



HILLINGDON
LONDON



Audit Committee

Members on the Committee

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

Date: TUESDAY, 7 JANUARY
2014

Time: 5.00 PM

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

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

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<http://modgov.hillingdon.gov.uk/ielistDocuments.aspx?CId=256&MId=1680&Ver=4>

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Terms of Reference

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

Introduction

The Audit Committee's role will be to:

- Review and monitor the Council's audit, governance, risk management framework and the associated control environment, as an independent assurance mechanism;
- Review and monitor the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and/or weakens the control environment;
- Oversee the financial reporting process of the Statement of Accounts.

Decisions in respect of strategy, policy and service delivery or improvement are reserved to the Cabinet or delegated to Officers.

Internal Audit

1. Review and monitor, but not direct, Internal Audit's work programmes, summaries of Internal Audit reports, their main recommendations and whether such recommendations have been implemented within a reasonable timescale, ensuring that work is planned with due regard to risk, materiality and coverage.
2. Make recommendations to the Leader of the Council and Cabinet Member for Finance, Property and Business Services on any changes to the Council's Internal Audit Strategy and plans.
3. Review the 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.
4. Consider reports dealing with the management and performance of internal audit services.
5. Following a request to the Corporate Director of Finance, and subject to the approval of the Leader of the Council and Cabinet Member for Finance, Property and Business Services, to commission work from Internal Audit.

External Audit

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, making any recommendations to the Corporate Director of Finance.
10. Be consulted by the Corporate Director of Finance over the appointment of the Council's External Auditor.
11. Following a request to the Corporate Director of Finance, and subject to the approval of the Leader of the Council / Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.
12. Monitor effective arrangements for ensuring liaison between Internal and External audit, in consultation with the Corporate Director of Finance.

Governance Framework

13. Maintain an overview of the Council's Constitution in respect of contract procedure rules and financial regulations. And, where necessary, bring proposals to the Leader of the Council or the Cabinet for their development.
14. Review any issue referred to it by the Chief Executive, a Deputy Chief Executive, Corporate Director, or any Council body.
15. Monitor and review, but not direct, 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.
16. Review and monitor Council policies on 'Raising Concerns at Work' and anti-fraud and anti-corruption strategy and the Council's complaints process, making any recommendations on changes to the Leader of the Council and the Deputy Chief Executive and Corporate Director of Residents Services.
17. Oversee the production of the authority's Statement of Internal Control and recommend its adoption.
18. Review the Council's arrangements for corporate governance and make recommendations to the Corporate Director of Finance on necessary actions to ensure compliance with best practice.
19. Where requested by the Leader of the Council, Cabinet Member for Finance, Property and Business Services or Corporate Director of Finance, provide recommendations on the Council's compliance with its own and other published standards and controls.

Accounts

20. 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.

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

Review and reporting

22. Undertake an annual independent review of the Committee's effectiveness and submit an annual report to Council on the activity of the Audit Committee.

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 26 September 2013 **(Pages 1-8)**
- 4 Exclusion of the Press and Public
To confirm that all items marked Part I will be considered in public and that any items marked Part II will be considered in private.
- 5 Corporate Fraud Investigation Progress Report **(Pages 9-14)**
- 6 Internal Audit - Progress Report for 2013/14 Quarter 3 **(Pages 15-34)**
- 7 Treasury Management Strategy Statement and Investment Strategy 2014/15 to 2016/17 **(Pages 35-54)**
- 8 Deloitte - Annual Grant Audit Letter **(Pages 55-66)**
- 9 Independent Chairman of the Audit Committee **(Pages 67-68)**
- 10 Work Programme 2013-14 **(Pages 69-72)**
- 11 Changing Legislation and Current Issues

Minutes

Audit Committee
Thursday, 26 September 2013
Meeting held at Committee Room 4 - Civic
Centre, High Street, Uxbridge UB8 1UW



	<p>Independent Member: John Morley (Chairman).</p> <p>Members Present: Councillors George Cooper, Raymond Graham, Phoday Jarjussey and Richard Lewis.</p> <p>Officers Present: Kevin Byrne (Head of Policy, Performance and Partnerships), Gill Crosbie (Internal Audit Manager), Muir Laurie (Head of Internal Audit), Jay Nandhra (Internal Audit Manager), Nancy Le Roux (Deputy Director of Strategic Finance), Perry Scott (Head of Procurement), Paul Whaymand (Director of Finance) and Khalid Ahmed (Democratic Services Manager).</p> <p>Others Present: Jonathan Gooding and Sam Maunder (Deloitte). Harry Lawson (former Corporate Accountancy Manager).</p> <p>Apologies: Councillor Paul Harmsworth (Cllr Phoday Jarjussey substituting) and Heather Bygrave (Deloitte).</p>
<p>15.</p>	<p>DECLARATIONS OF INTEREST</p> <p>Councillor George Cooper declared a Non-Pecuniary Interest in Agenda Item 6 – Internal Audit – Progress Report for 2013/14 Quarter 2 as his wife was a Governor of St Andrews School. He remained in the room and took part in discussions on the item.</p> <p>Councillor Raymond Graham declared a Non-Pecuniary Interest in Agenda Item 8 – External Auditor Report on the Pension Fund Annual Report and Accounts as he was a Member of the Pensions Committee. He remained in the room and took part in discussions on the item.</p> <p>Councillor Phoday Jarjussey declared a Non-Pecuniary Interest in Agenda Item 6 – Internal Audit – Progress Report for 2013/14 Quarter 2, the Mental Health Service audit review, as he was a Member of the External Services Scrutiny Committee. He remained in the room and took part in discussions on the item.</p>
<p>16.</p>	<p>MINUTES OF THE MEETINGS HELD ON 25 JUNE 2013</p> <p>Agreed as an accurate record.</p>

17.	<p>EXCLUSION OF THE PRESS AND PUBLIC</p> <p>It was agreed that Agenda Item 12 – Risk Management Report which was in Part II of the Agenda be considered in private. The rest of the Agenda was considered in public.</p>	
18.	<p>CATEGORY MANAGEMENT – STRUCTURE AND BENEFITS</p> <p>At the last meeting of the Committee the Director of Finance agreed that the Head of Procurement would attend the meeting to provide Members with information on the Category Management approach to procurement, particularly on the Property / Facilities Management Side.</p> <p>Reference was made to Procurement’s role within the Council being more focussed on Category Management which added value and commercial challenge at all stages of the procurement cycle.</p> <p>The benefits of the Category Management Structure were:</p> <ul style="list-style-type: none"> • A stronger procurement function which would deliver continued cost savings to the Council with total visibility of the category spend contracts and focussed objectives. • Ensuring full compliance to UK & EU Procurement Law. • The development of detailed Category Plans which tracked performance and outcomes. • A more focussed management of the contract and the supplier. • Better managing of financial risk and supply contingency plans. <p>In relation to Facilities Management / Housing and Construction, the Committee was updated on the progress made. There were currently 98 projects underway which would deliver efficiencies. Building contract overspends were being controlled with the Category Management approach, with various procurement tools and techniques utilised such as traditional tendering, setting up Frameworks and collaborations.</p> <p>The Head of Procurement agreed that he would ensure that the issues raised in various Internal Audit reviews on procurement through various parts of the Council would be revisited.</p> <p>RESOLVED:</p> <p>1. That the information contained in the report and in</p>	<p>Action By:</p>

	the presentation be noted.	
19.	<p>INTERNAL AUDIT PROGRESS REPORT</p> <p>The Head of Internal Audit provided Members with a summary of Internal Audit activity in the period during July to September 2013 period.</p> <p>The Committee was informed that all remaining 2012/13 internal audit reviews had been completed to draft report stage by end of August. Reference was made to the staff capacity of the Team being reduced with the departure of a graduate trainee which had meant that RSM Tenon had agreed to provide some general Internal Audit work support if required.</p> <p>There were five limited assurances during this period and these included:</p> <ul style="list-style-type: none">• Support for Young Carers – The assessment and support planning processes were incomplete and were now up to date. It was reported that all recommendations had now been implemented.• Children’s Residential Services – Merrifield House and Olympic House – Ofsted had raised concerns on health and safety at both homes, with all outstanding recommendations being implemented at Merryfield House. Positive action had taken place at Olympic House but there was still one outstanding recommendation. The Chairman noted that the Committee may wish to revisit this area if there were more occurrences of this nature within Children’s homes. The Head of Internal Audit was asked to inform Members if the two aforementioned establishments were the only children’s homes which had been Ofsted inspected.• Trees – Compensation Claims –This audit had been finalised on 24 September 2013 with all recommendations implemented.• Mental Health Services – The audit had identified that the Section 75 Partnership Agreement for the delivery of adult mental health services between the Council and Central and North West London NHS Foundation Trust (CNWL) had not been thoroughly reviewed. Members were informed that this audit had now been finalised with all outstanding recommendations implemented. The Head of Procurement reported that he was aware of this and CNWL would now be classed as a contractor which would improve the monitoring of the service. <p>The Head of Internal Audit reported that the slippage in the</p>	Action By: Muir Laurie

	<p>2012/13 Internal Audit Plan had had a negative impact on the progress made with the 2013/14 Plan, with only seven 2013/14 Internal Audit assurance reviews having been completed to final report stage. Follow up work in this area had indentified 6 high risk recommendations from 2012/13, with only 3 now outstanding. Added to outstanding high risk recommendations in the three previous years, there were now in total 7 outstanding high risk recommendations.</p> <p>Reference was made to audits which had been deferred and Members were informed that audits had been prioritised to clear the backlog.</p> <p>The Committee praised the new format of reporting internal audit activity and the changes in the future which would be made to the Plan, which would include changing the terminology used for assurance levels.</p> <p>RESOLVED-</p> <p>1. That the Internal Audit Progress report for 2013/14 Quarter 2 be noted.</p>	
20.	<p>APPROVAL OF THE 2012/13 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2013</p> <p>Consideration was given to a report which summarised the findings of the External Auditor on the audit of the 2012/13 Statement of Accounts.</p> <p>The Deputy Director of Strategic Finance reported that there was an overall decrease on the Balance sheet of £40.2m which had been mainly caused by the writing out of £38.4m of community schools as a result of them acquiring academy status.</p> <p>Deloitte reported that, subject to completion of some minor procedures, an unmodified opinion would be given and the Statement of Accounts would be given a ‘true and fair’ view. In addition an unqualified conclusion would be issued on the Council’s arrangements for securing value for money.</p> <p>Deloitte reported that the audit process for 2012/13 was efficient and rigorous and commenced in June and was carried out by auditors familiar to Hillingdon which required less officer input and time.</p> <p>Reference was made to a number of significant audit risks where no significant issues had been identified by Deloitte.</p> <p>Issues raised by Members on the identified audit risks were as</p>	

	<p>amendment made to the AGS.</p> <p>2. That the Auditors findings and adjustments as outlined in Appendix 1 to the report be noted.</p> <p>3. That officers be congratulated for presenting an excellent Statement of Accounts.</p>	
21.	<p>EXTERNAL AUDITOR REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS</p> <p>Members were reminded that regulations required the auditor's report to be communicated to the Audit Committee as the body charged with governance of the Council's accounts. The report had also been considered by the Pensions Committee on 24 September 2013.</p> <p>Members were informed that on completion of the outstanding matters, the Council would be issued with an unmodified audit opinion.</p> <p>Members reviewed the Pension Fund Annual Report & Accounts, and noted that these had been approved by the Pensions Committee.</p> <p>RESOLVED –</p> <p>1. That the auditor's findings contained in the report be noted and agreed.</p> <p>2. That the Committee considered and approved the Accounts of the Pension Fund.</p>	
22.	<p>DELOITTE – ANNUAL AUDIT LETTER – DRAFT</p> <p>Deloitte's Draft Annual Audit Letter provided a summary of the expected conclusions from their audit work undertaken for the year ended 31 March 2013.</p> <p>Details of the key areas of Deloitte's work over the year, together with their findings in each area and the focus of their work going forward were contained in the letter.</p> <p>RESOLVED –</p> <p>1. That the report be noted.</p>	
23.	<p>WORK PROGRAMME 2013/14</p> <p>The Work Programme was noted with one minor amendment, and it was agreed to change the date of the next meeting to</p>	

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Corporate Fraud Investigation Progress Report

Contact Officers: Garry Coote
Telephone: 01895 250369

REASON FOR ITEM

To inform members of the work undertaken by the Corporate Fraud Investigation Team from April to December 2013.

OPTIONS AVAILABLE TO THE COMMITTEE

The Committee is asked to consider and note the Corporate Fraud Investigation Team interim report.

INFORMATION

1. Roles and Responsibilities

1.1. The Council has a responsibility to protect the public purse through proper administration and control of the public funds and assets to which it has been entrusted. The work of the Corporate Fraud Investigation Team supports this by providing efficient value for money anti-fraud activities and investigates all referrals to an appropriate outcome. The Team provides support, advice and assistance on all matters of fraud risk including prevention, fraud detection, other criminal activity and deterrent measures.

1.2. Corporate Investigation Team activities since April 2013 included:

- Single Fraud Investigation Service (SFIS) pilot
- Social Housing fraud investigations
- Council Tax/Business Rates inspections
- Right to Buy investigations
- First time buyer investigations
- Proceeds of Crime investigations
- Bed and Breakfast visits and investigations
- Internal and external fraud investigations and prosecutions
- Development of anti fraud strategies

2. Performance Outcomes April – December 2013

2.1 Single Fraud Investigation Service (SFIS) pilot

Hillingdon has been recognised by the Department for Work and Pensions (DWP) as running the best performing pilot. This has been assessed by visits from DWP senior managers to Hillingdon who acknowledged innovative team working producing positive outcomes through high quality investigations. However, despite the positive pilot in Hillingdon, the Government made a decision in December 2013 that nationally this service should be transferred and managed by the DWP. This transfer will be on a phased basis commencing October 2014 with a completion date of March 2016. This transfer means Local Authorities will no longer be responsible for Benefit investigations meaning that the Corporate Fraud Investigation Team in Hillingdon will have the opportunity to diversify its operations to other areas of fraud detection and investigation across the Council.

Work in Hillingdon since April has achieved very positive outcomes. The process of presenting cases to court has been streamlined. This has reduced the time taken for cases to be prepared and direct working with the Crown Prosecution Service has been expanded. The focus of this work has been on Prosecutions and Administrative Penalties.

Results April – December 2013	
Prosecutions	24
Administrative Penalties	3
Benefit payments stopped	£524,000

2.2 Social Housing Fraud Investigations

Blow the whistle on Housing Cheats poster appears in every issue of Hillingdon People, this helps to generate calls to the Council's fraud hotline, all referrals are fully investigated. In April the Council received funding from Government to support this area of work and the Council have used part of this funding to continue the work with Experian, a credit reference agency. They data match the Council's housing tenancy records with their credit reference data to identify properties that may be sub let or empty.

In October 2013 the Government passed legislation to criminalise sub-letting fraud. On conviction, tenancy fraudsters face up to two years in prison or a fine. Officers intend to use these powers to prosecute suitable cases.

The Audit Commission, in their report 'Protecting the Public Purse 2013' estimated that nationally it costs Councils on average £18,000 a year for each family placed in temporary accommodation, therefore using this guidance it is estimated that £792,000 has been saved in Hillingdon by detecting housing tenancy fraud in 44 properties. These properties are now in legitimate use for residents with genuine housing need.

Results April – December 2013

Audit Committee 7 January 2014
PART I – MEMBERS, PUBLIC & PRESS

Properties Recovered	45
Estimated Savings	£810,000

2.3 Council Tax/Business Rates/Compliance inspections

The inspection role within the Corporate Fraud Team is crucial in terms of maximising the Council's revenue income.

Since April 2013 officers have carried out over 7,000 visits. The visiting programme is very intense and officers are trained in all areas of work to ensure an efficient and planned approach to all visits.

Council Tax Inspections are generally reactive and identify the status of those claiming single person discount and other discounts. Where the visit establishes the wrong amount of Council Tax is being charged the account is changed and the person re-billed.

Business Rate visits are carried out to check occupation status of commercial premises to ensure the Council maximises the non domestic rate revenue. Similarly, the new build visits are carried out to ensure properties are rated for domestic or business rates as soon as they are completed. It is estimated that for the 2 year period from April 2013 there will be approximately 700 new build properties being developed in Hillingdon which represents a significant amount of additional revenue. Overall 2,534 visits have been made to check Business Rates and New Build Inspections.

Benefit compliance visits relate to checks carried out to verify information on a claim. Visits requests come from a number of sources which include benefit and housing officers and calls from the public about possible benefit abuse. Since April 2013 officers have conducted 370 of these visits.

Results April – December 2013	
Number of Council Tax Inspections	4099
Number of Business rates and New Build Inspections	2756
Benefit compliance inspections	387

2.4 Right To Buy (RTB) investigations

This is a relatively new area of work for pro active investigations. Unannounced visits are carried out to tenants who have applied to buy their Council property.

In April 2012 the Government increased the maximum discount a Council Tenant can receive under the RTB scheme from £75,000 to £100,000. This increase could see more attempted fraud as a result of the increased discounts.

Our pro active investigations so far have highlighted that this is an area that needs to be closely monitored, 6% of applications have been stopped since we started this project.

Results April – December 2013	
Number of Right to Buy visits	129
Number of applications rejected	9

2.5 First time buyer investigations

Unannounced visits are carried out to verify owner details and to ensure that the conditions of the scheme are not being abused. There are currently 3 cases being investigated where there is evidence that the first time buyer is either sub letting their property or is the owner of another property. This is clearly an abuse of the scheme, case investigations are on-going and will be pursued to recover of any money paid, prosecutions will be considered if appropriate.

Results April – December 2013	
Number of First Time Buyer visits	40
Number of cases under investigation	3

2.6 Proceeds of Crime Investigations

The role of the Financial Investigation Officer within the Corporate Fraud Team is crucial in the fight against fraud. The aim is not only to prosecute serious offenders but also to look at recovering additional monies where a criminal lifestyle can be demonstrated, this is where a person has been able to purchase assets as a result of their fraud.

A number of cases are due in Court next year which are likely to receive media attention because of the amount of money involved.

Results April – December 2013	
Number of Corporate Fraud investigations	1
Number of Benefit investigations	2
Number of Planning investigations	1
Number of Trading Standards investigations	2
Total number of investigations	6

2.7 Bed and Breakfast visits and investigations

We recently carried out residency visits with housing staff to verify occupancy. These unannounced visits were carried out early in the morning and proved to be effective in terms of identifying accommodation that appeared to be unoccupied by the homeless person or family.

The aim is to continue with this work and work alongside housing officers to ensure accommodation is appropriately occupied. Investigations will be carried out where there is clear abuse of this type of accommodation which may lead to prosecutions. The visits so far have identified that 14% of properties were not occupied. This represents a significant saving both in revenue expenditure and any associated Housing Benefit costs.

Results April – December 2013	
Number of applicants visited	80
Number of cases ceased	11

2.8 Internal and external fraud investigations and prosecutions

A former member of staff was prosecuted in April 2013 for procurement fraud; the member of staff was sentenced to two years in prison. There is also a Proceeds of Crime Investigation on-going on this case.

An attempt to obtain a Disabled Persons Facilities Grant was identified where the applicant failed to notify that she was the owner of several properties and received a substantial amount of rental income. The applicant is in the process of being prosecuted for this offence.

2.9 Development of anti fraud strategies

The Corporate Fraud Investigation Manager is working with the Head of Internal Audit to review and develop anti fraud strategies.

3.0 Operational plans for the future

3.1 Operational arrangements will be reviewed to identify new areas of fraud detection and investigation within the Council. The Corporate Fraud Investigation Team has always delivered results on new initiatives and will diversify its resources and skills into other areas of fraud detection within the Council. This will increase residents' confidence in the Council management of its operations by ensuring services are provided to those in genuine need and action taken against fraudulent activity.

3.2 The Audit Commission has recently produced a document called 'Protecting the Public Purse 2013', Officers will use this document to develop a strategy to ensure the effective use of resources to targeting new fraud investigation initiatives. The document can be found here <http://www.audit-commission.gov.uk/2013/11/protecting-the-public-purse-2013/>

BACKGROUND PAPER

Nil.

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Internal Audit - Progress Report for 2013/14 Quarter 3

Contact Officer: Muir Laurie
Telephone: 01895 556132

REASON FOR ITEM

The attached report presents the Council's Audit Committee with summary information on all Internal Audit work covered and assurance in this respect during the October to December 2013 period. It also provides an opportunity for the Head of Internal Audit to highlight to the Audit Committee any significant issues that they need be aware of that have arisen since the last Internal Audit progress report in September 2013. It also enables the Audit Committee to hold the Head of Internal Audit to account on delivery of the Internal Audit plan and facilitates in holding management to account for managing risk and control weaknesses identified during the course of Internal Audit activity.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the Internal Audit Progress Report for 2013/14 Quarter 3 (October to December 2013).

The Audit Committee should ensure that the coverage, performance and results of Internal Audit activity in this quarter are considered and any additional assurance requirements are communicated to the Head of Internal Audit.

INFORMATION

Internal Audit provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the Council undertakes an adequate and effective Internal Audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

The new Public Sector Internal Audit Standards which came into force on 1 April 2013 are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector. They stress the importance of robust, independent and objective Internal Audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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**Progress Report to Audit Committee
2013/14 Quarter 3
December 2013**



Contents

The Internal Audit key contacts in connection with this report are:

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1. Introduction

- 1.1 Internal Audit (IA) provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the Council undertakes an adequate and effective IA of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 1.2 The new Public Sector IA Standards which came into force on 1 April 2013 are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.
- 1.3 This report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information of all IA work covered and assurance in this respect during the October to December 2013 period. It also provides an opportunity for the Head of Internal Audit (HIA) to highlight to CMT and the Audit Committee any significant issues that they need be aware of that have arisen since the last IA progress report in September 2013.
- 1.4 IA would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the Council during the period.

2. Executive Summary

- 2.1 Despite a reduction in IA capacity during the quarter, reasonable progress has been made in reducing the slippage in the 2013/14 IA plan. At the end of November 2013, delivery of the IA plan for the year was 2 months further ahead than compared to 12 months earlier. This has been in part achieved by beginning to implement a range of lean auditing principles, which have included reducing the time taken to approve the IA terms of references and reports. Improving the efficiency of the IA process in this way creates greater capacity for IA to add value across the organisation. It also reduces the management time required in the IA process and we are grateful to management for their co-operation in this area. Developing a more collaborative approach to IA work at Hillingdon will help reduce the risk of IA 'over-auditing' and also ensure that going forward IA resource is more focussed on the greatest risks facing the authority.
- 2.2 As part of the commitment to continuous improvement of the services provided by IA, the HIA has revised the IA plan for 2013/14 to defer some of the lower risk audits (i.e. Land Charges) and to add in some higher risk areas that were not previously part of the IA plan (i.e. Corporate Governance). Attached at [Appendix B](#) is the list of 2013/14 audits yet to formally commence, but planned for completion in quarter four, as well as a list of the lower risk audits deferred to 2014/15. The revised planned programme of IA work for quarter four has been discussed by IA with the relevant senior managers including CMT.
- 2.3 The HIA recognises that going forward the IA service needs to further improve its performance, particularly with regard to delivery of the IA plan. However, as an organisation we also need to get better in future years at setting an annual IA plan that is fully risk based, with sufficient flexibility and contingency to allow for new and emerging risks to be covered. Another benefit of revising the IA plan for the final quarter of 2013/14 is that we now have an IA plan that is deliverable by April 2014. Whilst completion of the revised quarter four IA plan is now more achievable, it will remain a significant challenge for the IA service. Its successful delivery is largely dependent on available IA resource, as well as how quickly the new initiatives within IA become embedded.

- 2.4 A key area of IA assurance work that has been successfully carried out in this quarter is **Treasury Management**, where we found good controls in place and risks that were being well managed. We raised **no recommendations** in this audit and issued a **Substantial assurance** opinion. This is the first time in a number of years that such a positive result has been achieved for a key material financial system audit. Other IA work completed in the quarter included the **Troubled Families Programme (TFP) Grant Claim** which we carried out at the same time as a piece of consultancy (advisory) work in this area. The TFP grant claim has now been certified by the HIA and the final consultancy report has been recently issued, which was well received by the Head of Early Intervention and Prevention Service.
- 2.5 Another main area of work by IA this quarter was **following-up previous recommendations** due to have been implemented. Focussing dedicated IA resource to this area has achieved a much improved outcome for the Council. As at 13 December 2013, **82%** (221 from 269) of the outstanding **High** and **Medium** risk recommendations due to have been implemented, have been **confirmed by management as now in place**. Some of these recommendations had dated back nearly three years since they were originally raised by IA. The HIA believes this success is due to the **more collaborative approach that IA is taking in working with management** to help achieve positive outcomes for the Council.
- 2.6 Further details of the IA work carried out in the period are included in section 3 of this report.

3. Analysis of Internal Audit Activity in 2013/14 Quarter 3

3.1 2013/14 Internal Audit Assurance Work

- 3.1.1 All of the IA assurance reviews carried out in the quarter three period are individually listed at [Appendix A](#). It details the assurance levels achieved (in accordance with the assurance level definitions outlined at [Appendix C](#)) and provides an analysis of recommendations made (in accordance with the recommendation risk categories outlined at [Appendix D](#)).
- 3.1.2 In total **17 2013/14 IA assurance reviews were finalised during the period**. This is broadly in line with the previous period (quarter two - 18) and significantly better than the quarter three period for last financial year (12). Nevertheless, IA performance in relation to delivery of the IA plan needs to continue to improve going forward.
- 3.1.3 The table below highlights that **positive assurance levels were issued for 15 IA assurance reports** issued this quarter:

Assurance Level (including Schools)	Number of 2013/14 IA assurance reports finalised in Q3	Percentage of 2013/14 IA assurance reports finalised in Q3
Substantial	2	12%
Reasonable	13	76%
Limited	2	12%
No	0	0%
Totals	17	100%

- 3.1.4 There were **not any 'No' assurance** IA opinions and **only two 'Limited' assurance** opinions issued during the period; this is a **positive outcome for the Council**. Further, [Appendix A](#) highlights that as at 19 December 2013 there are **an additional 15 IA assurance reviews in progress**. Whilst we are on track to complete these audits over the coming weeks, there remains a significant challenge ahead for the IA team to ensure timely completion of the remainder of the 2013/14 IA plan.

3.1.5 The key findings from the **two limited assurance audits** this period were as follows:

Bishop Winnington-Ingram C of E Primary School

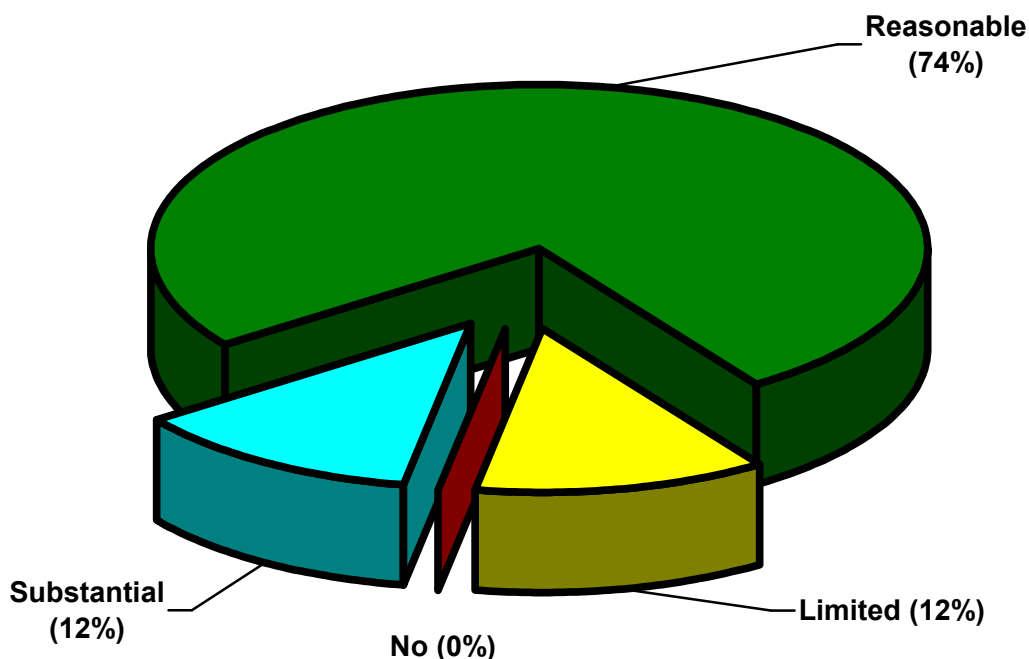
- As detailed at Appendix A, we raised **8 recommendations** as part of this audit including 1 **High** risk recommendation in relation to debt management and recovery. Specifically, we identified that the School had debts over three months old totalling £83,730 from parents/ guardians in relation to before and after school care. There were weak controls in place to follow up and recover payment of these debts, which represents a significant weakness in the design and operation of the School's control environment. Positive action was proposed by the School to address the risk and control issues which the IA review identified. However, as at 19 December 2013 we understand that some progress has been made in strengthening the School's debt collection procedures, although currently the debt remains outstanding. As a result, Children's Services Finances Team are liaising with the School to help progress the required improvements in this area.

West Drayton Primary School

- As detailed at Appendix A, we raised **10 recommendations** as part of this audit including 1 **High** risk recommendation in relation to an *ultra vires* finance lease. As part of our audit we identified the School had procured four photocopiers costing £22,847 over a three year period through a finance lease. This is a type of contractual arrangement that local authority schools do not have the mandate to enter into. Further guidance has been issued by the Council as a number of schools had entered these type of arrangements. It is understood that the School has taken prompt action to address the risks we identified and a follow-up IA visit is planned for early 2014.

3.1.6 **Overall, the results of the IA assurance work completed in this period are positive for the Council.** The graph below highlights that **86%** of the IA assurance opinions in quarter 3 were positive (i.e. Substantial or Reasonable).

Analysis of IA Assurance Opinions issued in Q3 2013/14



3.1.7 Given the significant level of transformational change going on across the organisation and the subsequent risks that are created, both **CMT** and the **Audit Committee** can take **substantial assurance** from the results of the IA assurance work completed in quarter three.

3.2 2013/14 Internal Audit Consultancy Work

3.2.1 IA is gradually **increasing the amount of consultancy work** that it carries out across the Council. This includes IA staff sitting on project groups, whilst ensuring they are clear about whether they are there in an assurance or advisory capacity. This type of approach will help increase IA's knowledge of corporate developments which can feed into the risk based deployment of IA resource on assurance work. Also, **participation in project/ working groups** will help individual IA staff develop, whilst at the same time increasing the value IA provides to the Council. There is also a responsibility for the HIA to ensure that in future any work IA carries out is closely **aligned to the Transformation work** being carried out across the organisation.

3.2.2 During quarter three, IA carried out a range of consultancy work including:

- participation in the Risk Management Group;
- participation in the Public Health Steering Group;
- advice in relation to the 2013/14 Annual Governance Statement including participation in the Corporate Governance Group;
- participation in the Hillingdon Information Assurance Group; and
- attendance at a number of other corporate project groups (i.e. the School's Expansion Programme, the Children's and Adult's Transformation Programme Board, etc).

3.2.3 As detailed at [Appendix A](#), we also conducted four specific pieces of consultancy work this quarter, including a review in relation to Boiler Maintenance and Repairs, the results of which are currently being considered by management.

3.3 Follow-up of Previous Internal Audit Recommendations

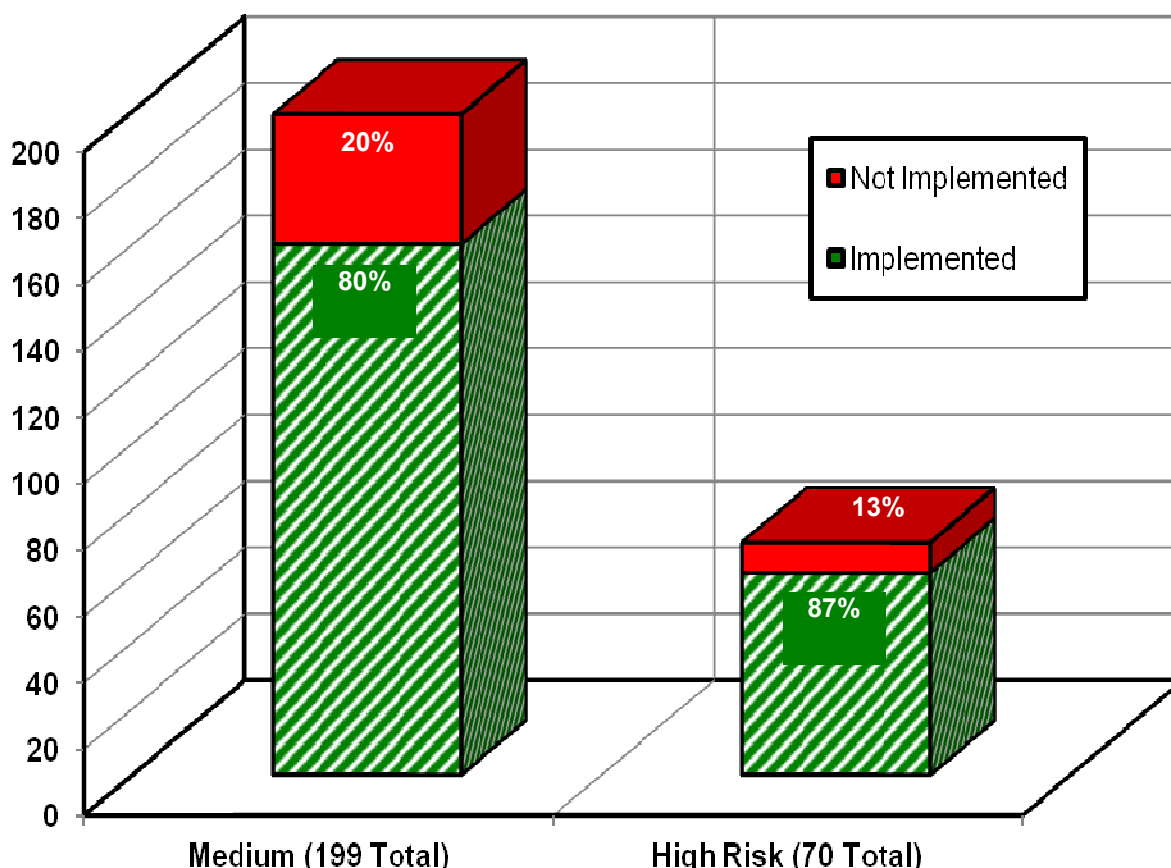
3.3.1 We continue to monitor all **High** and **Medium** risk recommendations we raise through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. We do not follow-up **Low** risk IA recommendations as they tend to be minor risks i.e. compliance with best practice, or issues that have a minimal impact on a Service's reputation i.e. adherence to local procedures.

3.3.2 The implementation of recommendations raised by IA is now monitored solely by one of the IA team. Having this single point of contact for this area of work allows the rest of the IA team to focus on delivery of the IA plan and also ensures that organisationally we have a more consistent and streamlined approach to the process of following-up IA recommendations.

3.3.3 The focus of the quarter three IA work on follow-up has been on all the outstanding **High** and **Medium** risk recommendations due for implementation. Including some IA recommendations raised this quarter, there were **269 High** and **Medium** risk IA recommendations that were due to have been implemented by 1 December 2013. The table below details the results:

Risk Rating	IA Recommendations Raised		IA Recommendations Implemented		IA Recommendations Outstanding	
	No.	%	No.	%	No.	%
HIGH	70	26%	61	87%	9	13%
MEDIUM	199	74%	160	80%	39	20%
TOTAL	269	100%	221	82%	48	18%

- 3.3.4 We are pleased to report that **82%** of the **High** and **Medium** risk recommendations are now confirmed by management as implemented. Some of these recommendations had dated back nearly 3 years since they were originally raised by IA so **this represents significant progress**. The HIA believes this success is due to the more collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Council.
- 3.3.5 Given that we are taking a risk based IA approach at the Council, it is also a positive outcome that there are **three times as many Medium risk recommendations than High risk recommendations**. Only **13%** of **High** risk recommendations and **20%** of **Medium** risk recommendations remain outstanding as at 1 December 2013. The bar graph below highlights this:



- 3.3.6 The results of our follow-up work demonstrate a **positive direction of travel** regarding the management action taken in response to IA recommendations raised. Nevertheless, there is more work for IA to do in terms of working with management to improve the response to **High** risks. Our follow-up work has identified **9 High risk recommendations** due which have not yet been fully implemented. The status of outstanding IA recommendations has been discussed at CMT and good progress is being made on establishing which of these require urgent management attention and which are no longer relevant (i.e. following organisational restructure). Further more detailed information on all outstanding **High** risk recommendations will be provided by the HIA as part of an oral update at the 7 January 2014 Audit Committee meeting.

3.4 Other Internal Audit Work 2013/14

- 3.4.1 During the quarter, IA's involvement with the National Fraud Initiative (NFI) data matching exercise for 2012/13 has drawn to a conclusion. The Council's main contact for the NFI is now the Corporate Fraud Investigation Manager and future NFI data matching exercises will be the responsibility of the Corporate Fraud Team (CFT) in the Residents Services Directorate. In line with the Chief Finance Officer's statutory duty to prevent and detect, fraud and corruption against the Council, IA will continue to work closely with the CFT.

3.4.2 Also in this quarter, a number of IA risk focussed planning meetings have been held with senior managers. As a result, several higher risk IA reviews have been added to the IA plan for the quarter four period and at the same time several lower risk audits have been deferred from the quarter four plan and will now be carried out in the 2014/15 audit year. A summary list of the IA reviews now scheduled to be carried out in quarter four is attached at [Appendix B](#), as is a summary list of those audits now deferred to 2014/15.

3.5 Internal Audit Performance

3.5.1 The current IA Key Performance Indicators (KPIs) previously agreed with CMT and the Audit Committee are:

- KPI 1 – Deliver **90%** of the agreed IA Plan to final report stage by 31 March 2014;
- KPI 2 – Deliver **95%** of the agreed IA Plan to draft report stage by 31 March 2014; and
- KPI 3 – Deliver **95%** of completed audits within the agreed time allocation.

3.5.2 As at 13 December 2013, actual cumulative IA performance against its KPIs is highlighted below:

IA KPI	IA Current Performance	R.A.G. Status
KPI 1	86%	AMBER ●
KPI 2	91%	AMBER ●
KPI 3	74%	AMBER ●

3.5.3 Following a number of IA service developments, the current performance against all three IA KPIs has improved since the last quarter and it is expected **KPI 1 and KPI 2 will now be achieved (Green status)** for the year to 31 March 2014. Also, a considerable improvement has been made in improving the time taken to complete individual audits and therefore KPI 3 has moved from **Red** status (66%) last quarter to **Amber** status 74%. However, the HIA needs to alert CMT and the Audit Committee to the likely outcome that **KPI 3 will not be fully achieved (Green)** for the year to 31 March 2014. The main impact of this is that IA capacity is reduced, although the HIA remains confident that performance in this area will continue to improve in future.

3.5.4 Persistent failure to achieve the 3 IA KPIs over the last few years has prompted the HIA to consider if IA as a service is measuring the right things i.e. do these 3 KPIs really tell our key stakeholders whether or not IA has been successful at Hillingdon? Linked to this, following feedback from a range of our key stakeholders, IA introduced **an updated Client Feedback Questionnaire (CFQ)**, which we ask to be completed for each final IA report issued. Our revised approach was to focus the CFQ on the main areas where we can measure success from a client feedback point of view. The strategy to streamline the CFQ to one page with eight straightforward questions appears to have been successful, as we have had **a 100% completion rate on the new CFQs** since they were introduced on 1 October 2013 (refer to [Appendix A](#)). We are grateful to management for this high completion rate which is perhaps another indication of the improved collaborative approach that is developing between IA and management.

3.5.5 The eight CFQ questions are included in the table at the top of the next page. The table also shows the average score from the **11 CFQs completed since 1 October 2013** (as per [Appendix A](#)). A score of 4 means the clients strongly agrees, 3 is agree, 2 is disagree and 1 is strongly disagree. The IA target that has been introduced is to achieve an overall average score of 3 (agree) or above on each of the eight CFQ areas.

3.5.6 As can be seen from the table below, IA is currently exceeding its target on each of the eight CFQ areas:

IA CFQ Areas	Average Score
Q1. Planning: The planning arrangements for the IA review were good	3.4
Q2. Scope: The scope of the IA review was relevant	3.5
Q3. Conduct: The IA review was conducted in a highly professional manner	3.6
Q4. Timing: The IA review was carried out in a timely manner	3.6
Q5. Report: The IA report was presented in a clear, logical and organised way	3.7
Q6. Recommendations: The IA recommendations were constructive and practical	3.4
Q7. Value: The IA review added value to your service area	3.5
Q8. Overall: I look forward to working with IA in future	3.7

3.5.7 We have also received a range of client comments on IA performance this quarter, a selection of which is highlighted below:

Treasury Management

- *"Only comment is in relation to planning of the audit and the communication of when access to the team and information was needed. Would have been helpful for the auditor to have gained an understanding of the key pressure times within the function and to avoid those and to have pre-arranged times to meet, rather than just turning up and expecting the team to stop what they were doing to assist".*

E-invoices

- *"The audit was carried out very promptly, which enabled the Corporate Payments Management team to continue with service delivery, during a very busy period for the team. Fully agree with the recommendations, although 6 different recommendations will make it more difficult to focus on each area".*

Harefield Junior School

- *"Firstly a thank you to the auditor, who was very professional. She also put us at ease. Only a couple of comments – it was a shame to be marked down on something which was not the fault of current school staff. I can understand why, but still sad, since we had tried our best to resolve the situation! We look forward to working with Internal Audit in the future".*

Lady Bankes Junior School

- *"The auditor was very helpful and supportive. I did not feel she was critical or judgmental, especially given the situation the school has faced for the past year. She was helpful on site as well with some suggestions and advice – very good".*

Building Control - Dangerous Structures

- *"The auditor conducted the audit in a very professional and approachable manner. He took time to understand the Dangerous Structure process and asked the necessary questions when clarification was required. A pleasure to carry out the audit with."*

3.5.8 Whilst the HIA proactively seeks informal management feedback on IA reviews, we are grateful to management for the formal feedback we have received. A 100% completion rate of CFQs since the updated version was introduced has exceeded the HIA's expectations and will genuinely help IA improve as a service.

4. Forward Look

- 4.1 Looking ahead to quarter four, as referred to at para 3.5.4, work is already under way to develop a more meaningful set of KPIs for the IA service to use from 2014/15 onwards. In line with auditing standards and best practice, IA KPIs should measure the quality, efficiency and effectiveness of the IA service. In producing the revised KPIs, we will consult with our key stakeholders and will present the revised KPIs to Audit Committee at its planned March 2014 meeting.
- 4.2 As part of the continuous improvement of the IA service we will be reviewing the approach we take to the IA coverage of Hillingdon schools. Rather than visit each school on a 3 year cyclical basis, we plan to instead carry out risk based thematic cross-cutting reviews across a number of schools at one time. This allows us to share the results of these reviews with all Hillingdon schools, which will help raise awareness of common risk and control issues in schools, as well as share best practice.
- 4.3 Continuing with the theme of further streamlining various aspects of the IA process, the HIA is restructuring the IA Management Team with the primary purpose of reducing the management overhead within the IA service. Specifically, the HIA determined that the IA service had the wrong skills mix in place and that it was not necessary to have a Head of Service as well as two IA managers in what is a relatively small team. Further to this, the two IA Managers have decided to leave Hillingdon to pursue their careers elsewhere and as a result we are currently in the process of recruiting a Principal Internal Auditor and Senior Internal Audit Manager. These changes will generate more front line capacity for carrying out IA work as well as reduce the amount of time spent managing the IA service. We have also been operating with a Trainee Internal Auditor vacancy since July, so work is now under way to commence the recruitment of a suitable candidate.
- 4.4 The IA service has recently been allocated with laptop computers to replace their desktop computers as part of the Council's strategic ICT programme to upgrade to Microsoft Office 2010 and Windows 7. Further to this, we are just finalising the procurement of IA software which once fully implemented will mean we can implement a paperless IA approach at Hillingdon. As well as the obvious benefits of reduced paper use and less storage space requirements, by being able to take laptops to meetings, etc, it will allow all IA staff to increase their personal effectiveness and efficiency, which will have a positive impact on delivery of the IA plan.
- 4.5 There are no other matters that the HIA needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie ACCA CMIIA MAAT
Head of Internal Audit

19 December 2013

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2013/14 QUARTER 3 (October to December 2013)****Key:**

IA = Internal Audit

H High Risk

M = Medium Risk

L = Low Risk

NP = Notable Practice

CFQ = Client Feedback Questionnaire

ToR = Terms of Reference

2013/14 IA Assurance Reviews (carried out since the last IA Progress Report in September 2013):

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IA Ref.	IA Review Area	Status as at 19 December 2013	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
1470	Rabbsfarm Primary School	Final report issued 13 September 2013	Reasonable	0	5	3	0	N/A
1472	St Catherine RC Primary School	Final report issued 30 September 2013	Reasonable	0	7	5	0	N/A
1506	Treasury Management	Final report issued 10 October 2013	Substantial	0	0	0	0	Yes
1539	E-invoices	Final report issued 23 October 2013	Reasonable	1	3	2	0	Yes
1508	Arts Theatre Service	Final report issued 1 November 2013	Reasonable	0	3	1	0	Yes
1535	Warrender Primary School	Final report issued 13 November 2013	Reasonable	0	4	1	0	Yes
1534	Harefield Junior School	Final report issued 18 November 2013	Reasonable	2	1	1	0	Yes
1469	Highfield Primary School	Final report issued 25 November 2013	Reasonable	1	3	0	0	Yes
1533	Lady Bankes Junior School	Final report issued 27 November 2013	Reasonable	2	4	9	0	Yes
1496	Trading Standards	Final report issued 2 December 2013	Substantial	0	0	3	1	Yes
1537	West Drayton Primary School	Final report issued 9 December 2013	Limited	1	8	1	0	Yes
1536	Bishop Winnington-Ingram C of E Primary School	Final report issued 9 December 2013	Limited	1	6	1	0	Not yet due

APPENDIX A (cont'd)**2013/14 IA Assurance Reviews (carried out since the last IA Progress Report in September 2013):**

IA Ref.	IA Review Area	Status as at 19 December 2013	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
RSM1	ControCC (ICT system)	Final report issued 9 December 2013	Reasonable	0	5	3	0	Not yet due
1513	Childrens' Performance Licences	Final report issued 10 December 2013	Reasonable	1	5	2	1	Yes
1481	Recruitment Checks for Agency Staff	Final report issued 18 December 2013	Reasonable	0	1	1	0	Not yet due
1486	Bridges and Other Highway Structures	Final report issued 18 December 2013	Reasonable	0	4	1	0	Not yet due
1473	Building Control - Dangerous Structures	Final report issued 18 December 2013	Reasonable	1	5	2	0	Yes
1489	Access to Shared Drives	Draft report issued 2 December 2013						
1561	Employee Expenses	Draft report issued 18 December 2013						
1522	Looked After Children Placed Out of Borough	Draft report in progress						
1490	Events	Draft report in progress						
1551	Contracts and Inspection	Draft report in progress						
1559	Council Tax	Testing in progress						
1542	Sheltered and Extra Care Housing	Testing in progress						
1507	Housing Rents	Testing in progress						
1487	Children in Care Teams 1 & 2	Testing in progress						
1556	National Non-Domestic Rates (Business	Testing in progress						
1512	Pensions Administration – Employees' Contributions	Testing in progress						
1552	Corporate Health & Safety	Testing in progress						
1548	Cash Collection Services	Testing in progress						
1555	Housing Benefits	Testing in progress						
1558	Debtors	Testing in progress						
Total Number of IA Recommendations Raised in 2013/14 Q3				10	64	36	2	
Total % of IA Recommendations Raised in 2013/14 Q3				9	58	33	-	

APPENDIX A (cont'd)**2013/14 IA Consultancy Reviews (carried out since the last IA Progress Report in September 2013):**

IA Ref.	IA Review Area	Status as at 19 December 2013	CFQ Received?
1520	Troubled Families Programme	Final report issued 6 December 2013	Not yet due
1550	Boiler Maintenance and Replacement	Draft report issued 29 November 2013	-
1560	Declarations of Interest	Draft report in progress	-
1568	Establishment Funds and Invoicing	Draft report in progress	-

APPENDIX B**REVISIONS TO INTERNAL AUDIT PLAN****IA reviews to be undertaken in Quarter 4 (January to March 2014):**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
1572	Capital Accounting	Assurance	Corporate Director of Finance	Provide assurance on the main risks in relation to this key material financial system.
1573	Gifts, Hospitality & Sponsorship	Assurance	Chief Executive and Corporate Director of Administration	Corporate cross cutting piece of assurance work.
1574	Creditors	Assurance	Corporate Director of Finance	Provide assurance on the main risks in relation to this key material financial system.
tbc	Risk Management	Consultancy & Assurance	Corporate Director of Finance	<ul style="list-style-type: none"> Consultancy - Participation in the Corporate Risk Management Group, including consideration of the Corporate Risk Register updates. Assurance - Benchmark the Council's Risk Management arrangements to best practice.
tbc	Corporate Governance	Consultancy & Assurance	Chief Executive and Corporate Director of Administration	<ul style="list-style-type: none"> Consultancy - Participation in the Corporate Governance Group as part of the Annual Governance Process. Assurance – Benchmark the Council's Corporate Governance arrangements to best practice.
tbc	Software Licensing	Assurance	Deputy Chief Executive and Corporate Director Residents Services	A computer audit assurance review due to be carried out by our external IA contractor Baker Tilly (formerly RSM Tenon)
tbc	Desktop Refresh Programme	Assurance	Deputy Chief Executive and Corporate Director Residents Services	A computer audit assurance review due to be carried out by our external IA contractor Baker Tilly (formerly RSM Tenon)
tbc	Onyx upgrade	Assurance	Deputy Chief Executive and Corporate Director Residents Services	A computer audit assurance review due to be carried out by our external IA contractor Baker Tilly (formerly RSM Tenon)

APPENDIX B (cont'd)**IA reviews to be undertaken in Quarter 4 (January to March 2014):**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
1572	Public Health - Payments for Local Enhanced Services	Consultancy	Deputy Chief Executive and Corporate Director Residents Services	Active participation in Public Health Steering Group and consultancy advice in relation to Payments for Local Enhanced Services.
tbc	Schools Expansion Programme (Temporary /Permanent)	Consultancy	Deputy Chief Executive and Corporate Director Residents Services	Ad-hoc participation in the Corporate Construction Schools Expansion Project Group meetings.
tbc	Music Service	Consultancy	Deputy Chief Executive and Corporate Director Residents Services	Consultancy advice in relation to the Music Service as requested by the Head of Planning, Green Spaces & Culture.

APPENDIX B (cont'd)**IA reviews deferred from Quarter 4 2013/14 until 2014/15:**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
tbc	Hillingdon Schools	Assurance	Director, Children and Young People's Services	Rather than visit Hillingdon schools for individual audits on a cyclical basis, the plan is to in future carry out thematic cross-cutting assurance reviews of Hillingdon Schools based on risk. We also plan to work with Schools to help them introduce Control Risk Self Assessment (CRSA) where they take greater responsibility for identifying and managing their risks/ internal control environment.
tbc	Business Continuity and Emergency Planning	Assurance	Deputy Chief Executive and Corporate Director Residents Services	A corporate assurance review of the Council's business continuity and emergency planning arrangements. ToR drafted, but IA review deferred until April 2014 once corporate improvements in this area have been implemented.
tbc	Land Charges	Assurance	Deputy Chief Executive and Corporate Director Residents Services	The ToR of this IA review has been drafted, but at the request of management this audit was originally deferred from quarter three until quarter four. This was due to the Land Charges team having to prioritise a large number of claims and appeals that went back a number of years. It has subsequently been agreed with management to defer this assurance audit to early in 2014/15.
tbc	Property Maintenance	Assurance	Deputy Chief Executive and Corporate Director Residents Services	Agreed with the Deputy Director Asset Management to defer this review until April 2014.
tbc	Corporate Construction	Assurance	Deputy Chief Executive and Corporate Director Residents Services	Agreed with the Deputy Director Asset Management to defer this review until April 2014.

APPENDIX C**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

The IA assurance levels and definitions are:

Assurance Level	Definition
Substantial	There is a good level of assurance over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is positive assurance that objectives will be achieved.
Reasonable	There is a reasonable level of assurance over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains some risk that objectives will not be achieved.
Limited	There is a limited level of assurance over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
No	There is no assurance to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a high risk that objectives will not be achieved.

1. Control Environment: The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:





- establishing and monitoring the achievement of the authority's objectives;
- the facilitation of policy and decision-making;
- ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- the financial management of the authority and the reporting of financial management; and
- the performance management of the authority and the reporting of performance management.

2. Risk Appetite: The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.

3. Residual Risk: The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX D**INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

The risk ratings and definitions of IA recommendations are:

Risk	Definition
HIGH 	The recommendation relates to a significant threat or opportunity that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular it has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
MEDIUM 	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. The risk requires management attention.
LOW 	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.
NOTABLE PRACTICE 	The activity reflects current best management practice or is an innovative response to the management of risk within the Council. The practice should be shared with others.

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2014/15 TO 2016/17

Contact Officer: Nancy Leroux
Telephone: 01895 566074

SUMMARY

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

RECOMMENDATIONS

The contents of the report are reviewed.

INFORMATION

Treasury Management Strategy

- 1 The treasury management strategy is reviewed annually and attached is a draft of the strategy to be agreed by Council on 20 February 2014. Under delegated authority, the Corporate Director of Finance has the authority to take all executive decisions in relation to daily treasury management.
- 2 In developing the Treasury Management Strategy analysis of the latest market conditions is undertaken alongside a review of the Council's borrowing requirements, allowing experienced officers to develop a draft strategy for review. In considering the Council's investment opportunities, consideration is given to advice from Arlingclose, the Council's Treasury advisors, particularly in relation to where they advise against inclusion on the Council's Counterparty List. Less reliance is placed on their advice in relation to adding new counterparties to the list as the Council's strategy and the Corporate Director of Finance currently places stricter conditions than those imposed by Arlingclose.
- 3 At this stage, the draft borrowing strategy for 2014/15 will maintain the approach of utilising internal resources to fund the majority of capital expenditure. The current interest rate environment of low investment returns compared with borrowing costs, results in a cost of carry on borrowed funds awaiting deployment. Where internal resources are unable to meet the capital expenditure requirement a variety of options will be appraised, but in reality, the Public Works Loan Board remains the primary and most likely source.
- 4 The investment strategy has been developed with the intention to maintain a broadly risk averse approach, whilst being able to seek an optimum yield within the security and liquidity restrictions. The strategy has been simplified and Appendix D, which lists instruments and counterparties, now only contains those institutions and financial

instruments which the Council is planning to utilise. Those which theoretically could have been used, but which the Council has no intention of using, have been removed.

- 5 The main proposed changes to the strategy for 2014/15 are the inclusion of three new counterparties: Santander UK, Close Brothers and Leeds Building Society; and a reduction of the individual counterparty holding limit for 15% to 10% to reduce exposure to individual institutions.
- 6 Throughout the year the specific investment guidelines in relation to additions and removals to the counterparty list and to the time and value limits of investments are kept under continual review and changes are agreed by the Corporate Director of Finance under his delegated authority.
- 7 It should be noted that at this stage although a draft strategy for next year has been developed, the figures contained within it are not finalised as work will continue on refining the estimates of the balances and reserves position until the budget is completed in February. As a result many of the figures within the report are subject to change such as the CFR, prudential indicators and projected borrowing. This will be fully reviewed by Cabinet on 13 February 2014, prior to the Strategy being presented to Council for approval on 20 February 2014.

BACKGROUND DOCUMENTS

None

Treasury Management and Investment Strategy 2014/15 to 2016/17

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 2014 the Council's loan portfolio is expected to be £336.2m and the total value of investments are forecast to be £96.4m.
- 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 2014 is £415m, of which £176m is attributed to the General Fund (GF) with the remaining £239m within the Housing Revenue Account (HRA).
- 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 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.
- 1.6 The security of any investment remains the primary consideration in decision making and a cautious approach is always adopted. Officers regularly monitor all institutions on the counterparty list and an e cautious approach will be maintained in determining counterparties, maximum investment and length of investment.
- 1.7 The investment strategy has been simplified this year and only those institutions and financial instruments which the Council has the intention of using have been included. Additionally, consideration has been given to the implications of the Financial Services (Banking Reform) Bill, currently progressing through the House of Lords, particularly the 'bail-in' mechanism, which could into effect from early 2014, and which could increase the potential for partial loss of deposits in UK Banks, in the case of banks making losses. (This measure has been introduced to prevent the taxpayers having to bail out large banks in the future.) As a result, to further diversify risk the Council has reduced the individual counterparty holding limit from 15% to 10% and has increased its portfolio of counterparties to include Santander UK, Close Brothers and Leeds Building Society, all UK institutions recommended by Arlingclose. Similar legislation is being enacted across the EU which will impact on European banks.

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 2014/15
 - Annual Investment Strategy 2014/15
 - Prudential Indicators for 2014/15, 2015/16 and 2016/17
 - 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 2013/14 is expected to be 3.00%, however, rates on investments are also very low with an expected average rate of 0.48%. Rates are projected to be similar for 2014/15.

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. The increasing General Fund CFR is due to the Council's programme of capital investment, particularly the schools capital programme, while the reducing HRA CFR is as a result of repayment of debt transferred from central government.

Table 1

Table 1	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
General Fund CFR	176.0	210.2	247.2	304.9
HRA CFR ¹	239.0	231.7	224.4	217.1
Total CFR	415.0	441.9	471.6	522.0
Existing Profile of Borrowing and Other Long Term Liabilities ²	(336.2)	(326.9)	(314.7)	(307.4)
Cumulative Maximum External Borrowing Requirement	78.8	115.0	156.9	214.6
Usable Reserves ³	(56.0)	(56.0)	(51.0)	(51.0)
Cumulative Net Borrowing Requirement	22.8	59.0	105.9	163.6

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 £11m, £13m and £14m 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 2014 (gross borrowing plus other long term liabilities) will be £338.7m (Appendix A). This is currently considerably lower than both the Operational Boundary and Authorised Limit (explained below).
- 4.2. During 2013/14, £10.3m of borrowing was repaid through scheduled installments and maturities with £6.8m attributable to the GF and £3.5m to the HRA. In 2014/15

repayments of £9.3m will be made, with £3.8m assigned to the GF and £5.5m to the HRA.

- 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 1

Authorised Limit for External Debt	2013/14 Approved £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	515	552	548	539
Other Long term Liabilities	2	2	2	2
Authorised Limit	517	554	550	541

- 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 2

Operational Boundary for External Debt	2013/14 Approved £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	485	522	518	509
Other Long term Liabilities	2	2	2	2
Operational Boundary	487	524	520	511

- 4.5. The Corporate Director of Finance has delegated authority, within the above limits, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such decisions will be based on the outcome of financial option appraisals and best value considerations based on current market and macroeconomic conditions. Cabinet is notified of any use of this delegated authority through monthly budget monitoring reports.
- 4.6. The **Gross Debt compared to the Capital Financing Requirement** 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 £78.8m below the CFR as at March 2014.
- 4.7. The Corporate Director of Finance will report that the Council has had no difficulty meeting this requirement in 2013/14, 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. In 2013 the Council successfully renewed its ability to avail itself of the preferential PWLB “Certainty Rate”, which is a 0.2% reduction against normal PWLB lending rates. Although a mix of borrowing options will always be considered, the PWLB will remain the primary source of long-term and variable rate borrowing whilst rates remain closely linked to government gilts.
- 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 2014/15. 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 will again be the most cost effective means of financing capital expenditure.
- 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 £49m (of which £40m is HRA) at a rate of 0.65%.
- 4.13. The Council has £48m of LOBO loans (Lender’s Option Borrower’s Option) of which £11m will be in their call period in 2014/15. 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. The Council does not intend to utilise LOBOs as an instrument for new borrowing in 2014/15.
- 4.14. In 2014/15 there is a difference of £56m 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 to identify opportunities for rescheduling. 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.

4.16. Transfers of debt between the GF and HRA will be undertaken at a zero premium. The debt specified for transfer will be based on a "last in, first out" basis and matched to optimise maturity profiles and financing costs.

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 3

Upper Limits for Interest Rate Exposure	Estimated Level (or benchmark level at 31/03/14 %)	2013/14 Approved %	2014/15 Estimate %	2015/16 Estimate %	2016/17 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. The 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 4

Maturity structure of fixed rate borrowing	PWLB Estimated level at 31/03/14 %	Market LOBO 1st call option at 31/03/14 %	Lower Limit for 2014/15 %	Upper Limit for 2014/15 %
under 12 months	2.71	3.83	0	25
12 months and within 24 months	3.75	4.53	0	25
24 months and within 5 years	7.50	6.61	0	50
5 years and within 10 years	21.74	1.74	0	100
10 years and within 20 years	18.80	0.00	0	100
20 years and within 30 years	20.57	0.00	0	100
30 years and within 40 years	8.22	0.00	0	100
40 years and within 50 years	0.00	0.00	0	100
50 years and above	0.00	0.00	0	100
Total	83.29	16.71	0	100

5. Annual Investment Strategy

- 5.1. In accordance with Investment Guidance from DCLG and best practice, the Council's primary objectives 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', defined in Appendix D, and based on the criteria set out by the DCLG. Appendix D contains a list of the financial instruments and institutions which the Council may use within its investment strategy. The Corporate Director of Finance under delegated powers will, on a daily operational basis determine the most appropriate form of investments in keeping with investment objectives, income and risk management requirements, with reference to the Prudential Indicators and from the list detailed in Appendix D. Decisions concerning the core strategic investment portfolio will be reported monthly to Cabinet.
- 5.3. In developing the investment strategy, note is taken of current economic conditions. Growth within the UK economy is forecast to remain on a positive track through 2014/15. Other indicators including unemployment and inflation are also encouraging and are expected to contribute positively towards a stronger economy. On the regulatory front, the Financial Services (Banking Reform) Bill will introduce a "bail in" mechanism, which could mean that local authorities and other large depositors (wholesale depositors) could be exposed to losses, increasing the counterparty risk. In addition there are EU proposals under which all money market funds may move to variable net asset value and lose their AAA credit rating wrapper. However, this has not yet been agreed and will be closely monitored.
- 5.4. Following a review of investment counterparties and to reduce the concentration of risk, Santander UK, Close Brothers and Leeds Building Society have been added to

the list eligible counterparties. In addition, to ensure a further spread of credit risk, individual counterparty limits have been reduced from 15% to 10%.

- 5.5. Money Market Funds remain an important vehicle for instant access deposits. The criteria of constant net asset value and AAA rating have been removed in order they may still be utilised should EU proposals be introduced. In making these changes the primary objectives of security and liquidity will prevail and credit risk assessment techniques will operate.
- 5.6. Instruments and counterparties which will not be used have been removed from the counterparty list and these include overseas and multilateral development banks, corporate bonds (excluding listed UK Banks) and commercial paper.
- 5.7. The Council's estimated level of investments at 31 March 2014 is projected to be £96.4m (Appendix A).
- 5.8. 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.
- 5.9. Investment returns attributable to the HRA will be credited to the HRA and calculated in accordance to the CLG's Item 8 determination.
- 5.10. **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.

Where a credit rating agency announces that an A- rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criterion, then only investments that can be withdrawn on the next working day will be made with that organisation until the

outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

- 5.11. The UK Bank Rate has been at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2014/15. 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.
- 5.12. With short term interest rates forecast to be low for even longer, the 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. This will typically be achieved through deposits with local authority entities for durations in excess of one year
- 5.13. 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. The maximum investment level with each counterparty will be set to ensure prudent diversification is achieved and this is reviewed regularly.
- 5.14. 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.
- 5.15. **Liquidity Management:** The Council uses cash flow modelling techniques to determine the maximum term for which funds may be prudently committed. Liability matching in conjunction with the use of instant access accounts ensures funds are available when required. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.
- 5.16. **Investments which constitute capital expenditure:** Investments meeting the definition of capital expenditure can be financed from capital or revenue resources. They are also subject to the CLG's Guidance on "non-specified investments". 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.
- 5.17. **The use of financial instruments for the management of risk:** The general power of competence in section 1 of the Localism Act 2011 removes much of the uncertainty over the use of standalone financial derivatives. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks to which the Council is exposed. Additional risks presented, such as credit exposure to derivative

counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

5.18. 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.

5.19. The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. However, the under Council's strategy only investments placed with other local authorities, where risk is minimised, would be placed for over 1 year and there is an upper limit of 2 years.

Table 5

Upper Limit for total principal sums invested over 364 days	2013/14 Approved £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
	64	80	47	0

5.20. 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. 2014/15 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 2014/15: Option 1 and 2 will be used for the majority of GF historic debt. 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. 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 January. 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. 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. Council Members receive information regarding treasury management as part of their general finance training. Access to additional training is provided where required.
- 11.2. **Investment Consultants:** The Council has a contract in place with Arlingclose Ltd to provide treasury advisory services, which details the agreed schedule of services. Performance is measured against the schedule to ensure the services being provided are in line with the agreement.

EXISTING PORTFOLIO PROJECTION

Table 6

	Estimated Portfolio as at 31/03/14 £m
External Borrowing:	
Fixed Rate – PWLB	239.2
Fixed Rate – Market	37.0
Variable Rate – PWLB	49.0
Variable Rate – Market	11.0
Total External Borrowing	336.2
Other Long Term Liabilities:	
PFI	2.2
Finance Leases	0.3
Total Gross External Debt	338.7
Investments:	
Short-term & Instant Access	96.4
Long-term Investments	0.00
Total Investments	96.4

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 7

Capital Expenditure	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
General Fund	91.6	87.3	114.9	93.3	122.3
HRA	26.0	0.0	23.1	24.0	24.7
Total	117.6	87.3	138.0	117.3	146.9

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

Table 8

Capital Financing	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Capital Receipts	10.0	11.4	13.4	10.9	3.0
Government Grants	35.8	50.4	49.8	36.1	54.3
Major Repairs Allowance	8.3	0.0	9.0	9.0	9.0
Revenue Contributions	3.5	7.4	27.0	19.6	18.2
Total Financing	57.6	69.2	99.2	75.6	84.5
Prudential Borrowing	60.0	18.1	38.8	41.7	62.4
Total Funding	60.0	18.1	38.8	41.7	62.4
Total	117.6	87.3	138.0	117.3	146.9

- 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 9

Actual External Debt as at 31/03/2014	£m
Borrowing	336.2
Other Long term Liabilities	2.5
Total	338.7

- 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 £64m to finance future capital.

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. Council Tax will remain frozen for 2014/15 and 2015/16, with an element of continuing efficiency savings being reinvested in capital investment to maintain and expand existing services to Residents.

Table 10

Incremental Impact of Capital Investment Decisions	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Increase in Band D Council Tax	£6.70	£14.91	£14.61
Increase in Average Weekly Housing Rents	£0.41	£0.17	£0.08

- vii. 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 11

Ratio of Financing Costs to Net Revenue Stream	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	4.24	4.57	5.42	6.26
HRA	23.93	23.99	23.39	22.78
Weighted Average	8.76	8.99	9.68	10.31

Arlingclose's Economic and Interest Rate Forecast

Table 12

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose 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
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.80
Arlingclose Central Case	0.45	0.45	0.50	0.55	0.55	0.55	0.55	0.60	0.65	0.70	0.80	0.80	0.80
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.30	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55
1-yr LIBID rate													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	0.90	0.95	0.95	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.40	1.40
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	1.45	1.50	1.55	1.60	1.65	1.70	1.75	1.85	1.95	2.10	2.30	2.50	2.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
10-yr gilt yield													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	3.00	3.10	3.30	3.50	3.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
20-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.65	3.75	3.85	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.95	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

Underlying assumptions:

- Growth continues to strengthen with the initial estimate for Q3 growth coming in at 0.8%. The service sector remains the main driver of growth, boosted by a significant contribution from construction.
- The unemployment rate remained at 7.7%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.
- The CPI for September remained at 2.7%. Regulated and administered prices are likely to keep CPI above target in the near term. In the medium term inflation is expected to come back towards the target 2%.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%. It currently forecasts this level to emerge in Q2/2016, but this will be updated in the November Inflation Report.
- House price inflation is likely to rise due to the government's Help to buy scheme, where it will guarantee up to 15% of purchasers' 95% mortgages. This could lead to a housing bubble, which in turn could come under pressure if rates were to rise quickly.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Recent weaker data from the US suggests that the recovery is slowing, therefore tapering looks more likely in Q1 2014.

- The US political deadlock over spending cuts and the debt ceiling is likely to reoccur in Q1 2014. The partial closedown on government in is estimated to have cost the US economy over \$24bn.
- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.
- China data has seen an improvement, easing markets fears.
- On-going regulatory reform and a focus on bail-in debt restructuring is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.
- Geopolitical tensions make for a less than conducive backdrop while global economies remain fragile, especially the emerging economies.

Forecast:

- Our projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, upside risks now weight more heavily at the end of our forecast horizon.
- We continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US. Yields are slowly drifting lower now that tapering is less likely to occur in the near-term.

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 all Non Specified investments will satisfy the Council’s “high credit quality” criterion except money market funds where a weighted average of the underlying assets will be applied.

The Council defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK.

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 UK banks and building societies
- Certificates of deposit and Bonds with UK banks and building societies
- Gilts: (bonds issued by the UK government)
- Treasury Bills (T-Bills)
- Local Authority Bonds
- Money Market Funds

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). The Council will aim to have a weighted average credit score of A for the whole portfolio of investments.

Specified investments will be made within the following limits:

Table 13

Instrument	Counterparty	Maximum Counterparty Limits %/£m
Term Deposits	DMADF, DMO	No limit
Term Deposits	Other UK Local Authorities	£35m per Local Authority / No total limit
Term Deposits/Call Accounts/CD's/Bonds	UK Banks and Building Societies <ul style="list-style-type: none"> - Lloyds Banking Group (Including Bank of Scotland) - Barclays Bank Plc - Close Brothers - HSBC Bank Plc - Leeds Building Society - Nationwide Building Society - RBS Group (Royal Bank of Scotland and NatWest) - Santander UK - Standard Chartered Bank 	10% / £20m (except Leeds Building Society £1m)
Gilts	DMO	No limit
Treasury Bills	DMO	No limit
Local Authority Bills	Other UK Local Authorities	No limit
Money Market Funds	Money Market Funds	10%/£7.5m per fund. Maximum MMF exposure 75%

Note: The above list and limits would change/be amended on notification of any potential 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 14

	Maximum maturity	Max % of portfolio
<ul style="list-style-type: none"> ▪ Deposits and Bonds with other UK Local Authorities ▪ CDs and Bonds with UK banks and building societies ▪ Money Market Funds ▪ Gilts 	2 Years	40 In Aggregate

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 except money market funds where a weighted average of the underlying assets will be applied. A maximum exposure limit of 40% has been set for Non Specified investments.

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 2013.

RECOMMENDATIONS

The Committee is asked to note the report.

INFORMATION

The attached report addressed to the Audit Committee on 2013 Grant Certifications has been completed by the Council's external auditors Deloitte to communicate the key issues arising from their 2012/13 grant certification work.

Deloitte were responsible for certifying 4 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, an adjustments were made to 1 return prior to certification and a qualification letter was issued in respect of 1 grant claim. The reason for the qualification was as follows:

- Housing and council tax benefit scheme (BEN01) – initial testing of 80 cases identified errors on 8 cases. As a result further testing was carried out including cases with a past history of error. The subsidy claim was not amended for these errors.

The total fees charged for the grant certification work for 2012/13 was £90,200 compared to £115,399 for 2011/12. However, on a like for like basis, taking out the cost of the grant claims that dropped out in 2012/13, there was spend of £92,320 in 2011/12. The like for like fall in value was therefore £2,120, however the cost of the BEN01 grant claim rose by £13,620 and the other claims fell by £15,740.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

Audit Committee 7 January 2014
PART I – MEMBERS, PUBLIC & PRESS

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London Borough of Hillingdon

Report to the Audit Committee
on the year ended 31 March 2013
Certification work

Final Report

Contents

1.	Executive summary	1
2.	Introduction	2
3.	Results of our claims and returns certification work	3
4.	Certification information	5
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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 2013. 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 4 claims and returns required under our contract with the Audit Commission (see Section 4 for details) for the year ended 31 March 2013. All claims and returns we reported on were certified by the original required deadline.
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Results of our claims and returns certification work	<p>As a result of errors identified through the performance of our procedures, 1 of the 4 claims/returns was qualified 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. We have included additional comments below the table where we issued qualification letters on the claims/returns in 2012/13:</p> <table border="1"> <thead> <tr> <th>Claims/returns</th> <th>Value of claim £</th> <th>Number of cells affected</th> <th>Financial impact Increase/ (Decrease) £</th> <th>Qualified in 2011/12</th> <th>Qualified in 2012/13</th> </tr> </thead> <tbody> <tr> <td>Teachers' Pension Return ("PEN05")</td> <td>11,778,576</td> <td>1</td> <td>418</td> <td>NO</td> <td>NO</td> </tr> <tr> <td>National Non Domestic Rates ("NNDR")</td> <td>322,197,588</td> <td>-</td> <td>-</td> <td>NO</td> <td>NO</td> </tr> <tr> <td>Housing and Council Tax Benefit Subsidy ("BEN01")</td> <td>169,192,583</td> <td>9</td> <td>See below</td> <td>YES</td> <td>YES</td> </tr> <tr> <td>Pooling of Housing Capital Receipts ("CFB06")</td> <td>6,614,756</td> <td>-</td> <td>-</td> <td>NO</td> <td>NO</td> </tr> </tbody> </table> <p>Summary of qualification letters</p> <p>1. Housing and Council Tax Benefit Subsidy ("BEN01")</p> <p>Our initial sample testing of 80 cases identified errors on 8 cases. Additional testing of 200 cases relating to these errors identified no further errors. In line with Audit Commission methodology, we have also performed testing of 326 cases in areas with a past history of error. This testing identified 10 errors. The subsidy claim was not amended for these errors.</p> <p>We included details of all errors in our qualification letter to the DWP. See Section 3 for more details.</p>	Claims/returns	Value of claim £	Number of cells affected	Financial impact Increase/ (Decrease) £	Qualified in 2011/12	Qualified in 2012/13	Teachers' Pension Return ("PEN05")	11,778,576	1	418	NO	NO	National Non Domestic Rates ("NNDR")	322,197,588	-	-	NO	NO	Housing and Council Tax Benefit Subsidy ("BEN01")	169,192,583	9	See below	YES	YES	Pooling of Housing Capital Receipts ("CFB06")	6,614,756	-	-	NO	NO
Claims/returns	Value of claim £	Number of cells affected	Financial impact Increase/ (Decrease) £	Qualified in 2011/12	Qualified in 2012/13																										
Teachers' Pension Return ("PEN05")	11,778,576	1	418	NO	NO																										
National Non Domestic Rates ("NNDR")	322,197,588	-	-	NO	NO																										
Housing and Council Tax Benefit Subsidy ("BEN01")	169,192,583	9	See below	YES	YES																										
Pooling of Housing Capital Receipts ("CFB06")	6,614,756	-	-	NO	NO																										

Fees	<p>Total fees charged in respect of the work performed on the 4 claims and returns (2012: 6) certified by Deloitte were £90,200 (2012: £115,399).</p> <p>Section 4 of this report sets out the fees charged on each of the 4 claims and returns we certified.</p>
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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 2012/13 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 claim/return without adjustment or a qualification letter:

- National Non Domestic Rates (“NDR”).
- Pooling of Housing Capital Receipts (“CFB06”).

Claims and returns certified with adjustment and without a qualification letter

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

PEN05 – Teachers’ Pension Return	
Adjustment details	<p>The total contributory salary from the local authority’s payroll and external payroll providers is £53,645,744. The total contribution paid from this was £11,778,576.</p> <p>It was noted that contributions are repaid to teachers or employers where it was found that deductions from the teacher’s salary or employer contributions remitted to TP in the prior year were overstated. A small error (£418) was noted in relation to this type of refunds. The Authority has adjusted the form with the correct treatment of the refunds balance.</p>
Deloitte response	<p>We have consulted with Teachers Pensions, who advised that the refunds line should solely reflect refunds in relation to the prior year. We have also discussed the adjustment with the Authority who agreed with our assessment. The return was amended by the Authority.</p>

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

Claims and returns certified without adjustment and with a qualification letter

The Housing and council tax benefit subsidy ("BEN01") was certified with a qualification letter.

BEN01 – Housing and council tax benefit subsidy	
Qualification details	<p>In 2012/13 we identified errors on 8 cases (2011/12: 10 cases) in our initial testing of 80 cases. One of these errors was assessed to always result in underpaid benefit; therefore no further testing was performed in relation to this type of error.</p> <p>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 7 error cases) no additional issues were identified. All these error types were reported within our 2012/13 qualification letter.</p> <p>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 4 extrapolation tables in 2011/12.</p> <p>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 this testing identified 10 further errors. We were required to include in our qualification letter 2 extrapolation calculations for these errors (all were overpaid or overstated errors where we did not test 100% of the population).</p> <p>In 2012/13 Internal Audit has again 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).</p> <p>The Authority has not updated the 2012/13 claim form for any of the errors we identified and we have included all error types within our qualification letter.</p> <p>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.</p>
Deloitte response	<p>Given the number of transactions and the volume of manual processing required for the benefit calculation, we understand that it is not unusual for the BEN01 subsidy claim to be qualified. Our experience with this on other Local Authorities indicates that the types of errors we have identified are similar to those identified at other Local Authorities.</p> <p>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.</p>

4. Certification information

Our certification work on Authority's claims and returns for the year ended 31 March 2013 is now complete and the table below summarises the results of this work and our billings by claims and returns.

From 2012/13 onwards, the Audit Commission has replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work. This is based on 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. This accounts for the variation in fees noted below on a year on year basis. These savings are 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-imburement 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.

Certification instruction	Within Audit Commission framework	Claim/ return	2013 value of claim (£)	2013 results of audit work	2013 audit fee (£)	2012 audit fee (£)
PEN05	Yes	Teachers' pension return	11,778,576	Satisfactory	6,271	12,289
NNDR	Yes	National non-domestic rate return	322,197,588	Satisfactory	6,271	10,606
BEN01	Yes	Housing and council tax benefits subsidy	169,192,583	Qualified	75,396	61,776
CFB06	Yes	Pooling of Housing Capital Receipts	6,614,756	Satisfactory	2,262	7,649
No longer requiring certification in 2012/13*						23,079
TOTAL					90,200	115,399

* There were no requirements to certify HRA Subsidy ("HOU1") and Black Cultural Archives ("RG31") for year ended 31 March 2013.

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

18 December 2013

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Independent Chairman of the Audit Committee

Reporting Officer: Lloyd White, Head of Democratic Services

SUMMARY

This report seeks approval to the process to appoint a new Independent Chairman of the Audit Committee for the next 2014/15 Municipal Year. The position currently attracts a Special Responsibility Allowance of £2,845.07 p.a.

RECOMMENDATIONS: That

- a. **the resignation of the present Independent Chairman of the Audit Committee be noted and a vote of thanks be given for his excellent service to the Council;**
- b. **the Head of Democratic Services be instructed to co-ordinate the process to advertise and appoint a new Independent Member / Chairman of the Audit Committee as detailed below;**

INFORMATION

1. Notification has been received that the current independent Chairman of the Committee will be resigning from his position with effect from the end of the current Municipal Year. Accordingly Members' views are sought concerning the process to advertise and appoint a new Independent Chairman.
2. The Draft Local Audit Bill which is progressing through Parliament and which is based on the consultation paper "The Future of Local Audit", recommends the Chairman of an Audit Committee should be independent of the local public body.
3. Also included in the consultation paper was guidance to be followed when choosing an Independent Member of an Audit Committee, that such a person should only be considered for the position if he or she;
 - Has not been a Member or an officer of the local authority / public body within five years before the date of the appointment
 - Is not a Member or an officer of that or any other relevant authority
 - Is not a relative or a close friend of a Member or an officer of the body / authority
 - Has applied for the appointment
 - Has been approved by a majority of the Members of the council
 - Has responded to an advert for the position which has been advertised in at least one newspaper distributed in the local area and in other similar publications or on websites that the body / local authority considered appropriate

4. Following the guidance above the proposed process would be as follows:
- The position would be advertised, as suggested, within a local newspaper, on the Council website and in Hillingdon People, inviting suitably qualified persons to submit an 'expression of Interest' of no more than 300 words in length to the Head of Democratic Services
 - The deadline for submissions would be the end of February 2014.
 - An Interview Panel will be set up to shortlist (if necessary) and interview prospective candidates with a view to submitting a recommendation to the Annual Council meeting on 5 June 2014. Details of the composition of the Panel will be submitted to the next meeting of the Committee.

Financial Implications

The cost of this appointment is contained within the Council's draft budget for 2014/15 as part of Members' allowances.

Legal Implications

The legal implications are detailed in the body of the report.

BACKGROUND DOCUMENTS:

None.

Agenda Item 10

WORK PROGRAMME 2013/14

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
25 June 2013	CR 4A
26 September 2013	CR 4
7 January 2014	CR 4
11 March 2014	CR 3A

AUDIT COMMITTEE

2013/14 DRAFT Work Programme

25 June 2013	Corporate Fraud Team Work Plan	Head of Internal Audit
	Consolidated Fraud Report	Head of Internal Audit
	Review of the Internal Audit Terms of Reference	Head of Internal Audit
	Annual Review on the Effectiveness of Internal Audit	Head of Internal Audit
	Draft Annual Governance Statement	Chief Executive and Corporate Director of Central Services / Head of Policy
	Head of Internal Audit Annual Assurance Statement	Head of Internal Audit
	Internal Audit Progress Report	Head of Internal Audit
	Audit Committee Annual Report to Council	Head of Internal Audit
	New Terms of Reference of the Audit Committee	Democratic Services Manager
	Audit Committee Work Programme	Democratic Services Manager

Meeting Date	Item	Officer/member
26 September 2013	Approval of the 2012/13 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2013	Director of Finance/Deloitte
	Deloitte Annual Audit Letter	Director of Finance/Deloitte
	External Audit Report to the Audit Committee on the 2012/13 audit of the Pension Fund Financial Statements	Director of Finance/Deloitte
	Category Management approach to Contract Management	Head of Procurement
	Internal Audit Progress Report and plan amendments	Head of Internal Audit
	Risk Management Quarter 1 Report – PART II	Head of Policy

Audit Committee 7 January 2014
PART I – MEMBERS, PUBLIC & PRESS

	Audit Committee Work Programme	Democratic Services Manager
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7 January 2014	* Private Meeting with Head of Internal Audit to take place before the meeting	
	Internal Audit Progress Report and plan amendments	Head of Internal Audit
	Treasury Management Strategy and Investment Strategy 2014/15	Director of Finance
	Corporate Fraud Investigation Progress Report	Corporate Fraud Investigation Manager
	Deloitte Annual Grant Audit Letter	Director of Finance/Deloitte
	Appointment of Independent Member / Chairman for next Municipal Year	Democratic Services Manager
	Audit Committee Work Programme	Democratic Services Manager

11 March 2014	* Private meeting with the Council's External Auditors to take place before the meeting	
	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
	Balances and Reserves Statement	Director of Finance
	Deloitte – 2013/14 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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