify revenue from capital to revenue; and that Deloitte were unable to test whether sampled expenditure was capital or revenue.

The total fees charged for the grant certification work for 2011/12 was £115,399, compared to £201,583 for 2010/11. However, there was considerable testing undertaken by the Internal Audit team this year which helped to contain the overall cost.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

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Deloitte.

London Borough of Hillingdon

Report to Audit Committee on the year ended 31 March 2012 Certification work

Final Report

Contents

1. Executive summary

We have pleasure in setting out in this document our key findings from our claims and returns certification work of the London Borough of Hillingdon ("the Authority") for the year ended 31 March 2012. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

Certification deadlines	We have certified all 6 claims and returns required under our contract with the Audit Commission (see Section 4 for details) for the year ended 31 March 2012. All of the claims and returns we reported on were certified by the required deadline.

Results of our claims and returns certification work

As a result of errors identified through the performance of our procedures, adjustments were required to 3 of the 6 claims/returns prior to certification. We have summarised the number of adjustments identified and our conclusion on whether we were able to certify without a qualification letter in the table below. It should be noted that adjustments to cells do not necessarily result in a net impact on the claim or return as they may net off with other adjustments or be memoranda items.

We have included additional comments below the table where we issued qualification letters on the claims/returns in 2011/12:

Claims/returns	Value of claim (£)	Number of cells adjusted	Financial impact Increase/ (Decrease) (£)	Qualified in 2011/12	Qualified in 2010/11
Pooling of housing capital receipts ("CFB06")	4,073,509	0	0	NO	NO
National non domestic rates return ("LA01")	324,450,433	0	0	NO	NO
HRA subsidy return ("HOU01")	(15,392,682)	4	0	NO	YES
Teachers' pension return ("PEN05")	14,465,179	4	0	NO	YES
Housing and council tax benefit scheme ("BEN01")	163,023,581	0	0	YES	YES
Single Programme ("RG31")	1,267,753	4	0	YES	n/a

Summary of qualification letters

Housing and council tax benefit scheme ("BEN01")

Our initial sample testing of 80 cases identified errors on 10 cases. Further testing of 320 cases relating to these errors identified errors on another 8 cases. Additionally, in line with Audit Commission methodology, we performed testing of 344 cases in areas with a past history of error. This testing identified 35 errors. We included details of all errors in our qualification letter to the DWP.

Whilst outside the scope of our reporting to the DWP, discussions with the Housing Benefits team identified that the cumulative results of our work indicate that the Authority may have under claimed subsidy by approximately £15k.

Single Programme ("RG31")

We issued a qualification letter on the RG31 return in respect of 3 points:

- The statement of grant expenditure included (with the permission of the Greater London Authority ("GLA"), the funding body) expenditure incurred in 2012/13;
- The authority revised the form (at the request of the GLA) reclassifying expenditure that was deemed Revenue Expenditure Funded from Capital under Statute from capital to revenue; and
- We were unable to test whether expenditure sampled was capital or revenue.

1. Executive summary (continued)

Fees	Total fees charged in respect of the work performed on the 6 claims and returns (2011: 11) certified by Deloitte were £115,399 (2011: £201,583). Section 4 of this report sets out the fees charged on each of the 6 claims and returns we certified.

2. Introduction

Purpose of this report

This letter is addressed to the Audit Committee of the Authority and is intended to communicate key issues arising from our 2011/12 certification work. This Letter will be published on the Authority's website.

Our responsibilities

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

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

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

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

The scope of our work

Auditors appointed by the Audit Commission are required to:

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

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

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

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

3. Results of our claims and returns certification work

Claims and returns certified without adjustment or a qualification letter

We were able to certify the following 2 claims/returns without adjustment or a qualification letter:

- Pooling of housing capital receipts return ("CFB06").
- National non domestic rates return ("LA01")

Claims and returns certified with adjustment and without a qualification letter

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

HOU01 - HRA subsidy return	
Adjustment details	Our procedures for the certification of the HOU01 return identified errors in relation to 4 cell calculations. These 4 cells were all impacted by an error made in the calculation of the Authority's capital financing requirement for the year. Our testing identified an adjustment to decrease all 4 cells by £473,630. This was due to adjustments to the capital financing requirement during the year that had not been included in the calculation by the Authority. These errors could have impacted the calculation of the Authority's consolidated rate of interest. However, the adjustment was not in fact of sufficient magnitude to change the rate. Therefore, the amendments did not impact the overall subsidy entitlement on the claim/return.
Deloitte response	We discussed the errors with the Authority and the Authority chose to adjust the claim/return for the errors noted above. In our return submitted to the Department of Communities and Local Government we reflected the fact that the claim/return had been amended.

PEN05 - Teachers' pension return	
Adjustment details	As part of our testing we identified that a current year refund of £10,682.37 (in relation to the erroneous inclusion of contributions as a result of the payment of a double salary to teachers) was included in previous year refunds. This amount was therefore moved to the correct line in the return. As the refund was split between teachers' contributions and employer's contributions this impacted 4 different cells on the return. The amendments did not impact the overall contributions paid detailed on the claim/return.
Deloitte response	We discussed the errors with the Authority and the Authority chose to adjust the claim/return to for the errors noted above. In our return submitted to Teachers' Pensions we reflected the fact that the claim/return had been amended.

3. Results of our claims and returns certification work (continued)

Claims and returns certified with adjustment and a qualification letter

There is no concept of materiality in the certification of the claims/returns. The following claim was certified with adjustment and with a qualification letter:

RG31 - Single Programme (Domestic insulation programme)	
Adjustment and qualification details	The Authority was asked by the GLA to revisit their capital and revenue split due to an original capital overspend of £150,736.01. The Authority amended the claim, with the result that the split of capital and revenue was in line with the grant offered. There was no change in the total expenditure claimed. £150,736.01 of the costs of Home Energy Advisors were reclassified from capital to revenue on the basis that this expenditure was REFCUS (Revenue Expenditure Funded from Capital under Statute) in nature (i.e. items that are funded from capital resources that under IFRS and normal accounting practice would be charged to Surplus or Deficit on the Provision of Services as revenue expenditure) and therefore only the amount designated as capital by the funding body as such should be considered capital. We were not able to map the individual supplier invoices to capital or revenue spend in the claim (but could verify that it was eligible expenditure in line with the grant). Therefore we were able to certify the claim subject to this qualification regarding capital or revenue split. We also noted the fact that the claim included (with the permission of the GLA, the funding body) expenditure incurred in 2012/13.
Deloitte response	We agreed the facts as set out above with the Authority. In our return submitted to the GLA we reflected the fact that the claim had been amended and that a qualification letter had been issued with respect to the points described above. We have discussed the qualification with the Housing Finance team so that they are aware of the issue for any future claims

3. Results of our claims and returns certification work (continued)

Claim/return certified without adjustment but with a qualification letter

The Housing and council tax benefit scheme ("BEN01") was certified without adjustment but with a qualification letter:

BEN01 - Housing and council tax benefit scheme	
Qualification details	In 2011/12 we identified errors on 10 cases (2010/11: 13 cases) in our initial testing of 80 cases. 2 of these cases were deemed to be isolated and so no further testing was required. Where overstatement errors are identified in our initial testing we are required by the Audit Commission to undertake prescriptive additional testing to ascertain whether the errors are isolated or require inclusion in the qualification letter. From the further testing performed (on the remaining 8 error cases), it was concluded that 3 of the original errors were isolated, with the remaining 5 error cases deemed not to be isolated. These 8 overstated error types were reported within our 2011/12 qualification letter. We were required to include in our qualification letter extrapolation calculations for 4 of the errors (all of the overpaid or overstated errors where we did not test 100% of the population), which compared to 10 extrapolation tables in 2010/11. We are also required to undertake focused testing on areas where we identified errors in the prior year (that were not deemed isolated). This resulted in us testing additional samples in 9 specific areas and identifying 35 errors. We were required to include in our qualification letter 9 extrapolation calculations for these errors (all were overpaid or overstated errors where we did not test 100% of the population). In 2012 Internal Audit has been involved in performing some elements of the certification work (with Deloitte reperforming a sample of this to ensure that we could place reliance on this work). We held a workshop for Internal Audit to brief them on the approach to the work and regularly liaised with them as the work progressed. The Authority has not updated the 2011/12 claim form for any of the errors we identified and we have included all error types within our qualification letter. Given the nature of the population and the variation in the errors found, it is unlikely that additional work would have resulted in amendments to the BEN01 return that would have allowed us to conclude that it was fairly stated. Discussions with the Authority Housing Benefits team identified that the results of our work indicate the Authority may have under claimed subsidy by approximately £15k.
Deloitte response	Given the number of transactions and the volume of manual processing required for the benefit calculation, it is not unusual for the BEN01 return to be qualified. Our experience with this return on other Local Authorities indicates that the types of errors we have identified at Hillingdon are similar to those identified at other Local Authorities; albeit the volume of errors identified at Hillingdon in 2011/12 appears to be greater than at other Local Authorities. In our return submitted to the Department of Work and Pensions we reflected the fact that the subsidy claim had not been amended and that a qualification letter had been issued.

4. Certification information

Our work on the Authority's claims and returns for the year ended 31 March 2012 is now complete and the table below summarises the results of this work and our billings by return.

Under the Audit Commission framework agreement we bill our work on a time incurred basis. Significant differences on fee when compared to 2011 are explained beneath the table.

Certification instruction	Within Audit Commission framework	Claim/ return	2012 value of claim (£)	2012 results of audit work	2012 audit fee (£)	2011 audit fee (£)
BEN01	Yes	Housing and council tax benefits scheme	163,023,581	Qualified	61,776	118,511
CFB06	Yes	Pooling of housing capital receipts	4,073,509	Satisfactory	7,649	3,770
HOU01	Yes	HRA subsidy	(15,392,682)	Amended	8,719	8,560
LA01	Yes	National non-domestic rate return	324,450,433	Satisfactory	10,606	10,450
PEN05	Yes	Teachers' pension return	14,465,179	Amended	12,289	10,450
RG31	Yes	Single Programme	1,267,753	Qualified	14,360	N/A
EYC02*	Yes	Sure start, early years and childcare	Not applicable in 2011/12		0	6,132
HOU02*	Yes	HRA subsidy base data return	Not applicable in 2011/12		0	19,823
HOU21*	Yes	Disabled facilities	Not applicable in 2011/12		0	4,255
Gateway	No	Single programme LDA - Gateway Heathrow 2012: Local Workforce Recruitment (ESF-2007-2010 Round 2)	Not applicable in 2011/12		0	6,544
Gateway (extension)	No	As above for Gateway	Not applicable in 2011/12		0	6,544
Gateway (final claim)	No	As above for Gateway	Not applicable in 2011/12		0	6,544
TOTAL					**115,699**	**201,583**

*There was no requirement to certify ECY02, HOU02 and HOU21 for year ended 31 March 2012.

4. Certification information (continued)

We have kept the Chief Finance Officer updated on costs on a regular basis. The table below explains variances on fees between 2011 and 2012 which are over £2,000.

Certification instruction	Variance (£)	Reason for variance
BEN01	(56,735)	In 2012 Internal Audit has been involved in performing some elements of the certification work (with Deloitte reperforming a sample of this to ensure that we could place reliance on this work). We held a workshop for Internal Audit to brief them on the approach to the work and regularly liaised with them as the work progressed.
CFB06	3,879	In 2011 we were able to take reliance on controls and did not undertake detailed testing on this grant. In 2012, due to the Audit Commission guidance, we were not able to place reliance on controls, and therefore were required to undertake detailed testing on this grant. This was due to the fact that we had not carried out detailed controls testing in the preceding 2 years.
RG31	14,360	RG31 was a one-off claim on 2011/12 and so was not required in 2010/11.

5. Responsibility statement

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

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

This report sets out those matters of interest which came to our attention during the certification procedures. Our work was not designed to identify all matters that may be relevant to the Members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

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

Deloitte LLP

Deloitte LLP

Chartered Accountants

St Albans

31 January 2013

DELOITTE – 2012/13 ANNUAL AUDIT PLAN

Contact Officer: Nancy Leroux
Telephone: 01895 250353

SUMMARY

The attached document sets out the initial plans for the audit of the Statement of Accounts 2012/13 by Deloitte. The format of the plan follows that prescribed by the Audit Commission for external audit work. The plan sets out the approach to the audit and a broad timetable which should enable the whole process to be completed by early September. A separate audit plan has been produced for the pension fund audit, which is also attached.

RECOMMENDATIONS

The Committee is asked to note the report.

REASONS FOR OFFICER RECOMMENDATIONS

The Committee needs to be made aware of the plans for the audit of the 2012/13 accounts.

COMMENT ON THE CONTENT OF THE PLAN

Materiality: The expected level of materiality, calculated on the basis of gross expenditure for the full year, will be £7.5m. Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.375m.

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

- Recognition of grant income
- Revaluations of property
- Valuation of Pension liability
- Calculation of the bad debt provision against sundry debt
- Recording of capital spend
- HRA self-financing
- Management override of key controls

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

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

Areas for closer consideration include:

- Monitoring and control of construction contracts
- Capital budgeting and forecasting
- Evidence of achieving savings

COMMENT ON THE CONTENT OF THE PENSION FUND AUDIT PLAN

Materiality: Materiality is calculated on the basis of the net assets of the fund but is restricted to the materiality established for the audit of the Council's financial statements as a whole, which for 2013 is £7.5m (2012 £7.5m). Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.38m (2012 £0.38m).

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

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

TIMETABLE

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

FEES

The estimated level of fees for the 2012/13 audit is £207,090 (2011/12: £345,150) for the main audit and £21,000 for the pension fund audit (2011/12: £36,500).

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

Deloitte.

London Borough of Hillingdon

Our Planning Report to the Audit Committee on the year ending 31 March 2013 Audit

27 February 2013

Deloitte.

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Audit Committee
London Borough of Hillingdon
Civic Centre
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UB8 1UW

27 February 2013

Dear Sirs

We have pleasure in setting out in this document our planning report to the audit committee of the London Borough of Hillingdon ("the Council") for the year ending 31 March 2013, for discussion at the meeting scheduled for 12 March 2013. This report covers the principal matters that we will focus on during our audit for the year ending 31 March 2013.

In summary:

- the major issues, and how we plan to address them, are summarised in the Executive Summary;
- the scope of our work is in line with the approach taken for the audit for the year ended 31 March 2012; and
- there are a number of areas where significant management judgement will be required which we draw your attention in our report and which you should consider carefully.

We would like to take this opportunity to thank the management team for their on-going assistance and will be completing more detailed planning work in March and April 2013.

Yours sincerely

Heather Bygrave

Senior Statutory Auditor

Contents

Executive summary

We have pleasure in setting out in this document details of our proposed audit plan for London Borough of Hillingdon ("the Council") for the year ending 31 March 2013. The Financial Reporting Council ("FRC") has made it clear, in its 'Update for Corporate Committees – November 2010' that it expects Audit Committees to focus activity on assessing and communicating risks and uncertainties and reliance on estimates, assumptions and forecasts. Whilst the FRC report is designed for private and public companies, the messages are equally applicable to governance and Audit Committees in other organisations. This report will describe the work we undertake in order to support this activity.

Status	Description	Detail
Key changes in our audit plan this year		
The nature and scope of our planned procedures are similar to those set out in our audit plan for the year ended 31 March 2012	The nature and scope of our planned procedures are similar to those set out in our audit plan for the year ended 31 March 2012. The principal changes include: • changes to the Housing Revenue Account ("HRA") resulting from the Localism Act 2011, which is considered to be an audit risk in the current year; • the HRA settlement payment no longer being considered a significant audit risk on the basis that this was a one-off transaction in 2011/12; and • accounting for schools' non-current assets no longer being considered a significant audit risk on the basis that there has been no history of error in accounting for these transactions or changes in accounting guidance.	Section 1
Audit scope		
Our work is carried out under the Code of Audit Practice 2010, issued by the Audit Commission	We conduct our audit in accordance with the Accounts and Audit Regulations 2011 and the Code of Audit Practice 2010 issued by the Audit Commission. Our audit of the statement of accounts is also performed in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The Code requires that we: • issue an opinion on the financial statements of London Borough of Hillingdon; • satisfy ourselves as to whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources; • consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work; and • issue an assurance report to the National Audit Office on London Borough of Hillingdon "Whole of Government Accounts" return. For the 2012/13 financial statements, we have estimated materiality of £7.5 million (2011/12: £7.5 million), which is based on prior year outturn. Our preliminary assessment of the level at which we report unadjusted misstatements to the Audit Committee is £375,000. We will also report other adjustments that we consider to be qualitatively material. We will update our assessment during the year end visit based on the final outturn and inform you of any change in our final report.	Section 1

Executive summary (continued)

Status	Description	Detail
Internal controls		
We will evaluate the design and test the implementation of key controls relevant to the audit	To assist us in planning our work, we will evaluate the design and test the implementation of key controls relevant to the audit, including controls which mitigate the significant risks of material misstatement we have identified. We continue to rely on the work of the Council's internal audit function to inform our risk assessment.	Section 1
Significant audit risks		
We summarise the key audit risks identified at this stage	The significant audit risks which we have identified as part of our overall audit strategy are: 1. **Recognition of grant income:** We see this as a continuing audit risk in view of the need for management judgement on recognition of grant income and in determining whether the grant has conditions. 2. **Revaluation of properties:** Properties are revalued every 5 years under a rolling programme. The valuation of the Council's property holding of £983,517k (as at 31 March 2012) is sensitive to judgements on key assumptions. 3. **Valuation of the pension liability:** This continues to be an audit risk in view of the size of the liability and complexity of judgements in this area. The amount of the net liability at 31 March 2012 was £313,199k. 4. **Calculation of the bad debt provision against sundry debts:** This continues to be an audit risk in view of the judgemental nature of provisions. 5. **Recording of capital spend:** The council is forecasting capital spend for the year of £56,964k. There is a risk that revenue and capital expenditure may be misclassified. 6. **Housing Revenue Account ("HRA") self-financing:** The impact of the Localism Act 2011 on statutory mitigations for depreciation on HRA fixed assets is a new accounting requirement for 2012/13. 7. **Management override of key controls:** Our response to this presumed risk will focus on the testing of journals, significant accounting estimates (including those above) and any unusual transactions in the year. 8. **Value for money:** Internal audit has identified a number of control deficiencies around housing repairs and construction contracts. We will perform procedures to assess whether this is a significant risk to our value for money conclusion. See section 3 for further discussion on this.	Section 2
Value for money		
We reported a number of findings from our value for money work in 2011/12. We will follow up on these in 2012/13	In our final report to the Audit Committee for the year ending 31 March 2012, issued on 25 September 2012, we reported findings in the following areas from our value for money work: • capital budgeting and forecasting; and • evidence of achieving savings for the reablement project. We will follow up on both of these areas as part of our 2012/13 work. We will perform a value for money risk assessment exercise in our interim visit.	Section 3

Executive summary (continued)

Status	Description	Detail
Sector developments		
The Localism Act 2011 devolves more powers to Councils. The Local Government Finance Act 2012 makes amendments to Council tax support and non-domestic rates	The Localism Act 2011 received Royal Assent in November 2011 and contains a number of measures that devolve more powers to Councils. The key changes are: • replacing the subsidy method of financing the Housing Revenue Account ("HRA") with a self-financing system; • introducing a new general power of competence; and • abolition of the Standards Board regime. The Local Government Finance Act 2012 contains amendments to two areas of local government finance: council tax support and non-domestic rates. We have highlighted changes to the Code of Practice on Local Authority Accounting in the United Kingdom in Section 4.	Section 4
Prior year uncorrected misstatements including disclosure misstatements		
Prior year uncorrected misstatements reduced cost of services by £1.2m and increased net assets by £1.7m	We take this opportunity to remind you of the misstatements identified in the prior period. Uncorrected misstatements in 2011/12 reduced cost of services by £1.2 million and increased net assets by £1.7 million. We would also like to remind you of the disclosure misstatements identified in the prior year with a view to addressing these at an early stage of the current year reporting process.	Appendix 1
Operational features of our audit plan		
Our planned audit approach is similar to prior years'	Appendix 2 sets out our approach to considering fraud in relation to the audit. Appendices 3 and 4 set out our service team and timetable respectively.	Appendices 2, 3 and 4
Independence and fees		
We confirm our independence. Proposed audit fees for 2012/13 are £207,090	We confirm we are independent of the London Borough of Hillingdon. We will reconfirm our independence and objectivity to the audit committee for the year ending 31 March 2013 in our final report to the audit committee. Our responsibilities and those of the Council are explained in the Audit Commission's publication, 'The responsibilities of Auditors and of Audited Bodies – Local Government' issued March 2010. We propose an audit fee of £207,090 (2011/12: £345,150) for the audit of the Council's financial statements, the assurance report on the whole of government account return and value for money conclusion. This is in line with the scale fee set by the Audit Commission. The 2012/13 scale fees set by the Audit Commission include reductions of up to 40% on 2011/12 fees as a result of savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.	Appendix 5

1. Scope of work and approach

Key areas of responsibility	
	We have four key areas of responsibility under the Audit Commission's Code of Audit Practice:
Financial statements	We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and the Audit Commission's Code of Audit Practice. The Council will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility.
Annual Governance Statement	We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work. We will also review reports from relevant regulatory bodies and any related action plans developed by the Council.
Value for Money conclusion	We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and issue a conclusion on value for money. Our conclusion is given in respect of two criteria: • whether the organisation has proper arrangements in place for securing financial resilience; and • whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.
Assurance report on the Whole of Government Accounts return	Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on The Council's whole of government accounts return. Our report is issued to the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

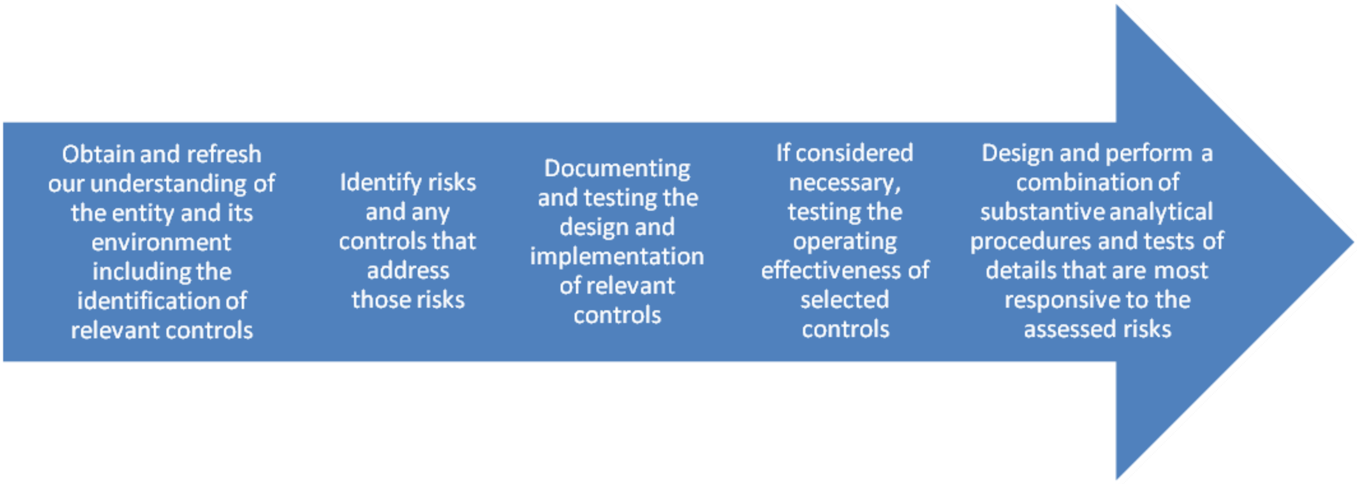
Working with internal audit	
We will liaise with internal audit in planning our work and utilise their findings in our risk assessment	We will meet with the internal audit team to plan our combined approach in the year. Following an update of their assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit team, we will review the findings of internal audit and adjust our audit approach as is deemed appropriate. This normally takes a number of forms: • discussion of the work plan for internal audit; and • where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work. We will continue to review all internal audit reports issued during the year and utilise them to assist our risk assessment.

1. Scope of work and approach (continued)

What audit work do we do on controls?

We will evaluate the design and implementation of controls relevant to the audit

As set out in "Briefing on audit matters" circulated to you on 28 February 2012, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I"). Our audit approach consists of the following:



We will consider the results of our procedures in respect of the Council's controls and the extent of any impact our findings have on our substantive audit procedures.

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

Scoping of material account balances, classes of transactions and disclosures

We will report to you any significant findings from our scoping work

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. We will report to you any significant findings from our scoping work.

2. Significant audit risks

Based upon our initial assessment and following discussion with management, we will concentrate specific effort on the significant audit risks set out below.

Recognition of grant income		Deloitte response
Evaluating compliance with grant terms and conditions can involve significant judgement	We have identified an audit risk in relation to grant income. This is because, for those grants with conditions attached, income should only be recognised when such conditions have been met. Determining if there are conditions attached to a grant, and if these conditions have been met, can involve significant management judgement. In the prior year revenue grant income amounted to £431,097k and capital grant and contributions income amounted to £40,364k.	We will carry out detailed testing of grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled.

Revaluation of properties		Deloitte response
The valuation of property is sensitive to judgements on key assumptions	The Council has a substantial portfolio of property, amounting to £983,517k at 31 March 2012, which is subject to a rolling revaluation programme. The Council has recorded significant gains and losses as a result of property revaluations over the last three years. We have identified this as a risk because of the significant value of the asset base and the fact that valuations are sensitive to judgements on key assumptions. We understand the assets to be revalued in the current year include community buildings, sports clubs, youth centres and mortuaries.	We will consider the qualifications, expertise and independence of the Council's valuation expert and the instructions and sources of information provided to the expert. We will evaluate the arrangements in place around the property valuation as part of our interim audit. We will use our internal valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used by the Council in valuing their property.

Valuation of pension liability		Deloitte response
The valuation of the pension liability continues to be an audit risk in view of the complexity of the judgements and sensitivity of the valuation to small changes in individual assumptions	The net liability relating to the pension scheme is substantial, amounting to £313,199k at 31 March 2012, so its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment.	We will consider the qualifications, expertise and independence of the actuary engaged by the Council and the instructions and sources of information provided to the actuary. We will include a specialist from our team of actuaries in our engagement team to assist in the review and challenge of assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries.

2. Significant audit risks (continued)

Calculation of the bad debt provision against sundry debtors		Deloitte response
This continues to be a key audit risk in view of different judgements and assumptions used in calculating the provision for the various sub-categories of sundry debt	The sundry debt balance (referred to Other entities and individuals debtor in the financial statements), which was £20,091k gross of provision at 31 March 2012, includes a number of different sub-categories of debt, all of which have different methodologies for calculating the level of provision required. The provision against sundry debts totalled £10,519k at 31 March 2012. Provisions are inherently judgemental.	We will challenge management's methodologies and assumptions used to calculate the sundry debt provision and the evidence to support the approach. We will consider whether provisions appropriately reflect the impact of the current economic conditions by reference to recent collection performance and trends.

Recording of capital spend		Deloitte response
The Council is forecasting a significant amount of capital spend in 2012/13. Judgements are required in the classification of expenditure	The Council is forecasting significant capital spend in 2011/12 with the month 7 forecast outturn showing a general fund capital programme of £56,964k and HRA capital programme of £4,666k. Classification of expenditure requires management judgement on whether it is capital or revenue in nature. In the previous year, we identified several inconsistencies of treatment with expenditure relating to council dwellings and other assets in the housing revenue account. We recommended that management performs an assessment of revenue and capital expenditure at the time it is incurred, rather than as a year end exercise.	We will perform detailed testing on expenditure coded as fixed asset additions to capital assets in the year to confirm the expenditure has been treated correctly. Where the addition replaces another asset, we will test that the other asset has been appropriately disposed of through the fixed asset register. We will also perform detailed testing on repairs and maintenance accounts to identify any capital expenditure that has been incorrectly treated as revenue.

Housing Revenue Account (HRA) self-financing		Deloitte response
The Localism Act 2011 replaces the subsidy method of financing the Housing Revenue Account with a system of self-financing	In the year ending 31 March 2012, the Council made an HRA self-financing settlement payment of £191,571k, which will allow it to retain surpluses on the HRA account going forward. As a result, all HRA revenue and capital expenditure is expected to be funded from existing resources meaning that rent collection, depreciation and impairment of HRA assets have a real impact on the HRA surplus or deficit. There are transitional arrangements in place for a 5 year period that allow the Council to mitigate the impact of depreciation or impairment of HRA dwellings by reducing the impact of a portion of depreciation on the bottom line. This is a new requirement in the current year and there is a risk that the impact of depreciation and impairment of HRA properties is understated; therefore it is considered a significant audit risk.	We will understand and challenge the estimate that management has made for depreciation of HRA properties. We will test the entries posted by management to mitigate the impact of depreciation and impairment charges to verify that they are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 Guidance Notes and Item 8 Determination.

2. Significant audit risks (continued)

Management override of key controls		Deloitte response
We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year	International Standards on Auditing require auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.	Our work will focus on the testing of journals, significant accounting estimates and any unusual transactions, including those with related parties. We have considered significant accounting estimates and management judgement as significant audit risks above.

3. Value for money

We are required to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources and issue a conclusion on value for money. Our conclusion is based on two specified reporting criteria, which is consistent with prior year. These criteria are:

- whether the organisation has proper arrangements in place for securing financial resilience; and
- whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We meet this requirement by:

- reviewing the annual governance statement;
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on our responsibilities at the Council; and
- undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

Included below are areas we have considered to date in respect of this requirement. We will update you further following our interim procedures in March and April 2013.

Monitoring and control of construction contracts	
Internal Audit has identified control deficiencies at the Council in monitoring housing repair and construction contracts	Internal audit has identified a number of control deficiencies in monitoring housing repairs and construction contracts. The Council's 2011/12 Annual Governance Statement also reported a significant governance issue around the monitoring and control of construction contracts. There is a risk that if controls are not designed and implemented correctly, the Council will not be achieving value for money for procurement of construction contracts. We will perform procedures to assess whether this is a significant risk to our value for money conclusion as part of our interim visit in March and April 2013. We will then discuss and agree the scope and cost of any additional procedures required as a result of this assessment.

Capital budgeting and forecasting	
Significant variances between capital budgets, forecast and outturn were identified in 2011/12	Final recorded capital expenditure for the 2011/12 financial year was £49m, which was £16m lower that the revised budget and £45m lower than the original budget. We recommended in 2011/12 that management reviews the capital budgeting and forecasting process with an aim to achieving more accurate forecasting. If the Council is unable to plan or forecast capital spend accurately then future significant variances could occur that mean either resources are not adequate, or that service delivery is impacted by failure to deliver capital projects within time limits. We understand that at month 7, forecast outturn on 2012/13 General Fund Capital Programme is £57m, a variance of £46m against a revised budget of £103m. The main reason is down to re-phasing of Primary Schools Expansion project, which accounts for £27m of the difference. For the period 2012 – 2015, we understand the forecast underspend to be much lower at £5m. We will test those projects that show a significant variance of actual spend against initial forecast to understand if the initial forecast was inaccurate.

Evidence of achieving savings	
We will select a sample of savings projects to agree to support that savings have been made	During 2011/12 we identified one project, RE1 Reablement, where it was difficult to support savings of £1,278k that were recorded as being achieved. We raised a recommendation that at the planning stage for savings projects, details of how savings will be tracked and measured should be considered. As part of our work to support our value for money conclusion in 2012/13, we will test a sample of projects where savings have been recorded as being achieved and obtain support that savings have been made.

4. Sector developments

Localism Act 2011

The Localism Act 2011 devolves more powers to Councils

Self-financing the housing revenue account ("HRA")

The Localism Act 2011 replaced the previous subsidy method of financing the HRA with a system of self-financing. The Council made a one off payment in 2011/12 of £192m to central government so that it can retain the surpluses made on the HRA going forward.

From 2012/13 authorities will no longer receive housing subsidy or Major Repairs Allowance (MRA) income. Instead the Council will be expected to fund all HRA revenue and capital expenditure from existing resources.

The impact on depreciation and impairments to HRA property has been considered a significant risk within Section 2.

General power of competence

The previous well-being powers of local authorities, contained in section 2 of the Local Government Act 2001, and have been replaced by a new 'general power of competence' in the Localism Act 2011.

The general power of competence enables local authorities to do anything which an individual can do, unless other legislation specifically prevents it. Councils may use the power to do things for a commercial purpose, although they must do so through a company. Applying the new power is still subject to legal interpretation and advice. The general power may facilitate new income generation schemes and new ways of providing and funding services, such as joint working arrangements.

Governance, scrutiny and standards

Changes to the Council's arrangements for governance, scrutiny and standards have been introduced by the Localism Act 2011. The Act abolishes: the requirement for councils to adopt a national code of conduct; the requirement to have a standards committee that oversees the behaviour of councillors and receives complaints; and the Standards Board for England, the central body set up to regulate standards committees.

All councils now have a duty to 'promote and maintain high standards of conduct by members and co-opted member of the authority'. Each council must:

- develop a local code of conduct dealing with the conduct of members and co-opted members of the authority;
- maintain and publish a register of interests; and
- appoint at least one independent person to act as an adviser to the council on any allegations it may be considering and to members who may be the subject of the allegation(s).

Members who fail to comply with the requirement to register interests will now be committing a criminal offence. The Council itself must decide what action to take if it finds that a member has failed to comply with the Code.

4. Sector developments (continued)

Local Government Finance Act 2012

The Local Government Finance Act 2012 contains amendments to council tax support and non-domestic rates

Council tax support

The Local Government Finance Act 2012 includes provisions designated to localise council tax support. Council tax benefit will disappear and individual local authorities will be responsible for preparing their own council tax reduction ("CTR") schemes. The current system means that central government reimburses the Council for all correctly awarded council tax benefit. Going forward, it is intended that the source of funding for each authority's CTR scheme will be the proportion of business rates retained by authority.

We understand that the Council has agreed a scheme and that this will in place from 1 April 2013. This will impact the accounts for the year ending 31 March 2014.

Non domestic rates

The provisions allow the Secretary of State to move money around by deciding how much of the non-domestic rate income collected by the Council should be retained by the Council, paid to central government and paid out by central government to local authorities for local government purposes. This will impact the accounts for the year ending 31 March 2014.

CIPFA will use the 2013/14 Code update to cover the accounting implications of these changes.

Code of Practice on Local Authority Accounting in United Kingdom 2012/13

Changes introduced by the Code 2012/13 are not significant

Housing Revenue Account ("HRA")

The impacts of the changes to the HRA due to the Localism Act 2011 have been discussed in more detail above and in the significant risks section (Section 2).

Carbon Reduction Commitment ("CRC") scheme

As the obligation to meet CRC responsibilities arises during 2012/13, the obligation should be accounted for at 31 March 2013. Where any allowances are purchased prospectively (i.e. in respect of 2013/14), authorities will need to account for the allowances as assets. This is clarification of the guidance in relating to the CRC provision. We established in the prior year that the provision is not material; therefore we do not consider this to be significant audit risk of material misstatement.

Exit packages

The 2012/13 Code guidance notes provide extended guidance on the disclosure requirements for exit packages. This clarifies that legal, contractual or constructive obligations at year end should be included in the disclosure of exit packages. The guidance notes also recommend that the exit package disclosure is amalgamated with the requirements in relation to the disclosure of termination benefits. The value of exit packages has historically not been material; therefore we do not consider this to be significant audit risk of material misstatement.

Accounting for non-current schools' assets

The CIPFA/LASAAC board is still considering the accounting for non-current schools' assets. It intends to issue guidance to authorities to improve the consistency of the accounting for these assets and a potential accounting treatment was consulted on as part of the 2013/14 code. Since CIPFA/LASAAC is not able to issue guidance for 2012/13, the situation remains the same as for the 2012/13 year. There is no change in guidance and no issues were noted from testing in the prior; therefore accounting for schools' non-current assets is not considered a significant audit risk.

4. Sector developments (continued)

Code of Practice on Local Authority Accounting in United Kingdom 2013/14

A number of changes are proposed by the 2013/14 Code

IFRS 13: Fair value accounting

The 2013/14 Code will introduce the requirements of IFRS 13 *Fair Value Measurement* as adapted for public sector circumstances. Non-financial non-profit generating assets are taken out of the scope of this standard and will be carried at a 'public sector valuation', which is presumed to reflect the assets' service potential.

As a result of the adaption the Council would not be required to measure property, plant and equipment in accordance with IFRS 13; however in order to meet the disclosure requirements of the standard the Code makes it necessary for authorities to consider which level of the fair value hierarchy the valuation technique they have used will apply.

The Council will need to ensure that the valuer is made aware of the introduction of IFRS 13 and the Code's adaption of it. Where the change is expected to be material to the accounts, the Council will need to disclose in its 2012/13 financial statements:

- the title of the new or amended standard;
- the nature of the change of accounting policy;
- the date at which the change of accounting policy is required; and
- a discussion of the impact that initial application of the IFRS is expected to have on the financial statements.

Other amendments

Other changes include:

- amendments to the Comprehensive Income and Expenditure Statement as a result of the June 2011 amendments to IAS 1 *Presentation of Financial Statements*;
- amendments to IAS 19 *Employee Benefits* including changes to definitions and terminology, changes to the recognition requirements and clarification of the disclosure requirements;
- a number of clarifications and augmentations of the provision of the Code as a result of the CIPFA/LASAAC IFRS post implementation review;
- amendments to IAS 12 *Income Taxes*;
- new definitions and clarification for service concession arrangements that are assets under construction or intangible assets;
- clarification on the treatment of overdrafts; and
- amendments to IFRS 7 *Financial Instruments: Disclosures* requiring information that will enable users to evaluate the potential effect of netting arrangements.

As discussed above, a change to accounting for non-current school assets is currently being consulted on.

5. Responsibility statement

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

This report should be read in conjunction with the "Briefing on audit matters" circulated to you on 28 February 2012 and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the members and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

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

Deloitte LLP

Chartered Accountants
St Albans

27 February 2013

Appendix 1: Prior year uncorrected misstatements including disclosure misstatements

Uncorrected misstatements

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

		Charge/ (credit) to current year income and expenditure statement £'000	Increase/ (decrease) in net assets £'000	Decrease/ (increase) in unusable reserves £'000
Judgemental misstatements				
Net effect of capital / revenue expenditure misclassification (HRA)	[1]	-	494	(494)
Reclassification of capital expenditure:	[2]			
– Council dwellings		-	(3,282)	-
– Plant and equipment		-	3,282	-
Housing benefit provision	[3]	(1,162)	1,162	-
Total		(1,162)	1,656	(494)

We obtained written representations from management confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments were required.

[1] & **[2]** Testing identified several inconsistencies in recording capital and revenue expenditure. The reserves balance affected would be the Capital Adjustment Account. Further details are included in our reporting on significant risks in Section 1.

[3] The Council has recognised a provision against a potential clawback relating to the housing benefit grant. We do not consider this to meet the required criteria for a provision and proposed that it was released.

Appendix 1: Prior year uncorrected misstatements including disclosure misstatements (continued)

Disclosure misstatements

Auditing standards require us to highlight significant disclosure deficiencies to enable audit committees to evaluate the impact of those matters on the financial statements. The table below highlights those areas of disclosure that we considered required consideration by the committee in the prior year:

Disclosure	Detail
Housing benefit provision	The Council included a provision relating to housing benefit. This is included in the table of uncorrected misstatements on the previous page. As management did not intend to adjust for this proposed misstatement we considered it necessary to highlight that the disclosure suggests that there was no opening provision at the beginning of the year. There was an opening provision but in the prior year this was included within creditors and not provisions. The Council did not make this adjustment.
Disclosure of assets in the property, plant and equipment note	Our testing of the note for property, plant and equipment identified some errors in the recording of the revaluation of assets and the effect of these revaluations on accumulated depreciation and the revaluation reserve. The presence of these errors meant that it was not possible to reconcile the property, plant and equipment note to other notes in the accounts such as the movements in the revaluation reserve or the note covering revaluation losses. We highlighted that this has no overall impact on the balance sheet. Management did not adjust this but has agreed to review this in the 2012/13 financial year.
Heritage assets	Our testing of the completeness of the new requirement to identify and disclose heritage assets identified one asset, a Norman mound, which had not been disclosed by the Council. We considered this to meet the definition of a heritage asset as it is a tangible asset which is held and maintained principally for its contribution to knowledge and culture. The Code recognises that where heritage assets have not been recently purchased or capitalised, and a valuation cannot be obtained at a cost which is commensurate with the benefits to the users of the financial statements, the asset should not be recognised in the Council's balance sheet. However, a description of the asset should be disclosed in the notes to the Council's financial statements.

We obtained written representations from management confirming that after considering all these disclosure deficiencies, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments were required.

Appendix 2: Consideration of fraud

Characteristics

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

Responsibilities

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

Fraud inquiries

We will make the following inquiries regarding fraud:

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

Appendix 2: Consideration of fraud (continued)

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

Concerns

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

Representations

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

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:

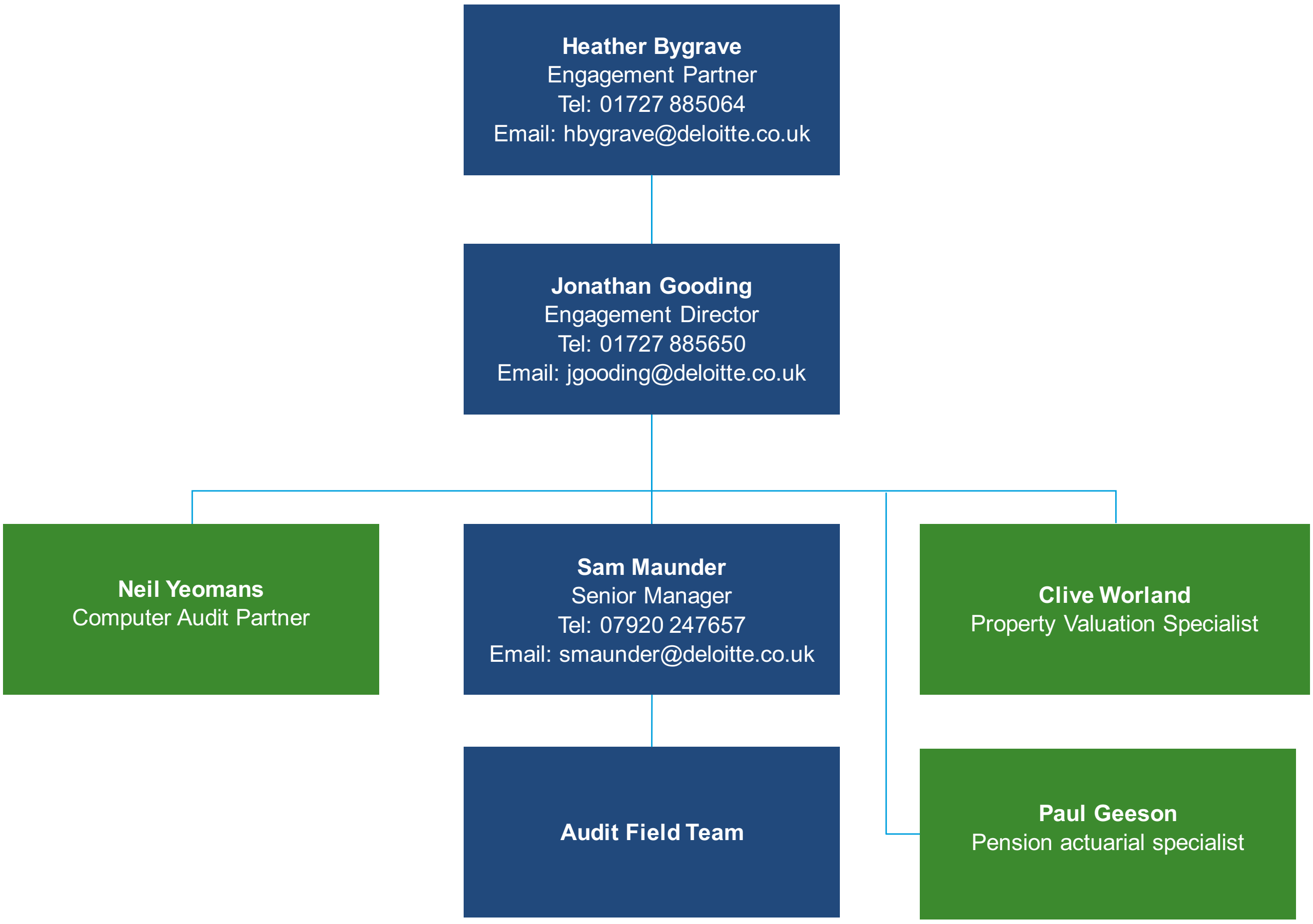
  (i) management;

  (ii) employees who have significant roles in internal control; or

  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 3: Audit engagement team

We set out below our audit engagement team. We manage our audit on a basis that is consistent with prior year and which draws on the expertise of our local government industry group and relevant specialists within the firm.



Appendix 4: Timetable

Set out below is the approximate expected timing of our reporting and communication with management and those charged with governance.

Planning	Interim audit	Year end fieldwork	Reporting	Post reporting
Planning meetings to: • confirm risk assessment; and management response; • agree on key judgemental accounting issues; and • agree the audit plan	Update discussions of key audit and business risks and testing of controls to mitigate significant audit risks Review of relevant internal audit work Document and test design and implementation of key controls Update understanding of systems, controls and developments in the business Performance of work in support of value for money conclusion	Performance of substantive testing Finalisation of work in support of value for money conclusion Review of annual accounts Audit issues meeting Work to support assurance statement on WGA return	Final Audit Committee Meeting Issuance of: • audit report and opinion; • value for money conclusion; and • limited assurance opinion on WGA return	Audit feedback meeting Issue of annual audit letter
February 2013	**March – April 2013**	**June – August 2013**	**August – Sept 2013**	**Sept – October 2013**

Ongoing communication and feedback

Appendix 5: Audit fees

The indicative fee for the audit of the London Borough of Hillingdon for 2012/13, excluding the audit of the pension scheme and certification of claims and returns, is £207,090 (exclusive of VAT), which compares to the fee of £345,150 for 2011/12.

The 2012/13 scale fees set by the Audit Commission include reductions of up to 40% on 2011/12 fees. These result from savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

The fee excludes:

- fees for the certification of grant claims. For 2012/13, the Audit Commission has replaced the previous schedule of hourly rates with a composite fee for certification work for each body. The composite indicative fee which the Audit Commission has set for 2012/13 is £90,200. This is based on the actual certification fees for 2010/11 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40% reduction (similar to the 40% reduction in the audit fee described above). The fee is based on assumptions on the grants requiring certification, the scope of work required and the availability of good quality working papers to support the claims. Total fees charged for the certification of grant claims in 2011/12 was £115,399;
- the fee for the audit of the pension scheme annual report, which is discussed in a separate audit plan;
- any work in relation to providing any specific accounting or other views. Given the uncertainty of timing and input required, we will agree the scope of work and associated fee with you when you request the opinion;
- any additional work required to address questions and objections raised by local government electors which, due to uncertainty of timing and resource required, will be agreed separately;
- any work requested by you that we may agree to undertake. Each piece of work will be separately negotiated and a detailed project specification agreed with you; and
- value added tax which will be charged at the prevailing rate.

We have also assumed that:

- Internal Audit undertakes appropriate work on all systems, and good quality working papers and records will be provided by the agreed start date for the planning audit visit;
- good quality draft of the financial statements, together with good quality working papers and records to support the financial statements, will be provided by the agreed start date for the final audit visit; and
- good quality working papers will be available by the deadline for submission of the WGA return to auditors to support the WGA return.

One of our divisions, Drivers Jonas Deloitte, was successful in 2011/12 with its proposal to monitor the delivery of a building contract for the expansion of six primary schools. The total fees payable for 2011/12 in relation to this work was £242,231. Of this, £177,808 was retained by Drivers Jonas Deloitte, with £64,423 being paid to sub-contractors.

We do not consider this to compromise our independence as external auditors to the Council. We have also received approval from the Audit Commission to undertake this work. We will provide details of the amount of non-audit fees invoiced in 2012/13 in our final committee paper.

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Deloitte.

London Borough of Hillingdon

Report to the Pension and Audit Committees

Audit Plan for the Year Ending 31 March 2013 Pension Fund Annual Report Audit

27 February 2013

Contents

Executive summary

We have pleasure in setting out in this document details of our proposed audit scope for the London Borough of Hillingdon Pension Fund for the year ending 31 March 2013. The Financial Reporting Council ("FRC") has made it clear, in its 'Update for Corporate Committees – November 2010' that it expects Audit Committees to focus activity on assessing and communicating risks and uncertainties and reliance on estimates, assumptions and forecasts. Whilst the FRC report is designed for private and public companies, the messages are equally applicable to governance and Audit Committees in other organisations. This report will describe the work we undertake in order to support this activity.

Status	Description	Detail
Audit scope		
Our audit scope is unchanged from last year	Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance. Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund. The pension fund accounts remain part of the accounts of the Authority as a whole. The LGPS Regulations require administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts. Our audit report on the Authority accounts will continue to cover the pension fund section of that document. In addition, we are asked by the Commission to issue an audit report for inclusion in the annual pension fund report.	Section 1
Key audit risks		
We summarise the key audit risks identified at this stage	The key audit risks which we have identified as part of our overall audit strategy are: 1. **Contributions** – Contributions is a significant income steam for the pension scheme which contains certain complexities arising from the participation of different admitted bodies within the fund. This is compounded by the variable rates which can be paid by members depending on their pensionable pay. We have, therefore, included the calculation and payment of contributions as an area of audit risk. 2. **Benefits** – Benefit calculations continue to encompass a number of complexities for both benefits in retirement and benefits paid on ill health and death. This has been compounded in recent years with the application of CPI as an inflation factor. We continue to identify benefits payable as an area of audit risk. 3. **Financial Instruments** – The pension fund invests in private equity and derivative financial instruments. Investments of this type are often in illiquid markets and involve significant judgments in measurement, accounting and disclosure; accordingly we have identified the appropriateness of the accounting, measurement and disclosure for these investments as an audit risk. 4. **Management override of key controls** - This is a presumed area of risk within auditing standards. As consistent with previous years the presumed risk of revenue recognition continues to be rebutted for the pension fund.	Section 2

Executive summary (continued)

Materiality and prior year uncorrected misstatements and disclosure deficiencies		
Planning materiality set at £7.5m **Reporting threshold set at £0.38m**	We calculate materiality on the basis of the net assets of the fund, but have restricted this to the materiality established for the audit of the Authority's financial statements as a whole. We estimate materiality for the year to be £7.5 million (2012: £7.5 million). We will report to the Pension and Audit Committees on all unadjusted misstatements greater than £0.38 million (2012: £0.38 million) and smaller adjustments that are qualitatively significant. Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Authority's financial statements.	

Prior period recommendations		
We reported a single finding from our work in 2011/12. We will follow up on this in 2012/13	In our final report to the Pension and Audit Committees, issued on 25 September 2012, we identified one area for improvement in relation to the internal control system. This improvement related to the review of the underlying private equity funds. We continue to recommend improvements in this area. We will follow up on this area as part of our 2012/13 work.	Section 4

Prior year uncorrected misstatements and disclosure deficiencies	
No prior year issues	There were no significant unadjusted misstatements or uncorrected disclosure deficiencies reported to you in respect of the 2011/12 accounts.

Independence and fees	
We confirm our independence. Proposed audit fees for 2012/13 are £21,000	We confirm we are independent of the London Borough of Hillingdon Pension Scheme. We will reconfirm our independence and objectivity to the Pension and Audit Committees for the year ending 31 March 2013 in our final report to the Pension and Audit Committees. Our responsibilities and those of the scheme are explained in the Audit Commission's publication, 'The responsibilities of Auditors and of Audited Bodies – Local Government' issued March 2010. We propose an audit fee of £21,000 (2011/12: £35,000) for the audit of the Scheme's financial statements. This is in line with the scale fee set by the Audit Commission. The 2012/13 scale fees set by the Audit Commission include reductions of up to 40% on 2011/12 fees as a result of savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

Executive summary (continued)

Operational features of our audit plan	
Our planned audit approach is similar to prior years'	Section 3 sets out our approach to considering fraud in relation to the audit. Appendices 1 and 2 set out our service team and timetable respectively.

1. Scope of work and approach

Overall scope and approach

Audit objectives are explained in more detail in our "Briefing on audit matters".

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

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

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

Our audit objectives are set out in our "Briefing on audit matters".

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

For pension fund statements, we have initially considered the net assets of the fund as the benchmark for our materiality assessment as this benchmark is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. However, we have restricted our estimate of materiality to the amount set for the Authority's financial statements as a whole, which is £7.5 million. Our separate audit plan for the audit of the Authority's financial statements includes further information on how we derived this estimate. The concept of materiality and its application to the audit approach are set out in our Briefing on audit matters document. The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatement in the financial statements.

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

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

2. Key audit risks

Based upon our initial assessment we will concentrate specific audit effort in 2012/13 on the following areas:

Contributions	
Tiered contribution rates increase complexity	Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS. Contributions for the year ended 31 March 2012 were £30.5 million, of which Scheduled bodies contributed £30.0 million, showing that this is a material income stream for the pension fund. This is expected to continue in the current period with there being no significant change to the active membership paying contributions. This coupled with the complexity introduced by the participation of more than one employer in the fund, together with the introduction of the new benefit structure with its tiered contribution rates; we have identified this as a specific risk.
Deloitte response	We will perform the following procedures to ascertain whether employer and employee contributions have been calculated, scheduled and paid in accordance with the schedule: • Review the design and confirm the implementation of key controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly. • Recalculate contributions for a sample of individual members to ensure they are calculated in accordance with the schedule of rates. • Perform analytical review procedures to gain assurance over the total contributions received in the year. • Reconcile the membership movements in the year to the Financial Statements, ensuring that these include members from the admitted bodies. We note that the Authority is not responsible for the calculation of contributions and will therefore perform such tests with the assistance of the other scheduled and admitted bodies.

2. Key audit risks (continued)

Benefits	
There are a number of complexities to the calculation of both benefits in retirement and ill health and death benefits.	The complexities surrounding the calculation of both benefits in retirement and ill health and death benefits remains a key area of audit risk. In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008; the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement; and individuals now enjoy greater flexibility in their choice of the mix of pension and lump sum. In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the same options as discussed above. The completion of the legislation leading to the change in the revaluation basis to Consumer Price Index adds a further complexity to the above calculations going forward. In the year ended 31 March 2012, total benefits paid were £35.5 million with £32.0 million (£6.4 million relating to lump sums) being paid to members in retirement. The scheduled bodies make up the main part of the scheme with £31.9 million being paid out to members of these bodies. We understand there is no significant change in the current period. The material values of these benefits further indicate that this is an area or key audit risk.
Deloitte response	We will perform the following procedures to ascertain whether benefits payable have been calculated correctly in accordance with the fund rules. • Review the design and confirm the implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits. • Test a sample of new pensioner calculations and other benefits paid by tracing to supporting documentation and reviewing the calculation, to ensure it is in line with the relevant rules. • Perform analytical review procedures over the pensions paid in the year based on prior year audited numbers adjusted for changes in pensioner numbers and any pension increases.

2. Key audit risks (continued)

Financial instruments

Private equity and derivatives are complex to value

The pension fund makes some use of investments in private equity and derivative financial instruments.

The fund had a total of £36.6 million in private equity funds as at 31 March 2012. Private equity funds are complex to value and include an element of judgement on the part of the investment manager. Given that these funds form a material balance within the pension fund accounts, we have identified the valuation of these funds as a specific risk.

The fund also makes use of derivatives which can be complex in terms of accounting, measurement and disclosure requirements.

During 2012/13, the scheme has transferred investments between investment managers using Nomura as transition managers. The assets were transferred the equity portfolio from Marathon to both Kempen Global and Newton Global via a holding period at State Street Global Advisors.

Deloitte response

For the private equity investments we will seek to understand the approach adopted in the valuation of such investments and inspect supporting documentation such as cash flow reports, quarterly investment advisor reports and audited financial statements. We will tailor further procedures depending on the outcome of that work and our assessment of the risk of material error taking into account the fund's investment holding at the year end.

We will update our understanding of the rationale for the use of the derivatives and then test compliance with the accounting, measurement and disclosure requirements of the Code of Audit Practice on Local Authority Accounting. We will consult with our internal specialists and where considered necessary ask them to perform tests of these balances through re-calculation of the value attributable to them.

We will review the transition reports for the two transitions in the period and assess the accuracy of the transition holdings.

Management override of controls

Audit guidance includes a presumed risk of management override of key controls.

Auditing standards recognise that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports. They include a presumption of a risk of management override of key controls.

Deloitte response

We will focus our work on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties.

3. Consideration of fraud

Characteristics

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

Responsibilities

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

Fraud inquiries

We will make the following inquiries regarding fraud:

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

3. Consideration of fraud (continued)

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

Representations

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

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:

  (i) management;

  (ii) employees who have significant roles in internal control; or

  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

4. Prior period recommendations

Control observation

During the course of our audit for 2011/12 we identified one area for improvement in the internal control system which is detailed below:

Review of private equity funds financial statements	
Observation	Whilst an annual review process has been implemented to review the annual statements received from the private equity firms, there remained no procedure in place to complete a detailed review of the underlying private equity funds annual audited financial statements. It was again noted that the audit opinion on some of the funds was modified to include an emphasis of matter paragraph raising attention to the possibility the valuation may differ from that shown due to the illiquid market for these securities. This could lead to incorrect valuation of these funds in the pension scheme financial statements.
Recommendation	We recommended that a process is implemented to review annually the audited financial statements for all private equity funds. The committee should consider any issues identified by the auditors and the impact on the scheme should be assessed and disclosure included in the accounts to explain any uncertainties identified.
Management response	Management agree with the intention of the recommendation and will undertake an annual review through the Investment Sub Committee who meets at a time more suitable to the audit timetable.
Owner	Nancy LeRoux

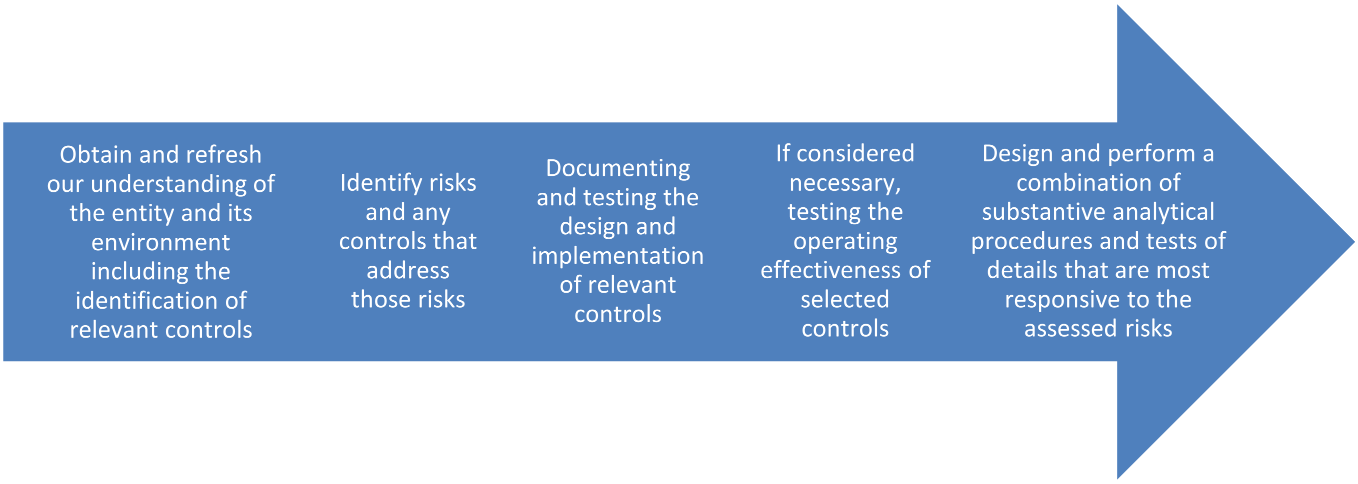
We will report to you whether this recommendation has been addressed in the current period.

5. Internal control

What audit work do we do on controls?

We will evaluate the design and implementation of controls relevant to the audit

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



We will consider the results of our procedures in respect of the Council’s controls and the extent of any impact our findings have on our substantive audit procedures.

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

6. Responsibility statement

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

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

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

Deloitte LLP.

Deloitte LLP
Chartered Accountants

St Albans
27 February 2013

Appendix 1: Audit engagement team

We set out below our audit engagement team. We manage our audit on a basis that is consistent with prior year and which draws on the expertise of our local government and pension scheme specialists within the firm.

Heather Bygrave
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Tel: 01727 885064
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Engagement Director
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Mark Browning
Senior Manager
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Pensions Field Team

Appendix 2: Timetable

	2013	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Management	Prepare plan based on discussions with management								
	Early discussion of Authority's approach to risks areas								
	Performance of detailed audit planning fieldwork								
	Audit fieldwork/audit issues meetings								
	Review of pension fund annual report								
	Preparation of our report on the 2012/13 audit								
Pensions and Audit Committees	Audit plan								
	Report to the Pension and Audit Committees on the 2012/13 audit								

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

Appendix 3: Industry update

Public Service Bill

The Public Service Bill 2012/13 will create the unified legal framework underpinning the new public sector CARE arrangements, which have now been agreed in principle between the Government and unions. The Bill enables the detailed regulations needed to be drafted for the new schemes. The Bill picks up many of the Hutton Report's other recommendations, for example, on strengthening scheme governance. Some of the key areas of change are:

- The Pension Regulator's role will be expanded to cover public sector schemes.
- Introduction of two roles relating to governance, Pension Board and Scheme Manager.
- Pension Boards will need to appropriate level of knowledge and understanding, this includes that members are conversant with the rules of the scheme, policies of the scheme and an understanding of the law relating to pensions.
- Scheme Manager is to be responsible for the administration and management of the scheme, expected to be the Administering Authority.
- Fair Deal - "Broadly comparable" DB Benefits are to continue to be offered by companies taking on public sector work.

The bill has had its third reading in the House of Lords and we await any final amendments.

LGPS admission agreements

Admission Agreements allow private contractors to participate in the LGPS in respect of members transferred from the public sector.

The Miscellaneous Regulations made the following amendments for Admission Agreements from 1 October 2012:

- it will no longer be possible for an admission agreement to cover more than one outsourcing contract;
- the distinction between transferee and community admission agreements will be removed. This means that the requirement to obtain a bond or indemnity will apply equally to both forms of admitted body; and
- in future, to address a loophole, a valuation must be made at the date an employing authority ceases to be a scheme employer in respect of the liabilities relating to its current and former employees.

In addition, following changes to allow for auto-enrolment, contractors need to be careful that existing Admission Agreements permit only employees eligible for the LGPS to be auto-enrolled.

Appendix 3: Industry update (continued)

The new LGPS 2014 project

On 22 December an agreement reached by the Local Government Association (LGA) and local government unions on how to take forward the future reform of the Local Government Pension Fund (LGPF) in England and Wales was accepted by the Government. The agreement consists of:

- A set of principles covering:
  - The design of a new LGPF.
  - The future management and cost of the fund.
  - Governance of the LGPF.
- A timetable for implementing the new fund by April 2014.
- A project outline for managing the process of agreeing, by April 2012, the 'big ticket' elements of the new fund.

During April 2012, following the acceptance by Government of a principles document submitted by the Local Government Association, UNISON and GMB on how to take forward the reform of the Local Government Pension Fund (LGPF) in England and Wales, a project has been set up to reach agreement on the elements of the new fund together with the management and governance of the fund going forward.

Further information is available at: http://www.lgps.org.uk/lge/core/page.do?pageId=15431012

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Internal Audit Progress Report

Contact Officer: Gill Crosbie
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REASON FOR ITEM

This report provides the Audit Committee with a summary of Internal Audit activity in the period from 24 November 2012 to 8 February 2013. 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 requirement 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 on issues outstanding that arose from 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 members and officers 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. Following on from the change in the Constitution made in the autumn to transfer responsibilities for anti-fraud work to Residents Services, formal consultation will start shortly on changing the line management of the Fraud Team and removing the anti-fraud work from the responsibilities of the Head of Internal Audit post. The line management arrangements for the Fraud Team have been changed as an interim measure to the Deputy Director ICT, Highways & Business Services in Residents Services. The previous Head of Internal Audit has now left her post and an interim Head of Internal Audit appointed with effect from 13 February 2013.

2.2. The new trainee auditor commenced work in January 2013, bringing the service up to a fully staffed position.

3. Progress against Plan and Follow up Status

3.1. During the period, of the fourteen audits completed two received Full Assurance, ten audits received Satisfactory Assurance and two received Limited Assurance.

3.2. The current status of progress against the 2012-13 Plan is included in Appendix 1. Following concerns raised at the last Audit Committee, a follow up on progress on implementing the recommendations in the Golf Courses audit report has also been carried out and the results of the review are in paragraph 3.7.16 below.

3.3. The progress and status of issues arising that are outstanding from those audits carried out in 2011-12, 2010-11 and 2009-10 are included in Appendices 2, 3 and 4. The implementation rate for follow up reviews was 75%, which is an improvement on last quarter's rate of 64%. See Appendix 5 for details.

3.4. An audit of Special Educational Needs Transport Costs was added to the plan as a significant overspend had been identified.

3.5. The following audits have been deleted from the 2012-13 Audit Plan and deferred to 2013-14:

- **Treasury Management** – This audit has been deferred to 2013-14 as the Treasury Team will be unable to support an audit due to year end activity. It is therefore considered more beneficial to defer this until quarter 2 next year when a more in-depth review will be possible.

- **NNDR** – The audit of NNDR has been deferred to 2013-14 as Revenue Services are undergoing major changes due to changes in legislation with effect from April 2013. An audit next year would therefore be more valuable.

- **Schools Building – Project Management Phase II** – The 2011-12 audits of Temporary and Permanent School Buildings were only finalised in February 2013. A number of recommendations were made and management is making good progress to implement these, along with other changes emanating from the BID review. As these have not been fully embedded yet, an audit of Phase II would produce similar results as the previous audit. The Schools Expansion Scheme will be included in the Audit Plan for 2013-14.

- **Rural Activities Garden Centre** – Deferred to 2013-14 as the RAGC is going through a transition phase with a new café being opened, an ICT system for stock control being implemented and DASH putting in a bid to run the café and shop to the Council's specification.

- **Community Infrastructure Levy (CIL)** – This audit was to review the new Mayoral CIL which was introduced in 2012. However, there have not been any cases yet that have had to go through the whole process. Therefore, this audit will be deferred until 2013-14 so that the whole process from beginning to end can then be audited.

- **Self Directed Support (SDS)** – The 2011-12 audit was finalised in December 2012 and given satisfactory assurance. The service needs time to embed the new processes before another audit can take place. Also, the one area not covered by the 2011-12 audit was where clients manage their personal budget themselves. This was because, at the time of the audit, all SDS clients had managed budgets. However, an audit is in the 2013-14 Audit Plan to cover this area.

- **Housing Services Major Works and Housing Gas and Other Services Contracts** – Housing Repairs and Facilities Management are undergoing a major BID review and it is expected that the way services are delivered will significantly change. These audits will be covered in 2013-14 as part of the planned Property Maintenance audit.

- **Desk Top Refresh** – This audit is deferred to 2013-14 as the service is currently updating the strategy and there is a BID review looking at starters, leavers and movers.

- **Onyx upgrade** - The upgrade has just been implemented and has not been operational long enough to test its effectiveness. Therefore this review will be deferred to 2013-14.

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

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

3.7.1
Audit Title: Schools Buildings Programme – Permanent
Assurance level: Limited

Local education authorities have a duty to provide full-time education to all children who are of compulsory school age; including those who are temporarily living in the area for long enough to attend school, come from abroad or have special education needs.

A significant amount of expenditure has been committed to delivering the Schools Building Programme. The programme aims to increase the number of pupil places available to accommodate the surge in demand for education. This will be achieved through the construction of new permanent buildings.

The aim of the Schools Building Programme Phase 1 is to create six forms of entry at six existing primary school sites; Whitehall (infant and junior), Colham Manor, Grange Park (infant and junior), Brookside, Cranford, and William Byrd Primary Schools. The proposed work involves a combination of new buildings and refurbishment of existing buildings to provide teaching space.

The objective of this audit was to ensure that management of the Schools Building Programme for permanent accommodation was efficient, effective and economical.

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

- Procurement Process
- Payment Process
- Roles and responsibilities
- Health and Safety

Improvements are needed to address risks in the following areas:

Control improvements required	**Risk**	**Agreed Target Date**
A Corporate Construction Procedures Handbook must be produced, encompassing key processes, standardised documentation records of decision and protocols for liaison with Stakeholders and other services within the Council. Without this discipline there is no clear documentary evidence either to protect officers from accusations of impropriety or to support the council in any disputes with contractors.	High	April 2013
An expansion communication strategy should be produced for future permanent construction. This will ensure the council receives buy in from schools and money is saved on redesigning and unplanned additional costs.	High	March 2013
Going forward a detailed lessons-learnt exercise needs to be undertaken and documented. This will ensure the council receives value for money on its construction programme.	High	Implemented
The project execution plan should be kept up to date and used as a tool to monitor progress. Without this discipline it is likely that projects will get out of control causing costly overruns. Anyone new to the project would not be able to gauge progress or identify problems.	Medium	Implemented

The audit testing was undertaken in August/September 2012 and when the draft was issued in October 2012 the service was going through a bid process and restructure, and work had also commenced on addressing the key weaknesses found in this audit, as management had already identified some of them. We therefore completed a follow up in January 2013 to ascertain the progress that had been made to strengthen the control environment. We were pleased to note that out of the four recommendations made, two had been implemented and the other two were in the process of being implemented. If progress continues to be made on implementing improved processes we anticipate that any future audits of the Schools Building Programme will have a higher assurance level.

Management Comment

The Audit Report identifies changes to be made by the service to introduce improvements to management and control required for Major Construction project as part of BID Transformation. This includes the Schools and General activity areas of Corporate Property and Construction. The schools programme is the largest programme in London. Apart from the size and complexity of a programme like this, there have been very challenging timeframes for delivery. Given that the overriding objective has been deliver schools places on time, this has meant that a higher level of risk has had to be accepted.

In this context, the timeframes for delivery of the changes to working practice has also been challenging. Having said this, the transformation project team has worked closely with Internal Audit and involved them in the development of new ways of working. The issues raised in the Audit Report are being fully implemented.

Major Construction was prioritised as the first activity area to adopt new ways of working. Following the discovery phase a new process and associated procedures. This has now reached the first stage of implementation for both the Schools and General teams with the live processes and procedures together with a selection of some of the new templates distributed for further comment. Training will be given when they are finalised. There will be continuing monitoring of the implementation of the new ways of working with further improvements made.

The hallmarks of the new ways of working will be to achieve proper management with clear reporting to enable informed decisions to be made, provide clarity around roles and responsibilities, consistency of approach, improved cost control and visibility which includes key dependency areas such as commissioning and finance.

3.7.2
Audit Title: Schools Buildings Programme - Temporary
Assurance level: Limited

Under Section 14 of the Education Act 1996, Local Education Authorities have a statutory duty to ensure education is available for all children aged 5 – 16 years old. These duties apply to all permanent and temporary children residing in the LEA's area. If a child lives over 2 miles from their school, the council must provide travel arrangements. In the event that the Council is unable to secure a suitable place at a school for a pupil, they could be liable to pay compensation to the pupil concerned. The compensation would cover the cost for alternative education provision and compensation for delayed educational progression.

The aim of the Schools Building's Programme Phase 1A was to provide temporary accommodation/ school buildings at Belmore, Glebe, Harlyn, and Highfield (7 forms of entry) for September 2011, and under a separate contract for temporary buildings in Rosedale for September 2011.

The objective of this audit was to ensure that management of the Schools Building Programme for temporary accommodation was efficient, effective and economical.

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

- Health and Safety
- Roles and responsibilities
- Payments.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
For any future projects a clear trail should be maintained of research used to support the decision to build, and choice of location. A documented strategy for delivery should be produced with input from all stakeholders. This ensures there is a clear plan shaping future events and performance required to meet the objectives of the council.	High	Implemented
A Project Execution Plan (PEP) should be produced for each temporary programme established. This ensures projects are completed efficiently, effectively and economically.	High	Implemented
Post construction school engagement is necessary in order to understand the impact of increases in pupil numbers, effects on school	High	Ongoing

budgets, teaching standards and pupil mobility, and to identify school issues directly affected from the increase in pupils. This will ensure there is earlier buy in from schools, so pupils receive the stability that supports a good education.		
Secondary school assessments need to begin once the September 2012 school year commences so that a strategy can be produced. Without detailed forward planning the Council could breach its statutory duty to provide school places.	Medium	March 2013

The audit testing was undertaken in August/September 2012 and when the draft was issued in October 2012 the service was going through a bid process and restructure. Work had also commenced on addressing key weaknesses as management had already identified some of them.

We therefore completed a follow up review in January 2013 to ascertain the progress that had been made to strengthen the control environment. We were pleased to note that out of the five recommendations made, three recommendations had been implemented and the other two were well in the process of being implemented. If progress continues to be made on implementing improved processes we anticipate that any future audits of the Schools Building Programme will have a higher assurance level.

Management Comment
See management comment for 3.7.1 above, Schools Buildings Programme – Permanent.

3.7.3
Audit Title: Licensing Service
Assurance level: Satisfactory

The role of the Licensing Service is to process, regulate and monitor the compliance of licences and permits across twelve activities and premises. Licensing and permit fees generate revenue for the Council of between £250,000 and £300,000 a year.

As part of the Business Improvement Delivery (BID) scheme, some of the Licensing Service's administrative tasks associated with receiving and logging applications have now been transferred over to the newly formed Applications Processing Team (APT).

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

- Policies
- Applications

- Granting/Rejection of Licences.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
Clear written procedures should be produced detailing the process of completing the key administrative and operational tasks associated with the Licensing Service. Without policies and procedures there are risks to business continuity and inconsistent practices.	High	July 2013
Licence registers and templates should be password protected to prevent false amendments and access by individual without the delegated authority to do so.	Medium	February 2013
Once all licensing data has been transferred onto CIVICA, monthly and annual reconciliations should be performed to ensure all applicable alcohol and gambling premises have been invoiced for a renewal fee, otherwise there may be a potential loss to the council.	Medium	February 2013
The ‘Allocation of Premises’ inspection log should be updated to contain more details of the inspections and an action plan should be produced to address the backlog of planned inspection, particularly for high risk premises, to ensure that there are no licensable activities which are in breach of their terms.	Medium	July 2013
An action plan is needed to clear the backlog in planned inspections, particularly for High Risk Premises, starting with the premises which have had no inspections for over two years. Without an organised action, the backlog of planned in-spections may not be cleared efficiently, and some licensing activities may go on trading whilst breaching the terms of their licence	High	April 2013

3.7.4
Audit Title: Northgate IT Disaster Recovery Arrangements
Assurance level: Satisfactory

The Council has recently awarded a four year contract to Northgate Information Solutions, with an option to extend for a further two years, for the following elements of support:

- Hosting and disaster recovery
- Server Database Administration
- Application Support
- Application Development
- Printing
- Management of Oracle licences for all Oracle based databases and applications within the Council.

We were pleased to report the following well-designed controls:

- There are backup procedures which ensure that all essential data and software are copied at regular intervals onto backup media and stored offsite.
- The replication of data between Northgate's two data centres means that systems and services can be recovered within a shorter timeframe.
- Responsibilities associated with the application solutions hosted by Northgate are documented
- Northgate have documented Business Continuity and Disaster Recovery plans for its Data Centres, constituting a continuity framework that includes task prioritisation in accordance with BS25999, for which it holds an accreditation. This reduces the risk that Council systems will not be recovered and available for use within agreed timeframes.
- The provision of alternative facilities by Northgate reduces the risk that key systems will not be accessible for a prolonged period in the event of an incident affecting either of the Northgate Data Centres.
- As previously, the new hosting contract stipulates that a disaster recovery plan is enacted at least once a year. The carrying out of a DR test reduces the risk that IT systems cannot be effectively recovered due to a failure to test recovery operations.

Improvement is needed to address risk in the following area:

Control improvements required	**Risk**	**Agreed Target Date**
Management should agree a date for a Disaster Recovery test to be carried out. This would provide a target date for ensuring that transition is completed and ensure that the contracted perromance target of one test per year is achieved.	Medium	April 2013

3.7.5
Audit Title: Civica Electronic Document Management System (EDMS)
Assurance level: Satisfactory

The Council's Electronic Document Management System is supplied under a contract with Civica Plc, who provide application and DBA (Database Administration) support to the Council. The system is hosted on servers at the Civic Centre and managed by the internal ICT team, who are also responsible for backing up the system.

The Civica EDMS has been rolled out across the main departments within the Council in phases, as follows:

- Revenues and Benefits: 2005;
- Housing: 2006;
- Adult Social Care: 2009;
- Child Social Care: 2010;
- Corporate Payments: April 2012; and
- HR: September 2012.

There are around 1700 live users of the Civica EDMS with an average of 300-400 concurrent users.

The objective of the audit was to review the controls in place which ensure there is a secure and efficient document management system in place.

We were pleased to report the following well-designed controls:-

- In order to access the Civica EDMS, users must have the appropriate link to the application on their desktop and are required to log into the system with a different set of credentials from their network logon credentials.
- A standard documented process is in place for the setting up of new users on the Civica EDMS by nominated system administrators, including the authorisation of new user access by line management.
- A range of security profiles has been implemented within the Civica EDMS, which are designed to restrict access to particular modules, documents and records within the system.
- The Civica system is synchronised each weekday night with the file structure in each of the 'back-office' systems (business applications) of departments who use the EDMS. Procedures are also in place for reporting on and investigating any synchronisation failures.

- For each of the business areas using Civica, a series of document 'security categories' has been set up indicating how access to the documents indexed (allocated) to folders in such categories should be restricted.
- Standard procedures are in place for the document scanning and indexing process, each stage of which is recorded in the Civica system.
- Regular scheduled backups are taken of the Civica system and data, which are designed to ensure that the Civica system and associated documents can be restored in the event of an interruption to business processing.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
Management should consider improving the password policy settings in the system. This will further strengthen protection against unauthorised access to documents held within the Civica system.	Medium	Implemented
Management should ensure that, a robust account lockout policy is operating as it has been designed to do (lock users out after 3 unsuccessful attempts) across the Civica system. This will ensure individuals have limited opportunity to guess passwords of genuine users through repeated logon attempts and then exploit them to gain unauthorised access to the system and data.	Medium	Implemented

3.7.6
Audit Title: HMO Licensing Audit
Assurance level: Satisfactory

The Housing Act 2004 renewed and amended powers given to councils to regulate Houses in Multiple Occupation (HMO) and required mandatory licensing of certain type where they meet certain basic standards. The objectives of the legislation are to ensure HMOs provide safe, sanitary housing, properly managed, that does not adversely affect the character of the surrounding area.

The objective of the audit was to ensure that the Licensing of Houses in Multiple Occupation Management is efficient, effective and economical.

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

- HMO Process and procedures
- Access and security of database (CIVICA)
- Data protection training

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The Head of Housing should ensure a new HMO Strategy is produce within six months. This will ensure consistent practices are adopted and the council's objectives are achieved.	Medium	April 2013
The Principal Surveyor should liaise with legal services to obtain clear guidance and training on the evidence requirements for HMO licensing prosecutions. This will ensure Surveyors provide the necessary evidence to allow legal to take forward prosecutions and HMOs are being checked and licensed.	Medium	December 2012
The Principal Surveyor should produce a report which shows all licences without an end date and update them immediately. This will ensure expired licences are flagged and the process for renewal initiated efficiently.	Medium	December 2012
The Principal Surveyor should instigate a process that requires landlords of HMO licensed properties to supply an 'Annual Gas Safety Certificate'. This will ensure health and safety hazards do not go undetected and LBH is not exposed to bad publicity in the event of an incident.	Medium	January 2013

3.7.7
Audit Title: Self Directed Support
Assurance level: Satisfactory

Self Directed Support (SDS) is one way in which the Council is giving more choice and control to people who are entitled to support from Social Care Services. The emphasis is on individual choice and control over what support they receive and how they manage it. The outcome is a Personal Budget for each client to manage. Clients can choose to spend the money themselves to achieve their outcomes or continue to receive services from the Council using the budgeted amount.

The Corporate vision is "Putting our residents first" and the Council's objective is to improve and promote the health and well being of adults and older people.

SDS involves the following processes:

- Eligibility check
- Needs assessment leading to a Support Plan
- Calculation of personal budget amount
- Agreement on who will manage the personal budget (e.g. the Council, the service user or a mixture of the two)
- Guidance on, and the issuing of, a pre-paid card where service users will be managing their own personal budget

The Self Directed Support audit was conducted during the roll out of the project. The Functional Analysis of Care Environments (FACE) assessment, Resource Allocation System (RAS) and support planning processes were 95% completed for Older Peoples Services, however, all of these clients had chosen to have budgets managed by the Council. Other client types are at various stages of Personalisation processes and will be audited at a later date.

Prepaid Cards will be used for clients who decide to manage their own personal budgets.

The objective of the audit was to provide assurance to management on the adequacy, effectiveness and application of the key controls in relation to the assessment and allocation processes for Self Directed Support (personal budgets).

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

- FACE and RAS are used in the determination of an Indicative Personal Budget for Older Peoples Service
- FACE assessments and RAS were approved by officers other than those who carried out the assessments.
- Service users are assisted by support planners to establish personal budgets.
- Development work on further improving processes and procedures around Self Directed Support

Improvements are needed to address risks in the following areas:

Control improvements required	**Risk**	**Agreed Target Date**
Process maps and procedures should be version controlled and circulated to staff on a regular basis as without up to date documented procedures, incorrect or inconsistent actions might be taken.	Medium	March 2013
When applicable it should be noted on the FACE assessment form when a carer has been offered a separate carer's assessment but declined the offer. However, the support they provide should be noted, so that it is clear that the full process	Medium	Immediate

has been undertaken.		
The Team/Deputy Team Manager should obtain exception reports from the Protocol system to ensure all users have been issued with a support plan: without this, it may be difficult for clients to check they are getting appropriate support.	Medium	March 2013

3.7.8
Audit Title: Empty Property Management (Council Housing Voids)
Assurance level: Satisfactory

Good management of empty properties limits void periods, meets housing needs and maximises rental income. The objective of the audit was to ensure that voids management is efficient, effective and economical.

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

- Roles and Responsibilities
- Segregation of duties
- Performance Management

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The Empty Property Management Procedures Note should be updated and reviewed at regular intervals to incorporate changes and improvements because without regular update and review of procedures, inconsistencies and errors might occur or decisions may be based on incorrect information.	Medium	March 2013
The Void Control Supervisor should ensure that, where property inspection took more than two days, the reason for the delay is documented in the voids status report because without knowing the reasons why empty properties inspection took more than two days, management might not be able make informed decisions on void management.	Medium	January 2013

3.7.9
Audit Title: Registration Service
Assurance level: Satisfactory

The Electoral and Registrar Services were merged after the BID process in 2011/12 and are now called the "Electoral and Registration Service".

The Electoral and Registration Service is responsible for:

- maintenance and update of the electoral register;
- nationality and citizenship checks and ceremonies;
- registering and undertaking marriages;
- registering births and deaths within the borough;
- issuing copy birth, death and marriage certificates upon request.

This audit focused on the registration service. A total income of £560k was collected in 2011/12, while a total sum of £589k is expected during the current financial year.

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

- Registration Service procedures;
- Access and security of database (Registration On Line);
- Data protection training;
- Security of un-issued certificates;
- Document logging system;
- KPI data collection.

Improvements are needed to address risks in the following areas:

Control improvements required	**Risk**	**Agreed Target Date**
The Head of Democratic Services should improve the security for the Registrars, including: • efficient recognition of where a distress call originates from; • layout of the offices and panic buttons. This will ensure the risk of any injury is reduced.	Medium	April 2013
The Deputy Electoral and Registration Services Manager should ensure: • the key box is locked at all times; • the key to access the key box is securely held; • a record/log is maintained detailing the movement of keys between staff in the Registration Services team. This will ensure only authorised staff have access to the safe and its contents and there is an audit trail of access.	Medium	January 2013

3.7.10
Audit Title: Telecare Stock Management
Assurance level: Satisfactory

TeleCareLine is a monitoring and alert system that can help support people to live independently in their own homes by providing reassurance that help is available in an emergency. It currently has 5000 users and is operated 24 hours a day, and 365 days a year.

There are four levels of TeleCareLine Service, which costs between £1.13 and £12 per week. It is free to:

- residents who are aged 85 and over
- to residents meeting 'substantial and critical' Fair Access to Care criteria, subject to financial assessment
- for six weeks to any residents receiving a reablement package from Hillingdon Council

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

- Roles and responsibilities
- Performance Management

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
Facilities Management, when relocating to the Civic Centre, should ensure there is an adequate storage facility for stock. If the move is not imminent, alternative storage should be sought. This will ensure stock does not continue to be vulnerable to theft or damage, and that staff safety is not compromised in the in event of a fire or loss of electricity by storing stock in the corridor.	High	April 2013
Procedures on stock should be amended to include reference to the re-ordering levels spreadsheet. This will ensure more stock is not ordered and stored than required.	Medium	May 2013
The Older People's Housing Service Operations Manager should liaise with ICT on a software solution that enables the integrity of information on operations to be maintained securely. This will ensure valuable data does not remain vulnerable to deletions and manipulation.	Medium	February 2013

3.7.11

Audit Title: Commissioning Third Sector Providers
Assurance level: Satisfactory

The Third Sector Commissioning process involves value-driven purchasing of services from non-governmental organisations, charities, voluntary and community organisations. Involvement is focused on providing high quality services and securing better outcomes for service users and local communities.

In 2011 Social Care Health and Housing Commissioned services costing £2m from over 60 Third Sector providers for wide range of services.

The objective of the audit was to review processes to ensure effective commissioning from third sector providers. We were pleased to report risks are appropriately addressed in these areas:

- Strategies and plans
- Roles and responsibilities
- Service users needs
- Needs assessment.

Improvements are needed to address risks in the following areas:

Control improvements required	**Risk**	**Agreed Target Date**
The Commissioners should arrange for the three unsigned contracts to be signed immediately. This will ensure any disputes are resolved quickly without resource to costly litigation in the event of a dispute.	High	February 2013
The Disabilities Commissioner should ensure the signed and sealed contract document is updated with the appropriate contractor's name and the company's registration number. This will ensure in the event of a dispute the contract is enforceable.	High	June 2013
The Head of Commissioning should ensure the commissioning process and cycle is clearly documented, otherwise inconsistent practices might be adopted or service users' needs might not be met.	Medium	February 2013
The commissioners should document the risk analysis for single tender process and ensure the financial risk assessment is approved by the accountant within the team. This will ensure officers are protected from allegations of impropriety and the financial assessment is transparent and independent.	Medium	March 2013

3.7.12

Audit Title: Fostering Service
Assurance level: Satisfactory

The Fostering Team provides temporary homes for children who are unable to live with their own families due to the inability to meet the child's needs or for children waiting to be adopted. This can be long term or short term. The team is also responsible for finding suitable foster carers and monitoring payments and expenses paid to foster carers.

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

- Policies and procedures
- Recruitment and training of foster carers
- Monitoring of foster carers
- Foster Carer allowances

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The Fostering Manager should select the file to be reviewed at each team member's monthly one to one supervision meeting. Otherwise, the member of staff could pick files where there have been no problems meaning any performance issues may go unidentified.	High	Implemented
A system should be introduced that provides an audit trail for reimbursement of foster carer expenses. The audit trail should include the foster carer's name, type of expenditure, cost, why the expenditure was required and who authorised the payment. Without an audit trail there is no evidence that the purchase is valid.	Medium	March 2013
Foster Carer files should be reviewed and any CRB records retained on file should be destroyed to ensure compliance with CRB regulations.	Medium	Implemented
Periodically, a report should be produced from the Protocol system of all unannounced visits. This report should be reviewed by management to ensure visits have been carried out annually. If unannounced visits are not carried out as required, any problems may go unidentified.	Medium	April 2013

Guidance should be drawn up and issued to all foster carers and Fostering Team stating what is classified as a valid expense claim and what should be bought from the weekly foster care allowance. If guidance is not available expenses may be reimbursed that should have been paid from the weekly allowance.	Medium	March 2013

3.7.13
Audit Title: Hillingdon Shared Lives Scheme
Assurance level: Full

The Adult Care Scheme (now known as Hillingdon Shared Lives Scheme [HSL]) is a service for the elderly, and adults affected by mental health or disabilities. The idea is that the individual lives as part of a family, and (if necessary) receives high levels of care provided by the family. Currently, there are 11 single carers, 11 joint carers, 5 relief carers, and 2 response carers. There are 25 service users.

There are three levels of payments to carers: Level 1 £323.89, Level 2 £375 and Level 3 £450. The scheme is funded by a combination of contributions from Adult Social Care, and clients' Housing Benefit.

The objective of the audit was to ensure that the Shared Lives Scheme has adequate and effective processes to meet objectives.

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

- Policies and Procedures
- Recruitment Process
- Safeguarding (Monitoring and Review).

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
The policy needs amending to ensure all compulsory training is completed before a service user is placed in a carer's home. This will ensure Carers are able to handle an emergency.	Medium	Immediate
The Protocol payment system changes should be prioritised as without these, monthly manual adjustments will continue on ContrOCC which is time consuming and prone to human error.	Medium	31 January 2013
The CRB Disclosure Procedure must be amended to include the process of checking other household members CRBs who are over 18. This will ensure that checks are not missed when assessing applicants and the service user is placed in safely.	Medium	Immediate

3.7.14
Audit Title: Caravan Site (Colne Park)
Assurance level: Full

Hillingdon Housing Services are responsible for the management of the Colne Park caravan site on behalf of LBH. The site located in West Drayton is managed by staff based at the Yiewsley/Uxbridge Community Housing team. The site has been run and owned by the Council since it was opened in 1973. There are 20 caravan plots located on the site.

An incident occurred at Colne Park caravan site on 21st July 2011 when a resident died following a gas explosion at an amenity block on one of the pitches. West London Coroner's Court concluded this incident was an accidental death.

Following the incident, a site management plan was produced which outlines the requirements for the safe management of the site. The plan was ratified in October 2012. The objective of the audit was to ensure the site management plan for Colne Park caravan site is adequate and effective.

We were pleased to report risks are appropriately addressed for:

- Roles and responsibilities
- Site monitoring
- Risk assessments.

Improvements are needed to address risks in the following area:

Control improvements required	Risk	Agreed Target Date
Internal audit should be provided with a report that identifies what progress has been made to collect annual gas certificates from residents at the caravan site. If a gas and electrical safety inspection has not been performed, residents are at risk from injury/death. Hazardous equipment may not be detected.	High	April 2013

3.7.15
Housing Benefit Subsidy – It was agreed with our external auditors that internal audit would carry out compliance testing on the Housing Benefit Subsidy claim for 2011/12 on their behalf. This work has now been completed resulting in a significant saving to the Council in external audit fees.

3.7.16
Golf Courses Follow Up Review

A follow up review was carried out to establish progress made to date in implementing the recommendations made in the original audit report of November 2012. Considerable progress has been made to address the recommendations (including those partially implemented) and the position now is:

	High	Medium	Low
Original recommendations	7	5	1
Now fully implemented	4	5	1
Now partially implemented	3	0	0

We will be following up again in June 2013, when the remaining partially implemented recommendations are due to be completed.

3.7.17
School Audits
The table below summarises the school audits finalised in the period.

2012/13	**Assurance Level**
Schools – Secondary	
Harlington Community	Limited
Ruislip High	Satisfactory
Schools - Primary	
Harlyn Primary	Satisfactory
Charville Primary	Satisfactory
Hillside Junior	Satisfactory
Colham Manor Primary	Full
Schools – Special	
Chantry	Satisfactory

Two school audits, Cranford Park Primary and Wood End Primary, have been removed from the Audit Plan as they became academies during the year.

4. Follow up Audits
4.1. We continue to monitor management progress by a programme of follow up reviews of the action points from previous audits, with an emphasis on ensuring high and medium risk level recommendations are fully implement in the agreed timescales.

4.2. In some instances a planned follow up review is delayed if it is known that specific recommendations have planned implementation dates that have needed to be revised.

4.3. As also explained in 3.3 above Appendices 2 to 4 detail progress made to implement audits in respective previous years. Appendix 5 is an analysis of progress made in implementing recommendations for those follow up reviews carried out in this period.

5. Fraud Work

National Fraud Initiative
5.1. Some data match reports are now accessible on the NFI's secure website. These have been referred to the relevant departmental contacts to review. We will be monitoring progress on these reviews and investigating any matches that indicate there is a possible fraud.

Fraud Investigations
5.2. Four confidential investigations are underway and the results of these will be reported upon conclusion of the investigations.

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

Internal Audit Plan 2012-13 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation 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	Ongoing						
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	December 2012 revised date Apr 13	0	1	0
Single Tender Actions	Fieldwork						
Compliance with Quotes & Tenders (Covered as part of individual audits where applicable)	Completed	N/A	N/A		0	0	0
Council Tax Student Exemptions							
Succession Tenancies	Drafting						
Bribery Framework – specific service	Finalised	01/10/2012	N/A		0	3	1
Data Matches							
Other Cross-Cutting							
Annual Governance Statement - Audit	Completed						
Advice and Information (Ad hoc)	Ongoing						
Consultancy Advice - Specific Projects	Ongoing						
Employee Expenses - Automated Payments	Completed		N/A		0	0	0
Insurance - Risk Mitigation							
Voluntary Organisations Support	Fieldwork						
Supplier Viability							

Internal Audit Plan 2012-13 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
Establishment Audits - to be determined							
Misc Audit Tasks							
Follow ups	Ongoing						
Brought forward Audits	Ongoing						
CENTRAL SERVICES							
Democratic Services							
Registration Services	Finalised	21/01/2013	Satisfactory		0	2	3
Finance							
~~NNDR~~	Deferred						
Value Added Tax	Fieldwork						
~~Treasury Management~~	Deferred						
Human Resources							
Personnel Records	Planning						
HR Operations Processing	Fieldwork						
Sickness Absence	Draft issued						
~~Schools' HR~~	Deleted						
Overtime and Standby Payments	Fieldwork						
Professional Association Checks	Drafting						
Policy, Performance & Partnerships							
Performance Management	Planning						
PLANNING, ENVIRONMENT, EDUCATION & COMMUNITY SERVICES							
Corporate Property & Construction							
~~School Building - Project Mgt Phase 2~~	Deferred						
Education							

Internal Audit Plan 2012-13 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
Children's Centres	Fieldwork						
Music Service	Fieldwork						
~~Rural Activites Garden Centre~~	Deferred						
School Admissions Service	Planning						
Schools - Primary							
Belmore Primary	Finalised	21/11/12	Limited		4	5	3
Charville Primary	Finalised	11/2/13	Satisfactory		4	7	0
Colham Manor Primary	Finalised	23/11/12	Full		0	3	1
~~Cranford Park Primary~~ (now an academy)	Deleted						
Field End Junior							
Harlyn Primary	Finalised	23/1/13	Satisfactory		2	9	3
Hayes Park Primary	Drafting						
Hillingdon Primary							
Hillside Junior	Draft Issued						
Pinkwell Primary	Drafting						
William Byrd Primary							
~~Wood End Primary~~ (now an academy)	Deleted						
Schools - Special							
Chantry	Draft issued						
Schools - Secondary							
Abbotsfield	Drafting						
Harlington Community	Finalised	22/1/13	Limited		5	7	2
Ruislip High School	Finalised	8/2/13	Satisfactory		5	7	4
ICT, Highways & Business Services							
CRC Efficiency Scheme	Completed data	July 2012	N/A	N/A	0	0	0

Internal Audit Plan 2012-13 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
	check						
IT Security & Data Handling	Completed	June 2012	Limited	October 2012	0	0	0
~~Highways - Rhino Machines~~	Deleted						
~~Harlington Road Depot - Fuel~~	Deleted						
~~Energy Usage~~	Deleted						
Facilities Mgt - Mechanical & Electrical	Draft issued						
Planning, Sport & Green Spaces							
~~Mayoral Community Infrastructure Levy~~	Deferred						
Trees - Compensation Claims	Planning						
Golf Courses	Finalised	November 2012	Limited		7	5	1
Blue Badge Scheme	Drafting						
Public Safety							
Investigations Team							
Public Safety Contracts	Fieldwork						
Commercial Waste Collection	Finalised	November 2012	Satisfactory		1	5	3
Waste Disposal - All Waste	Planning						
Libraries	Fieldwork						
Licensing Services	Finalised	February 2013	Satisfactory		2	3	1
Application Processing Team	Planning						
Transportation & Planning Policy							
Chrysalis	Drafting						
SOCIAL CARE, HEALTH & HOUSING							
Access & Assessment							
~~Self Directed Support~~	Deferred						

Internal Audit Plan 2012-13 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
Assessment & Care Mgt - Adults	Planning						
Mental Health Service	Planning						
Children & Families							
Children's Placements	Planning						
Looked After Children 21-25 Education	Fieldwork						
Residential Services - Children	Fieldwork						
Referral & Assessments - Children	Planning						
Youth Offending Service	Planning						
Personalised Services							
Homecare - External Provision	Drafting						
Adult Care Scheme	Finalised	23/01/2013	Full		0	3	1
Disabilities Service - Adults							
Homecare In-House Provision							
Commissioning, Contracts & Supply							
Contracts & Inspection Service - SCHH	Covered in Home Care – External Provision see above						
Brokerage - Social Services	Fieldwork						
Commissioning Third Sector Providers	Finalised	28/01/13	Satisfactory		2	2	1
Other							
Support to Carers	Drafting						
Housing Needs							
Private Sector Housing							
HMO Licensing	Finalised	14/12/12	Satisfactory		0	4	1
Housing Benefit Subsidy	Completed	13/12/12	N/A		0	0	0
Empty Property Management	Finalised	17/12/12	Satisfactory		0	2	0

Appendix 1

Internal Audit Plan 2012-13 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
Council House Aids & Adaptations	Fieldwork						
Housing Maintenance							
~~Housing Services Major Works~~	Deferred						
~~Housing Gas & Other Servicing Contracts~~	Deferred						
Housing Stock Data	Draft Issued						
Housing Management							
TeleCareLine	Finalised	08/02/2013	Satisfactory		1	2	0
Caravan Site	Finalised	29/01/13	Full		1	0	2
Caretaking Services on Estates	Fieldwork						
ICT auditors - various - contractor							
Disaster Recovery	Finalised	23/1/13	Satisfactory		0	1	1
ICT Strategy	Finalised	Oct 2012	Satisfactory		0	3	0
~~Desktop Refesh Programme~~ (replaced with a Service Desk Review)	Deferred						
Web & Network Security	Fieldwork						
Electronic Document Management (storage and automatic deletion of records)	Finalised	24/12/12	Satisfactory	Recommendations implemented prior to finalising the report	0	0	0
~~Onyx upgrade~~	Deferred						
Contingency							
Hillingdon Grid for Learning	Finalised	29/10/12	Satisfactory	January 2013. Revised date April 2013	1	1	2
Building Maintenance - Statutory Requirements	Draft issued						
Right to Buy Valuations	Completed	1/10/2012	Full	N/A	0	0	0
SEN Transport Costs	Fieldwork						

Internal Audit Plan 2012-13 Progress							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
Investigations							
Investigation 061	Completed	N/A	N/A		0	0	0
Investigation 062	Completed	N/A	N/A		0	0	0
Investigation 063	Completed	N/A	N/A		0	0	0
Investigation 064	Completed	N/A	N/A		0	0	0
Investigation 065	Fieldwork						
Investigation 066	Fieldwork						
Investigation 067	Fieldwork						

Internal Audit Plan 2011-12 Progress on Recommendations Outstanding							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
CROSS CUTTING CORPORATE ISSUES							
Anti Fraud and Investigation							
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	January 2013 revised date June 2013	1	0	0
Human Resources							
HR Payroll Changes & Trigger Dates	Finalised	02/05/2012	Satisfactory	November 2012 – In Progress	0	3	0
Audit & Enforcement							
Planning Enforcement (back into PEECS)	Finalised	9/8/2012	Satisfactory	January 2013 revised date Feb 2013	0	3	0
SOCIAL CARE HEALTH & HOUSING							
Adult & Older People Services							
Critical Team	Finalised	09/11/11	Satisfactory	February 2013	0	0	0
Self Directed Support	Finalised	14/12012	Satisfactory		0	3	0
Children's Social Services							
Fostering	Finalised	22/02/13	Satisfactory		1	4	2

Internal Audit Plan 2011-12 Progress on Recommendations Outstanding							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
Adoption	Finalised	24/09/12	Full		0	1	3
Emergency Duty Team	Finalised	21/11/12	Full		0	1	0
Hillingdon Housing Services							
Housing Repairs & Maintenance - Responsive	Finalised	30/11/2011	Limited	In progress	2	2	0
Housing Repairs & Maintenance - Planned, including Major Works	Finalised	05/01/2012	Satisfactory	May 2012 revised date April 2013	0	1	0
Leasehold Management & Service Charges	Finalised	26/07/2012	Satisfactory	December 2012	0	0	0
PLANNING, ENVIRONMENT, EDUCATION & COMMUNITY SERVICES							
Street Environment							
Street Lighting	Finalised	29/11/11	Limited	February 2013 revised date April 2013	1	0	0
Highways - Reactive Maintenance	Finalised	21/11/2012	Satisfactory	In progress	2	2	1
Corporate Construction							
School Building Programme - Permanent	Finalised	28/02/13	Limited	February 2013			
School Building Programme - Temporary	Finalised	28/02/13	Limited	February 2013			
Construction Contracts - Final Accounts	Finalised	08/11/12	Limited	In progress	9	5	0
Green Spaces, Sport & Leisure							
Greenwich Leisure Ltd Contract	Finalised	13/02/12	Limited	Dec 2012 revised date Apr 2013	1	0	0
Transport Services							
Fuel at Harlington Road Depot	Finalised	24/01/12	Limited	Jan 2013 revised date Feb 2013	0	1	0
Stores at Harlington Road Depot	Finalised	8/11/12	Limited		7	10	1

Internal Audit Plan 2011-12 Progress on Recommendations Outstanding							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
Property Services							
Utilities Contracts - Water	Finalised	30/05/2012	Limited	In progress	3	0	1
Consumer Protection							
Food Health & Safety Services	Finalised	20/08/12	Limited	Feb 2013 – Revised date Apr 2013	0	5	5
Business Services							
Heathrow Imported Food Unit	Finalised	4/4/12	Satisfactory	Nov 2012 - Revised date March 2013	0	4	0
Passenger Services	Finalised	25/06/12	Limited	January 13 – In progress	1	1	0
Cemeteries	Finalised	12/09/11	Satisfactory	June 12 – In progress	0	1	0
ICT							
Customer Contact Centre	Finalised	15/12/11	Satisfactory	January 12	0	0	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	January 13 – Revised date April 13	1	0	0
Early Years Centres	Finalised	21/11/12	Satisfactory		3	7	3
Schools - Primary							

Internal Audit Plan 2011-12 Progress on Recommendations Outstanding							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
Minet Infants	Finalised	16/11/11	Satisfactory	Dec 12	0	0	0
Holy Trinity Primary	Finalised	29/03/2012	Satisfactory	Dec 12	0	0	0
Hermitage Primary	Finalised	21/11/11	Satisfactory	In Progress	0	1	0
Harmondsworth Primary	Finalised	16/1/12	Satisfactory	January 13	0	0	0
St Bernadettes	Finalised	1/03/12	Satisfactory	January 13	0	0	0
St Swithun Wells	Finalised	26/03/2012	Full	February 13 revised date April 13	0	1	0
Special							
Meadow	Finalised	26/04/2012	Satisfactory	February 13	0	0	0
Nursery Schools							
McMillan Nursery	Finalised	12/12/11	Satisfactory	February 13	0	0	0
ICT audit contract							
ICT Penetration Testing Arrangements (HGfL)	Finalised	18/01/2012	Satisfactory	January 2013	0	0	0
Contingency Audits							
New Year's Green Lane Weighbridge	Finalised	19/06/12	Limited	In progress	5	8	7
Direct Payments	Finalised	6/11/12	Limited	December 2012	0	0	0
CRC Energy Efficiency Scheme	Finalised	15/02/2012	Limited	Follow up Dec 2012 revised date Feb 2012	1	0	0
Investigation 057	Finalised	19/11/12	N/A	February 2013 revised date May 2013	2	0	0
Investigation 060	In Progress						

Internal Audit Plan 2010-11 Progress on Recommendations Outstanding							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
DCEO							
Learning & Development	Finalised	01/07/11	Satisfactory	March 2012 revised date Aug 2013	0	1	0
EDUCATION & CHILDREN'S SERVICES							
People with Physical and Sensory Disability							
Children with Disabilities - Transition	Finalised	14/09/11	Limited	February 2013 revised date May 2013	1	1	0
Other Adult Services							
Safeguarding Adults	Finalised	18/05/11	Satisfactory	January 2013	0	0	0
ENVIRONMENT & CONSUMER PROTECTION							
Property							
Facilities Management Contract	Finalised	6/10/11	Limited	December 2 012 revised date March 2013	1	1	0
Arts, Culture, Libraries & Adult Education							
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 April 2013	1	2	0
ICT audit contract							
E-Payments	Finalised	April 11	Limited	November 2012 – Revised date May 2013	1	0	0
Information Assurance & Security	Finalised	31/1/11	Satisfactory	Follow up January 2013	0	0	0

Internal Audit Plan 2009-10 Progress on Recommendations Outstanding							
Audit Title	**Status**	**Date Finalised**	**Assurance Level**	**Date of last Follow Up and Revised Implementation Date**	**Number of outstanding recommendations**		
					H	**M**	**L**
DEPUTY CHIEF EXECUTIVE/FINANCE & RESOURCES							
ENVIRONMENT & CONSUMER PROTECTION							
Highways Planned Maintenance	Finalised	26/01/10	Satisfactory	February 2013 revised date April 2013	0	2	0
CHILDREN'S SERVICES							
Asylum Accommodation	Finalised	23/04/10	Satisfactory	Revised date September 2012 - follow up in progress	0	3	0
Learning Disabilities							
Sec 75 Agreement (Funding of LD Services)	Finalised	6/10/10	Satisfactory	November 2011 revised date March 2013	0	1	0

Appendix 5

Follow Up Reviews in this Period: Analysis of Progress Made in Implementing Recommendations

AUDIT TITLE (follow up number)	DATE ORIGINAL AUDIT ISSUED	HIGH	MEDIUM	LOW	HIGH	MEDIUM	LOW	IMPLEMENTED - HIGH	IMPLEMENTED - MEDIUM	IMPLEMENTED - LOW	NOT YET IMPLEMENTED - HIGH	NOT YET IMPLEMENTED - MEDIUM	NOT YET IMPLEMENTED - LOW	REVISED TARGET DATE
First Follow Ups		**Original no of recommendations to implement**			**Original no of recommendations to implement**			**Implemented at follow up**			**Remaining actions**			
Use of Purchase Card	Sep-12	6	3	0	6	3	0	6	2	0	0	1	0	Apr-13
Information Assurance & Security	Dec-10	0	1	0	0	1	0	0	1	0	0	0	0	N/A
Hillingdon Grid for Learning	Oct-12	1	5	4	1	5	4	0	4	2	1	1	2	Apr-13
Pupil Referral Unit	Jul-12	3	7	3	3	7	3	2	7	3	1	0	0	Apr-13
ICT Penetration Testing Arrangements	Jan-12	0	1	0	0	1	0	0	1	0	0	0	0	N/A
Direct Payments	Nov-12	6	6	0	6	6	0	6	6	0	0	0	0	N/A
Harmondsworth Primary	Jan-12	1	3	1	1	3	1	1	3	1	0	0	0	N/A
Creditors	Oct-12	2	1	1	2	1	1	1	1	1	1	0	0	Jun-13
Meadow High School - Special	Apr-12	1	4	2	1	4	2	1	4	2	0	0	0	N/A
St Bernadetts Primary	Mar-12	1	2	3	1	2	3	1	2	3	0	0	0	N/A
Holy Trinity Primary	Mar-12	0	4	2	0	4	2	0	4	2	0	0	0	N/A
Planning Enforcement	Aug-12	3	12	0	3	12	0	3	9	0	0	3	0	Feb-13
Investigation 57	Aug-12	3	1	0	3	1	0	1	1	0	2	0	0	May-13
Previous Follow Ups		**Original no of recommendations to implement**			**Outstanding after last follow up**			**Implemented at this follow up**			**Remaining actions**			
Heathrow Imported Food Unit (2nd)	Apr-12	0	8	0	0	4	0	0	0	0	0	4	0	Mar-13
Children with disabilities - Transition (2nd)	Sep-11	2	4	3	1	1	0	0	0	0	1	1	0	May-13
Leasehold Management & Service Charge (2nd)	Jul-12	1	4	2	0	4	0	0	4	0	0	0	0	N/A
CRC (3rd)	Feb-12	5	1	0	3	0	0	2	0	0	1	0	0	Feb-13

Follow Up Reviews in this Period: Analysis of Progress Made in Implementing Recommendations

AUDIT TITLE (follow up number)	DATE ORIGINAL AUDIT ISSUED	HIGH	MEDIUM	LOW	HIGH	MEDIUM	LOW	IMPLEMENTED - HIGH	IMPLEMENTED - MEDIUM	IMPLEMENTED - LOW	NOT YET IMPLEMENTED - HIGH	NOT YET IMPLEMENTED - MEDIUM	NOT YET IMPLEMENTED - LOW	REVISED TARGET DATE
McMillan Nursery (2nd)	Dec-11	1	3	1	0	2	0	0	2	0	0	0	0	N/A
Safeguarding Adults (5th)	May-10	0	7	0	0	1	0	0	1	0	0	0	0	N/A
Hillingdon Customer Contact Centre (2nd)	Dec-11	0	2	3	0	1	0	0	1	0	0	0	0	N/A
Facilities Management	Oct-12	3	5	0	1	2	0	1	1	1	0	1	0	Mar-13
Food Health & Safety (2nd)	Aug-12	3	9	6	1	6	6	1	1	0	0	5	5	Apr-13
Greenwich Leisure Contract (4th)	Feb-12	3	2	0	2	1	0	1	1	0	1	0	0	Apr-13
Fuel at Harlington Road Depot (4th)	Jan-12	4	10	0	0	1	0	0	0	0	0	1	0	Feb-13
Minet Infants (2nd)	Nov-11	0	2	2	0	1	0	0	1	0	0	0	0	N/A
Critical Team (2nd)	Nov-11	2	3	2	1	1	0	1	1	0	0	0	0	N/A
Street Lighting (4th)	Nov-11	1	3	0	1	2	0	0	2	0	1	0	0	Apr-13
Highways Planned (5th)	Jan-10	0	4	0	0	3	0	0	1	0	0	2	0	Apr-13
Total		**52**	**117**	**35**	**37**	**80**	**22**	**28**	**61**	**15**	**9**	**19**	**7**	
% implemented (by risk level) in this period								**76%**	**76%**	**68%**				
Overall % implemented (all risk levels) in this period												**75%**		
Overall % not yet implemented												**25%**		
% of original recommendations now implemented (by risk level)		**83%**	**84%**	**80%**										

Internal Audit Strategy and Review of the Terms of Reference

Contact Officer: Simon Bailey
Telephone: 01895 556132

REASON FOR ITEM

The CIPFA[1] Code of Practice for Internal Audit in Local Government (2006) required the Head of Internal Audit to produce an Audit Strategy and Annual Operational Plan, and to ensure that the Audit Committee receives, understands and approves it.

This report sets out the strategy for delivery and development of the Internal Audit Service 2013-14 and the associated Annual Internal Audit Operational Plan. It details how the service will be delivered, the assurance that it will provide and how the Head of Internal Audit will contribute to corporate governance arrangements, risk management processes and key internal control systems. The Internal Audit Strategy underpins the assurance the Head of Internal Audit provides for the Annual Governance Statement.

This report also takes into account that from April 2013 the current CIPFA Code of Practice is being replaced by new UK standards for internal audit in the public sector. CIPFA is publishing a Local Government Application Note for the PSIAS on the 3rd April. There will then be a review of how the new standards and Application Note will affect the internal audit framework for 2013/14 and later years, and the results of the review will be reported to the next meeting of this committee.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee should review and approve the Internal Audit Strategy for 2013-14 and note that a review of the Terms of Reference will be reported to the June meeting of this Committee.

INFORMATION

1. INTERNAL AUDIT STRATEGY 2013-14 AND TERMS OF REFERENCE

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

1.2 There are also an Internal Audit Terms of Reference that describe the purpose and authority of the Council's Internal Audit service, as well as its principal responsibilities and operating methods.

1.3 The Terms of Reference have taken into account CIPFA's Code of Practice for Internal Audit in Local Government and also take due cognisance of the standards of other bodies, such as the Chartered Institute of Internal Auditors, the Auditing Practices Board and the CCAB[2].

[1] The Chartered Institute of Public Finance and Accountancy
[2] Consultative Committee of Accountancy Bodies

1.4 In 2012 representatives from CIPFA, other professional bodies and the main public sector organisations in the UK agreed to produce a common standard for all internal audit services across the UK public sector. It is based on the IIA's[3] International Standards, Definition of Internal Auditing and Code of Ethics and is called the Public Sector Internal Audit Standards, PSIAS. It was issued in December 2012.

1.5 CIPFA is publishing a Local Government Application Note for the PSIAS on the 3rd April, and once received, both the Terms of Reference and the Internal Audit Strategy will be reviewed in the light of the PSIAS and the Application Note to establish what changes may need to be made. It is not anticipated that any changes will be very significant. A report will then be presented to the June meeting of this committee to reflect this review. In the meantime, Internal Audit will operate under the current Terms of Reference and produce an Internal Audit Strategy 2013-14.

2. OBJECTIVES AND OUTCOMES

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

2.2. Auditing standards recognise that its remit extends to the whole control environment of the organisation, including the systems of governance, risk management and internal control. A fuller expansion of this definition and the roles and responsibilities of Hillingdon Internal Audit is contained in the Terms of Reference for the service, which is available on the Council's website, but is subject to the review referred to in 1.5 above.

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

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

3. EVIDENCE FOR THE OPINION

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

3.2. As the services the Council delivers or the methods of delivery are changed, the Audit Universe is continually revised and re-risked to ensure it keeps pace with emerging challenges. Risk is therefore reconsidered at the beginning of each year

[3] The Institute of Internal Auditors, a body based in the United States with chapters in many countries

and a new Annual Operational Plan is based on a revised universe and risk assessment.

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

3.4. The audit strategy method is therefore to take the updated Audit Universe and create a rolling five-year operational plan – this determines the audits for the forthcoming year that are organised into the annual Operational Plan. An element of contingency is budgeted into the plan so that in-year urgent issues can be dealt with as they arise.

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

4. IDENTIFYING AND ADDRESSING SIGNIFICANT LOCAL AND NATIONAL ISSUES

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

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

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

4.4. Where investigations have identified poor or weak controls as contributing factors to a loss or irregularity, immediate action plans are recommended and the system or function is placed in a high risk category so that an early audit or follow up can be scheduled.

5. HOW THE SERVICE WILL BE PROVIDED

5.1. The in-house team will carry out most audits, the exception being the audit of some IT systems, particularly where a high level of technical skill is required. A contract for 40 days of audit is in place with RSM Tenon. Less technical aspects of IT audit are incorporated into general audit work when systems are under review.

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

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

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

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

5.6. The team experienced some staff turnover in the year 2012/13. The schools' auditor left, but a replacement was successfully recruited, also a CCAB[4] accountant. One trainee also left, but another equally suitable trainee has taken their place. This allows for the planning of the full complement of 11.36 FTE in 2013/14.

6. RESOURCES AND SKILLS REQUIRED TO DELIVER THE STRATEGY

6.1. The in-house team has a wide pool of skills and experience and we encourage staff to further their professional training. This has resulted in a team with a particularly high professional qualification level. The Head of Internal Audit and one Audit Manager are qualified CIPFA accountants: one Audit Manager is CMIIA[5] (Institute of Internal Auditors) qualified. This provides a wide range of technical skills at manager level. Two Senior Auditors are internationally qualified accountants. The Schools Auditor is a chartered accountant[6] and one trainee has now also qualified as CMIIA and become a Senior Auditor.

6.2 The three trainees are, or will be, pursuing professional training supported by the Council. Two trainees have completed the first year of IIA training. One trainee will start studying for the IIA in September.

6.3 The qualification status for the current team is therefore as follows:

Qualified Accountants	5
Members of the CIIA (CMIIA)	2
Studying for CIIA examinations	3
Unqualified but very experienced	2

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

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[4] Qualified member of any of the five accountancy bodies that are themselves members of the Consultative Committee of Accountancy Bodies

[5] Qualified member of the Chartered Institute of Internal Auditors, the UK chapter of the IIA

[6] Qualified member (Fellow) of the Institute of Chartered Accountants in Ireland

BACKGROUND PAPERS

Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA, 2006)

Public Sector Internal Audit Standards (CIPFA and others, 2012)

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Internal Audit Operational Plan 2013-14

Contact Officer: Jay Nandhra
Telephone: 01895 227907

REASON FOR ITEM

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government had required the Head of Internal Audit to produce a risk based plan, that was fixed for no longer than a year and was designed to implement the Audit Strategy. The Audit Committee was to approve but not direct this plan. From April 2013 this Code is succeeded by the Public Sector Internal Audit Standards, PSIAS. These standards also require the Head of Internal Audit to produce a risk-based plan and for it to be approved at a senior level.

OPTIONS AVAILABLE TO THE COMMITTEE

To approve and comment on the operational plan for 2013-14.

INFORMATION

1. Development of the Internal Audit Operational Plan 2013-14

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

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

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

- The Business Improvement Delivery (BID) process continues to challenge service delivery models leading to fundamental changes in the structure of service delivery across the Council.
- Procedural changes, service mergers and reorganisations present a risk to the existing control framework.
- The government continues to bring forward changes in policies which have a direct effect on Local Government services and service delivery.

- The new Council Tax Reduction Scheme and Local Welfare Support Scheme being introduced in 2013-14 has not been specifically included in the plan, but advice on the new processes can be taken from the Consultancy budget if necessary with a full audit in 2014-15 once the new schemes have been embedded.

1.4. The financial challenge facing the Council in 2013-14 means that we will have to continue to be responsive to change wherever it appears.

1.5. Contingency allowance was set at 11% for 2012-13 and remains the same for 2013-14. Bearing in mind that some changes result in deletions, this should still allow the service to respond to changes while allowing for the delivery of the planned work.

1.6. Specialist IT audit will be no more than 40 days in-year. We have agreed some audits but are having on-going discussions around some of the changing IT systems.

1.7. Table 1 identifies the internal resources available for 2013-14, based on all positions being filled from 1 April 2013. Productive days are calculated by deducting from the total available days firstly annual and other leave and a sickness allowance (set at the corporate target) and secondly non-audit duties carried out by the Head of Internal Audit. The total of 2,372 days is then adjusted for controllable time such as training, planning, reporting and management time to arrive at days directly available for specific audits.

1.8. In addition to the in-house days, 40 days of IT audit is provided by a specialist provider, RSM Tenon.

Table 1 – Utilisation of Productive days In-house

Productive Days Available	2372	100%
Less		
Controllable overheads e.g. risk assessment, planning, management time, service development and training.*	652	27%
Chargeable days	1720	73%

* Three members of staff are being supported with professional training.

1.9. Appendix 1 is the list of identified audits for 2013-14 including the expected number of days for each. Some activity does not necessarily generate a report with recommendations, for example anti-fraud training, which forms part of the anti-fraud strategy or providing information for other regulators in pursuit of their fraud work, e.g. some NFI activity. I have therefore indicated what I anticipate the outcome of each piece of work to be by assigning them a category. The categories are as follows:

- RR – Standard report with recommendations.
- TPA – Third party assurance. Assurance provided for other regulators or bodies.
- INV – Investigation work. This is likely to be assistance to managers or the Corporate Fraud team on investigations, or be reactive work relating to issues encountered during audits.
- PRO – Proactive work in high risk areas or promotion of good practice.

- ADV – Advice on specific queries or participation in corporate working groups.

The breakdown of audit work by Directorates and work type is shown below in Table 2:

Table 2 – Breakdown of audit days by Directorate and work type

Anti Fraud and Investigation	215
Council Wide	80
Follow up reviews and brought forward work	145
Administrative Services	65
Finance	195
Residents Services	435
Social Care and Health	270
Schools	126
ICT	40
Contingency	189
Total	**1760**

1.10. Appendix 1 also lists the activities expected to be undertaken as part of pro-active anti-fraud detection. The compliance nature of these audits means they may not always result in a report with recommendations, unless a universal issue is identified.

BACKGROUND PAPERS

Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA, 2006)

Public Sector Internal Audit Standards (CIPFA and others, December 2012)

Appendix 1 Identified audits 2013-14

AUDIT TITLE	EXPECTED DAYS	REPORT TYPE
Anti Fraud and Investigation		
National Fraud Initiative (NFI)	40	TPA/INV
Fraud Awareness	5	PRO
Fraud/Irregularity Investigations	100	INV
Planned proactive work:	70	INV
Pooled Car Usage		
Use of Purchase Cards		
Extensions of Contracts		
Mobile Phones		
Access to IT Systems		
Self Directed Support and Pre-paid Cards		
Data matches		
Sub total	**215**	
COUNCIL WIDE		
Annual Governance Statement - Audit	20	TPA
Advice and Information (Ad hoc)	20	ADV
Consultancy Advice - Specific Projects	20	ADV
Establishments to be determined	20	RR
Sub total	**80**	
Follow up reviews	60	
Brought forward Audits	85	RR
Sub total	**145**	
ADMINISTRATION SERVICES		
HR Operations Processing	20	RR
CRB Checks	10	RR
Agency Compliance Checks	15	RR
Legal Case Management System	20	RR
Sub total	**65**	
FINANCE		
Housing Benefit Subsidy	75	TPA
Pensions Administration - Employers Contributions	15	RR
Debt Recovery and Bad Debts	20	RR
Income Review	25	RR
Treasury Management	20	RR
Contracts and Inspection Service	20	RR
NNDR	20	RR
Sub total	**195**	

Appendix 1 continued	EXPECTED DAYS	REPORT TYPE
RESIDENTS' SERVICES		
Music Service	15	RR
Performance Licences	10	RR
Children not in Education	20	RR
Building Control - Dangerous Structures	15	RR
Events	15	RR
Business Continuity	25	RR
Bridges and Other Highway Structures	20	RR
Middlesex Suite	10	RR
Metal Theft	20	RR
Fleet Management	20	RR
Waste Disposal - All Waste	20	RR
Parking Enforcement Contract	15	RR
Arts Theatre Service	15	RR
Trading Standards	20	RR
Land Charges	15	RR
Sheltered and Extra Care Housing	20	RR
Housing Rents	20	RR
Property Maintenance	25	RR
Corporate Construction	25	RR
Schools Expansion Programme (Temporary /Permanent)	30	RR
Council Garages	20	RR
Children's Centres -not school based	15	RR
Rural Activities Garden Centre	15	RR
Community Structure Levy	10	RR
Sub total	**435**	
SOCIAL CARE & HEALTH		
Self Directed Support Personal Budgets	25	RR
Learning Disabilities (residential to supported)	25	RR
Disabilities Services operations	20	RR
Asha Day Centre	10	RR
3 Colham Road	10	RR
Grassy Meadow	10	RR
Merrimans House	10	RR
Troubled Families Programme	20	RR
Children's Placements	20	RR
Children in Care teams 1 & 2	20	RR
Leaving Care scheme 16-25	20	RR
Looked After Children placed out of borough	20	RR
Public Health - Post Transition	25	RR
Children Social Worker Team - Referral and Assessment	20	RR
ICS and IAS Data Quality	15	RR

Sub total	**270**	

Appendix 1 continued	**EXPECTED DAYS**	**REPORT TYPE**
Schools - Primary		
Harefield Infants	4.5	RR
Glebe Primary	4.5	RR
Botwell House	4.5	RR
Breakspear Junior	4.5	RR
Dr Tripletts CE	4.5	RR
Field End Infants	4.5	RR
Highfield Primary	4.5	RR
Bishop Winnington-Ingram Primary CE	4.5	RR
Rabbsfarm Primary	4.5	RR
West Drayton Primary	4.5	RR
Lady Bankes Junior	4.5	RR
St Andrew's CE Primary	4.5	RR
Warrender Primary	4.5	RR
Harefield Junior	4.5	RR
Whiteheath Junior	4.5	RR
Heathrow Primary	4.5	RR
Lady Bankes Infants	4.5	RR
Oak Farm Junior	4.5	RR
Grange Park Junior	4.5	RR
Sacred Heart RC	4.5	RR
Yeading Infants	4.5	RR
Oak Farm Infants	4.5	RR
Whitehall Infants	4.5	RR
Minet Junior	4.5	RR
Newnham Infant	4.5	RR
Cherry Lane	4.5	RR
Coteford Infant	4.5	RR
St Catherine's RC Primary	4.5	RR
Sub total	**126**	
ICT (audit by contractor)		RR
ContrOCC		
Software licensing in schools		
Governance of external information		
Desktop Refresh Programme		
Software licensing		
Onyx upgrade		
Sub total	**40**	
Contingency	**189**	

TOTAL DAYS	**1760**	

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Delivering the Annual Governance Statement (AGS) 2012-13

Contact Officer: Kevin Byrne
Telephone: 0665

SUMMARY

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

2. The Council is utilising the framework developed over the past five years to evaluate the management of internal controls, risk and control assurances across all services. This will conclude with a formal statement outlining overall performance and any measures needed to address identified weaknesses as part of the Statement of Accounts. The Corporate Governance Working Group (CGWG) will provide leadership and support to compile the 2012-13 AGS.

REASON FOR REPORT

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

RECOMMENDATION

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

BACKGROUND INFORMATION

<u>AGS Requirements</u>

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

6. The AGS is the process for self-assessing the council's management of internal control systems across all services, with the publication a formal statement outlining overall performance and measures needed to address any identified risks. This framework combines assessment of governance arrangements and risk controls, making it a holistic approach towards conducting an annual internal review that relates to the whole organisation.

Progress on the AGS 2012-13

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

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

8. The Corporate Governance Working Group will guide and oversee the delivery of the AGS. The group will ensure that key changes to governance arrangements and control systems are reported, review actions against control weaknesses identified in the AGS 2011-12 and highlight cross-council assurance sources.

9. Gathering assurance statements is a central component of the AGS. In discharging this accountability senior officers are responsible for putting in place proper risk management processes and internal controls to ensure the right stewardship of resources. Group Directors and Heads of Service are required to submit assurance statements by the 6th April 2013.

10. The draft 2012-13 AGS will be presented to the Audit Committee in June 2013 for comment and approval and may be subject to change until published alongside the 2012/13 accounts around September.

REVISIONS TO THE TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2013/14 TO 2015/16

Contact Officer: Paul Whaymand
Telephone: 01895 250353

SUMMARY

Audit Committee considered the draft Annual Treasury Management Strategy Statement and Investment Strategy for 2013/14 to 2015/16 at the meeting on 6 December 2012. This was in advance of the final Statement being presented to Cabinet and Council in February 2013.

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

RECOMMENDATIONS

That the contents of the report are noted.

INFORMATION

Amendments to the Annual Treasury Management Strategy Statement and Investment Strategy for 2013/14 to 2015/16

Since the draft TMSS was considered at Audit Committee in December a number of minor changes have been made to the final document to address recommendations made during the meeting along with general presentational improvements and updates.

Changes include:

- The removal of certain financial instruments which were deemed unnecessary in the current market environment and were not being used. These include: Variable Net Asset Value Money Market Funds (including Collective Investment Schemes); Bonds issued by multilateral development banks; and Sterling denominated bonds by non-UK sovereign governments.

- Appendices D & E have been merged with clear definitions of Specified and Non Specified Investments.

- Forecast debt and investment interest percentages have been updated to reflect latest estimates and appendix C contains the most recent market outlook.

A full list of the amendments is included in Appendix 1 attached. The revised Statement is also attached for information.

Appendix 1

Amendments to the Annual Treasury Management Strategy Statement and Investment Strategy for 2013/14 to 2015/16

1. 1.6 *"explains the institutions (counterparties)"* **has been updated to** *"explains the counterparties"*

2. 1.6 "*The limits related to the size of individual investments*" **has been removed.**

3. 1.7 *"will maintain an extremely cautious approach in determining counterparty institutions"* **has been updated to** *"will maintain an extremely cautious approach in determining counterparties"*

4. 1.8 *"extensions being proposed for the 2013/14"* **has been updated to** *"extensions being proposed for the 2013/14 Strategy"*

5. 1.8 "*However a number of long standing instruments have been removed as they are currently deemed unnecessary; these include multilateral development bank bonds, non UK government bonds and variable net asset value money market funds*" **has been added.**

6. 2.5 *"in general maintains a precautious, vanilla approach"* **has been updated to** "in general maintains a *cautious, basic and transparent approach"*

7. 2.6 *"The average rate of interest paid on Council borrowing for 2012/13 will be 2.96%"* **has been updated to** *"The average rate of interest paid on Council borrowing for 2012/13 will be 3.00%"*

8. 2.6 *"expected average rate of 0.68%"* **has been updated to** *"expected average rate of 0.67%"*

9. 4.12 "*The Council currently has variable rate borrowing of £51.3m (of which £40m is HRA) at a rate of 0.62%*" **has been updated to** "*The Council currently has variable rate borrowing of £51.3m (of which £40m is HRA) at a rate of 0.54%*"

10. 4.13 *"The Council has £48m, of LOBO loans (Lender's Options Borrower's Option)"* **has been updated to** *"The Council has £48m of LOBO loans (Lender's Option Borrower's Option)*

11. Table 4 changed to show updated estimated benchmark levels.
12. 5.3 "*however instruments including multilateral development bank bonds, non UK government bonds and variable net asset value money market funds (including collective investment schemes) have been removed*" **has been added.**

13. 5.5 "*Debt Management Office (DMO) or UK Treasury Bills*" **has been updated to**

"*Debt Management Office (DMO) or to purchase UK Treasury Bills*"

14. 5.7 *"Credit ratings remain an important element of assessing credit risk but they are not the sole feature in the assessment of counterparty credit risk"*
    has been updated to
    "Credit ratings remain an important element of assessing credit risk but they are not the sole feature in the assessment of counterparties"

15. 5.7 *"Net Debt as a Percentage of GDP"* **has been updated to**
    "net debt as a percentage of GDP"

16. 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*" **has been updated to**
    "*In order to spread the investment portfolio, deposits 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*"

17. 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*" **has been removed**.

18. 5.13 *"The use of financial instruments for the management of risks"* **has been updated to**
    "The use of financial instruments for the management of risk"

19. 9.4 *"settlement debt of over the 30 year"* **has been updated to**
    "settlement debt over the 30 year"

20. Table 7 *"Long term investments"* **has been updated to** *"Long-term Investments"*

Appendix A:

21. **Title** *"EXISTING PORTFOLIO PROJECTED FORWARD"* **has been updated to**
    "EXISTING PORTFOLIO PROJECTION"

Appendix B:

22. **Title** *"Estimates of Capital Expenditure and Affordability Indicators"* **has been updated to**
    "Estimates of Capital Expenditure and other Prudential Indicators"

ALSO ON FRONT PAGE

23. ii. *"Estimates for Capital expenditure shown in Table 8 and are estimates of likely capital cash outflows"* **has been changed to**
"Estimates for Capital expenditure shown in Table 8 are estimates of likely capital cash outflows"

24. v. "*This gives the HRA potential headroom borrowing of up to £51.5m*"
has been updated to
"*This gives the HRA potential headroom borrowing of up to £50.2m*"

25. vi. *"on Council Tax and Housing Rent levels and represent the impact on these"*
has been updated to
"on Council Tax and Housing Rent levels and represents the impact on these"

26. Appendix C has been updated with the latest economic and interest rate forecast from Arlingclose.

27. Appendix D and Appendix E have been amalgamated into Appendix D and updated as follows:

28. Table 14
"CNAV MMFs, VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)" **has been updated to**
"CNAV MMFs (Constant Net Asset Value Money Market Funds)"

29. *"A maximum exposure limit of 75% has been set for Non Specified investments"*
has been added

30. Table 15 - Instruments removed include: Bonds issued by multilateral development banks, Sterling denominated bonds by non-UK sovereign governments and Money Market Funds and Collective Investment Schemes, which are not credit rated.

Appendix 10

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

CONTENTS

Appendices

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 cashflow 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 counterparties with whom the Council is permitted to invest and the overall holdings with these 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 counterparties, 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 additions or extensions being proposed for the 2013/14 Strategy. However a number of long standing instruments have been removed as they are currently deemed unnecessary; these include multilateral development bank bonds, non UK government bonds and variable net asset value money market funds.

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 cautious, basic and transparent approach towards its treasury operations.

2.6. The average rate of interest paid on Council borrowing for 2012/13 will be 3.00% 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 0.67%. 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 cashflow 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 instalments 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 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 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 0.54%.

4.13. The Council has £48m of LOBO loans (Lender's Option 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	83	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	17	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 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 Appendix D. The 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. No additions or extensions have been included in the 2013/14 strategy; however instruments including multilateral development bank bonds, non UK government bonds and variable net asset value money market funds (including collective investment schemes) have been removed.

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 to purchase 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 counterparties. 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)
- Macroeconomic 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 cashflow and credit conditions permit, in order to lock in higher rates of acceptable risk adjusted returns.

5.10. In order to spread the investment portfolio, deposits 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. **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". The 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.

5.13. **The use of financial instruments for the management of risk**: 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.

5.14. 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.

5.15. 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

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

APPENDIX A

EXISTING PORTFOLIO PROJECTION

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

APPENDIX B

Estimates of Capital Expenditure and other Prudential 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 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 up to £50.2m 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 represents 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**

APPENDIX C

Arlingclose's Economic and Interest Rate Forecast

Table 13

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
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	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
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60	0.60
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	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.85	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	0.95	0.95	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20	1.20
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	0.75	0.75	1.00	1.00	1.00	1.00
Central case	2.00	2.00	2.05	2.05	2.05	2.05	2.10	2.10	2.10	2.20	2.20	2.20	2.20
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	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00	3.10	3.10	3.10	3.10	3.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	3.35	3.35	3.35	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60	3.60
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

Underlying Assumptions:

UK growth is unlikely to return to above trend for the foreseeable future. Q3 GDP was strong at 0.9% but this momentum is unlikely to be sustained in Q4 or in 2013. The rebalancing from public-sector driven consumption to private sector demand and investment is yet to manifest, and there is little sign of productivity growth. Further contraction in the Eurozone, including Germany's powerful economy, and slower forecast growth in the emerging economies (Brazil/Mexico/India) are exacerbating the weakness.

Consumer Price Inflation has fallen to 2.7 % 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. Real wage growth (i.e. after inflation) is forecast to remain weak.

The fiscal outlook for bringing down the structural deficit and stabilise debt levels remains very challenging. Weakened credibility of the UK reining its levels of debt poses a risk to the AAA status, but recent history (US, France) suggests this may not automatically result in a sell-off in gilts.

In the absence of large, unexpected decline in growth, QE is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.

The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.

The Eurozone is making slow headway which has curtailed some of the immediate risks although peripheral countries continue to struggle. Fully-fledged banking and fiscal union is still some years away.

In the US, the issues of spending cuts, reducing the budget deficit and raising the country's debt ceiling remain unresolved. A failure to address these by March 2013 could lead to a similar showdown and risks a downgrade to the US sovereign credit rating by one or more agencies.

A reversal in market risk sentiment from current "risk on" to "risk off" could be triggered by economic and/or political events – impending Italian and German elections, US debt ceiling impasse, difficulty surrounding Cyprus' bailout, and contagion returning the haunt the European peripheral nations – could inject renewed volatility into gilts and sovereign bonds.

APPENDIX D

Specified Investments & Non Specified Investments

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” as decided by the Council and are not deemed capital expenditure investments under Statute.

Non Specified Investments are those which do not meet the above criteria, for example more than 1 year in duration. However the Council has determined that the “high credit quality” criterion will still need to be satisfied.

Specified Investments identified for use by the Council

“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)

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
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs (Constant Net Asset Value Money Market Funds)	10% / £7.5m per fund. Maximum MMF exposure 75%
Commercial Paper	UK	Counterparties including Banks and Corporates rated at least A- Long Term (or equivalent)	15% / £20m
Corporate Bonds	UK	Counterparties including Banks and Corporates 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?**
▪ Deposits with banks and building societies ▪ CDs with banks and building societies	✓	5 Years	40 In Aggregate	No
▪ Gilts ▪ Bonds issued by UK financial institutions ▪ Corporate Bonds	✓ (on advice from treasury advisor)	6 Years	40 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.

All Non Specified investments will satisfy the Council's "high credit quality" criterion. A maximum exposure limit of 75% has been set for Non Specified investments.

BALANCES AND RESERVES STATEMENT 2013/14

Contact Officer: Paul Whaymand
Telephone: 01895 566071

SUMMARY

The budget reported to Cabinet and Council in February 2013 contained an extract from the Balances and Reserves Statement 2013/14 which summarised the recommended range for unallocated balances. This Balances and Reserves Statement provides further detail on the Council's approach to the management and measurement of these, outlining technical accounting guidance used and analysis of specific risks that lead to a determination of a prudent reserves and balances range.

RECOMMENDATIONS

That the contents of the report are noted.

REASONS FOR OFFICER RECOMMENDATIONS

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

INFORMATION

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

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

3 In the 2013/14 budget report, the recommended range for unallocated General Fund balances to be set at is £15m to £30m. From 1 April 2013 the Council will be exposed to additional risks associated with the localisation of Business Rates Income and abolition of Council Tax Benefit, which has led to an increase in the recommended range from £12.5m to £26.5m in 2012/13.

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

LEGAL IMPLICATIONS

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

BACKGROUND PAPERS

The Council's Budget: General Fund Revenue Budget, Housing Revenue Account Budget and Capital Programme 2013/14 - report to Cabinet and Council February 2013.

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

STATEMENT ON 2013 ANNUAL REVIEW OF RESERVES

SUMMARY

The Council's Corporate Director of Finance has a duty under the Local Government Act 2003 to comment on the robustness of the Council's budget for the coming year. This comment is also required to consider the adequacy of the Council's reserves and balances. The Corporate Director of Finance has recommended that, based on the 2013/14 budget, an appropriate level of unallocated balances for the authority is in the range from £15m to £30m.

1. BACKGROUND

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

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

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

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

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

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

2. ADEQUATE LEVEL OF UNALLOCATED GENERAL FUND RESERVES

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

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

2.2 The assessment, although based on the Council's procedures and structures, does necessarily have an element of subjectivity. In acknowledging this, the optimum level of reserves incorporates a range. The recommended range for 2013/14 is £15m to £30m. The upper end of this range represents the highest level of unallocated balances that the Council could reasonably justify holding. If balances were above the upper level, the Corporate Director of Finance would recommend that plans were developed to use the excess balances towards enhancing the delivery of the Council's strategic objectives in the current year. The equivalent figures recommended at the time of budget setting for 2012/13 were £12m to £26.5m.

2.3 The array of risk factors that determine the need to hold balances and reserves has changed since last year's budget setting process to take account of the substantial transfer of risk to the Council from Central Government from 1 April 2013 as a result of the 2012 Local Government Finance Act. This increase has been partially off-set through improvements to the Council's overall financial standing and a reduced risk around implementation of efficiency savings in 2013/14. Appendix 1 summarises movements in the level of balances recommended to manage the criteria set out above.

2.4 In summary, there is a broad spread of balances held against the key issues listed in paragraph 2.1. Most of the Council's balances are held to deal with the common risks that most local authorities need to manage on an ongoing basis, however there are a number of key issues for Hillingdon that drive the need to hold additional balances.

2.5 Firstly, Hillingdon has seen substantial population growth, evidenced by the 2011 census, which is set to continue into a period of further central government funding cuts. With the 2013 Comprehensive Spending Review expected to confirm funding reductions in line with recent experience, demographic growth will see increased demand for key services, including Adult Social Care, Education, and waste collection and disposal. Secondly, a number of issues arise from the presence of Heathrow Airport within the borough. In particular this is the driver of the Council's exceptional asylum caseload, which has a fragile, unpredictable and inadequate funding stream attached to the support for care leavers.

2.6 In addition to these local issues, he 2012 Local Government Finance Act has resulted in a significant transfer of risks from Central Government in relation to both the localisation of Business Rates Income and introduction of a local Council Tax Reduction Scheme. The particular issues arising from these policy developments are expanded upon below.

2.7 From 1 April 2013, 30% of the £330m business rates raised within the borough will be retained by the Council, which is intended to incentivise local investment in economic development, with any increases or decreases in revenues impacting directly upon the resources available to deliver local services. While there is a safety net built into this system to limit the extent of losses, the Council could still stand to lose up to £3.5m of funding before any additional central government funding could be accessed.

2.8 The second major reform relates to reform of the benefits regime. While Housing Benefit is to be transferred into the new universal credit, Council Tax Benefit is to be abolished from 1 April 2013. Responsibility for the replacement Council Tax Reduction schemes has been handed to locally authorities, to deliver with a 10% reduction in available funding. As a demand led budget, there is significant scope to increase substantially in response to worsening economic conditions while levels of funding are expected to decline in the medium term in line with general funding levels.

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

2.10 Consideration of these risk factors have resulted in the upper end of the recommended range of reserves to be increased from £26.5 to £30m representing just 4% of gross expenditure and 11% of controllable expenditure if the Schools budget and Housing Benefit are excluded.

2.11 The approved budget for 2013/14 maintains balances at 2012/13 outturn levels, with neither a draw down from or payment into balances. The latest forecast for balances at 31 March 2013 is £28m, which is comfortably within the £15m to £30m range recommended for 2013/14.

2.5 The General Fund revenue budget proposals for 2013/14 also include a contingency of £22.9m which is identified against specific risks that are funded within the budget. Many of these risks, although not precisely quantifiable, have a high degree of certainty that they will be called upon in the year.

3. EARMARKED RESERVES

3.1 The Council has ring fenced earmarked reserves with balances as at 31 March 2012, which are divided between those required to meet a statutory or regulatory requirement and those held for management purposes. Table 2 details the balances held at 31 March 2012.

Table 2: Earmarked Reserves

Reserve	Balance as at 31 March 2012
Housing Revenue Account	13,842
Schools Delegated Funds	16,332
New Roads and Street works Act	142
Statutory & Regulatory Reserves	**30,886**
Abbotsfield School	465
Elections	208
Grant Funded Reserves	368
Highways Management	798
Self-Insurance Fund	307
Leisure Facilities Reserve	474
Libraries Reserve	96
Local Development Framework & New Years Green Lane	84
Miscellaneous	1,077
Music Bursary Fund	175
Ward Budget Initiative	263
Management Reserves	**2,476**
Total	**33,362**

3.2 Movement in and out of Earmarked reserves is generally determined on out-turn however it is expected that Schools Delegated Funds will decrease due to the withdrawal of schools reserves on becoming academies.

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

4. UNFUNDED RESERVES

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

Risk Management

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

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

APPENDIX 1

Further detail on Assessment of Required General Fund Revenue Balances

Area of Risk	Details	Reserves Required 2013/14 (£m)	Reserves Required 2012/13 (£m)
The general financial climate to which the Council is subject	Indications are that the next Comprehensive Spending Review period will see sustained reductions in Central Government funding beyond 2014/15, while there is limited evidence of wider economic recovery.	1.5 - 4.0	1.5 – 4.0
The overall financial standing of the authority	The financial strength of the council continues to improve with prudent assumptions factored into the MTFF for growth in income, while a comprehensive development and risk contingency is funded for 2013/14.	1.5 – 2.0	1.5 – 4.0
Estimates of level of locally raised income	With the introduction of local retention of business rate revenues from April 2013, there is scope for volatility in this income to impact upon the Council's finances. Losses above £3.5m in any single year will be mitigated by safety net payments from central government.	2.0 – 3.5	N/A
The treatment of planned efficiency savings / productivity gains	The budget for 2013/14 contains £17.1m of savings, which are substantially developed and ready for implementation in 2013/14. Governance and monitoring arrangements have been strengthened, with regular reporting on delivery of savings to Cabinet.	2.0 – 3.0	2.0 – 5.0
The treatment of inflation and interest rates	Limited inflation has been included in the 2013/14 budget and the current trend is decreasing. However, specific risks remain in relation to contracts and fuel. The low interest rate environment continues and this has been factored into the budget.	1.0 – 2.0	1.0 – 2.0
The financial risk inherent in any major outsourcing / insourcing arrangements	The Council is reliant on external providers for a range of key services, especially in social care for residential and nursing care provision, and housing providers for temporary accommodation. Some of these suppliers are reliant on private finance linked to asset values for their viability. In the current financial climate this poses an increased risk of service failure to the Council. The Council has outsourced facilities management, leisure management and revenues services, and these	1.0 – 3.0	1.0 – 3.0

	contracts create residual risks to be managed by the Council.		
The treatment of demand led pressures	The Council has a robust financial planning process (MTFF) embedded across the organisation. Through this process, reasonable assumptions about demand and funding pressures have been made and a prudent view of volatile areas has been taken. All known pressures across the Council are included as funded items in the MTFF, with additional funding in future years linked to forecast demand. The budget contingency is largely to take account of potential demand led pressures on key expenditure and income streams. The increase in level of required reserves from 2012/13 is intended to address the risks associated with the new Council Tax Reduction scheme.	2.0 – 5.0	1.0 – 3.0
The financial risks inherent in any major capital developments	The Capital Programme includes for substantial investment in primary schools, which alongside the potential for extensive investment within the Housing Revenue Account will result in a corresponding increase in the level of financial risk arising.	1.0 – 2.5	1.0 – 1.5
Estimates of the level and timing of capital receipts	The estimate of the capital receipts in the 2013/14 Capital Programme is based on a schedule of assets that have been identified for sale. If disposals are lower than projected then alternative options to achieve disposals or compensatory improvements to asset utilisation will be considered.	1.0 – 2.0	1.0
The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions	Whilst there remains a slight risk, the level of reserves has increased and an adequate level of provisions has been built into the budget.	1.0	1.0
The Council's capacity to manage in year budget pressures, and its strategy for managing both demand and service	There is a well-developed monthly budget monitoring process in place, ensuring adverse variations are identified promptly by service managers. The monthly challenge and review process ensures the early identification and resolution of issues.	1.0 – 2.0	1.0 – 2.0

delivery in the longer term			

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	CR 3A

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**

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

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Agenda Item 15

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Agenda Item 16

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