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Audit Committee

Date:	**TUESDAY, 11 MARCH 2014**
Time:	**5.00 PM**
Venue:	**COMMITTEE ROOM 3A - CIVIC CENTRE, HIGH STREET, UXBRIDGE UB8 1UW**
Meeting Details:	Members of the Public and Press are welcome to attend this meeting

Members on the Committee

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

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

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http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=256&MId=1682&Ver=4

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

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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 7 January 2014 **(Pages 1-6)**

4 Exclusion of the Press and Public

To confirm that all items marked Part I will be considered in public and that any items marked Part II will be considered in private.

5 Deloitte - 2013/14 Annual Audit Plan **(Pages 7-66)**

6 Revisions to the Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16 **(Pages 67-92)**

7 Balances and Reserves Statement 2014/15 **(Pages 93-102)**

8 Internal Audit - Draft Internal Audit Plan 2014/15 **(Pages 103-124)**

9 Internal Audit - Revised Internal Audit Charter **(Pages 125-130)**

10 Proposed 2014/15 Training and Development Plan for Audit Committee Members **(Pages 131-134)**

11 Annual Governance Statement - Interim Report **(Pages 135-136)**

12 Changing Legislation and Current Issues

PART II

13 Risk Management Report 2013/14 **(Pages 137-152)**

Minutes

Audit Committee
Tuesday 7 January 2014
Meeting held at Committee Room 3 - Civic Centre, High Street, Uxbridge UB8 1UW

	Independent Member: John Morley (Chairman). **Members Present:** Councillors George Cooper, Raymond Graham, Paul Harmsworth and Richard Lewis. **Officers Present:** Anthony Dean (Principal Internal Auditor), Sian Kunert (Chief Accountant), Muir Laurie (Head of Internal Audit), Steve Palmer (Deputy Director, Residents' Services), Nancy Le Roux (Deputy Director of Strategic Finance), Paul Whaymand (Director of Finance) and Khalid Ahmed (Democratic Services Manager). **Others Present:** Laura Gazey and Jonathan Gooding (Deloitte). The Chairman reported that Members had held a scheduled private meeting with the Head of Internal Audit prior to this meeting.	
25.	**DECLARATIONS OF INTEREST** Councillor George Cooper declared a Non-Pecuniary Interest In Agenda Item 6 – Internal Audit – Progress Report for 2013/14 Quarter 3 as his wife is a Governor of St Andrews School. He remained in the room and took part in discussions on the item.	
26.	**MINUTES OF THE MEETINGS HELD ON 26 SEPTEMBER 2013** Agreed as an accurate record.	
27.	**EXCLUSION OF THE PRESS AND PUBLIC** It was agreed that all the items on the Agenda be considered in public.	
28.	**CORPORATE FRAUD INVESTIGATION PROGRESS REPORT** The Deputy Director for Residents Services introduced the report and provided Members with details of the work undertaken by the Corporate Fraud Investigation Team from April to December 2013.	**Action By:**

		Action By:
	Reference was made to the Single Fraud Investigation Service Pilot scheme which had been recognised by the Department for Work and Pensions as being one of the best performing pilot schemes. Members were informed that the Government had made a decision in December 2013 that nationally this service would be transferred and managed by the Department for Work and Pensions. This decision would result in the Team in Hillingdon not being responsible for Benefit investigations, but now having the opportunity to diversify its operations to other areas of fraud detection and investigation across the Council. Members asked that a briefing note be prepared for a future meeting providing details of the work areas the Team would now be focusing on. Discussion took place on Council Tax / Business Rates / Compliance Inspections and reference was made to the 7,000 visits which had been carried out since April 2013. Members asked for details of how many visits had resulted in action being taken by the Council and how did this Council compare to neighbouring local authorities. Reference was made to Bed and Breakfast visits and investigations and the work which had been done to verify occupancies. The aim was to continue with this work and work alongside housing officers to ensure that accommodation was appropriately occupied. Members noted that from visits made so far, 14% of properties had been identified as not being occupied. It was also noted that may of the affected people in this area were vulnerable people. Members requested that the next Progress Report provide more information on this topic. **RESOLVED:** **1. That the information contained in the report be noted and officers be congratulated for their work.**	**Garry Coote** **Garry Coote** **Garry Coote**
29.	**INTERNAL AUDIT PROGRESS REPORT** The Head of Internal Audit provided Members with a summary of Internal Audit activity in the period during October to December 2013. Members were informed that reasonable progress had been made in reducing the slippage in the 2013/14 Internal Audit Plan. Reference was made to a range of lean auditing principles, which had included reducing the time taken to approve the Internal Audit terms of references and reports.	

	The Head of Internal Audit reported that some of the lower risk audits had been deferred to enable some higher risk areas to be included in the Plan. This would not jeopardise any of the operations of the Council. Reference was made to Appendix B of the report which provided the list of 2013/14 audits which were planned for completion in quarter four which would be deliverable by April 2014. Reference was made to the work carried out in relation to Treasury Management, where good controls were in place and risks were being well managed. Members noted that there had been no recommendations in this audit and a Substantial Assurance opinion had been issued. Members noted the reduction in the number of high risk outstanding recommendations which numbered 6, compared to last year's 86. This was both encouraging and an impressive performance by officers. Reference was made to the two limited assurance audits for this period which were for Bishop Winnington-Ingram C of E Primary School and West Drayton Primary School. The Head of Internal Audit informed Members that some progress had been made in terms of Bishop Winnington-Ingram C of E Primary School in relation to debt management and recovery, with positive action proposed to address the identified risks and controls. In relation to West Drayton Primary School, Members were informed that the high risk recommendation in relation to the unauthorised finance lease had been replicated by other schools. Guidance had been issued by the Council to schools reminding them of the rules around contractual arrangements for schools. Members expressed concern at this and asked whether any suggestions could be made to make improvement in this area, such as providing training on financial management to Governors of schools. The Committee was informed of the recent restructuring which had taken place within the Internal Audit Team which was primarily carried out to reduce the level of management within the Team and to increase front line Internal Audit resource. A new Principal Internal Audit and a Senior Internal Audit would be starting with the Team in February and March respectively. Members placed on record their appreciation and thanks to the work carried out by both Gill Crosbie and Jay Nandhra who had now left the Authority to pursue their careers elsewhere. Discussion took place on Internal Audit reviews which were to be undertaken in Quarter 4 – January to March 2014 and a	**Action By:**

	number of points were raised. The Chairman asked whether the Risk Management review would benefit from external audit involvement and the representative from Deloitte informed Members that consideration could be given to their assistance if required. Reference was made to the Corporate Governance review and the Chairman noted that Internal Audit was part of the Corporate Governance structure of the Council. The Head of Internal Audit stated that there would be no conflict of interest as Internal Audit was independent of the structure. The Deputy Director of Residents' Services provided Members with details of the Council's approach to "cyber security" and offered assurance that systems were in place to protect the Council from such risks. The Head of Internal Audit reported that as part of the Internal Audit Plan for 2014/15 a meeting would be taking place between Internal Audit and the Deputy Director to discuss this area. **RESOLVED-** **1. That the Internal Audit Progress report for 2013/14 Quarter 3 (October to December 2013) be noted.**	
30.	**TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2014/15 TO 2016/17** Members were reminded that the Annual Treasury Management Strategy was agreed by Council as part of the budget setting process in February. However, a draft of the strategy was brought before this Committee to enable greater scrutiny. The Director of Finance provided assurance to Members that the Council's borrowing strategy was reviewed monthly to ensure that the Council always looked ahead in relation to any likely changes in interest rates. Reference was made to the Internal Audit Assurance Review for Treasury Management which resulted in a substantial assurance level for the area. Officers were congratulated for this performance. **RESOLVED -** **1. That the contents of the Treasury Management Strategy Statement and Investment Strategy be noted.**	
31.	**DELOITTE – ANNUAL AUDIT LETTER**	

	Deloitte's Draft Annual Audit Letter provided a summary of the key findings on the grant work undertaken by Deloitte for the year ended 31 March 2013. Members were informed that Deloitte was 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 adjustment was made to 1 return prior to certification and a qualification letter was issued in respect of 1 grant claim. Members were provided with the reasons for the qualification which related to (BEN01) - Housing and Council Tax benefit scheme. **RESOLVED –** **1. That the report be noted.**	**Action By:**
32.	**INDEPENDENT CHAIRMAN OF THE AUDIT COMMITTEE** Members were provided with details of the process which would be adopted to appoint a new Independent Chairman of the Audit Committee for the next 2014/15 Municipal Year. The Committee placed on record their appreciation to John Morley for his seven years' service as Chairman of this Committee. **RESOLVED –** **1. That 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.** **2. That 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 in the report.**	**Khalid Ahmed**
23.	**WORK PROGRAMME 2013/14** The Work Programme was noted. The Head of Internal Audit would submit a report to the next meeting of this Committee on options for a training session for Audit Committee Members. The Committee agreed that the both the Internal Audit Progress Report and the Internal Audit Strategy be deferred from the March meeting until the meeting in June 2014 In addition Members asked that consideration be given to the inclusion of Audit training for new and existing Members of the	**Muir Laurie** **Muir Laurie** **Khalid Ahmed**

	Council, after the local elections.	
	The meeting which commenced at 5.00pm, closed at: 6.40pm **Next meeting: 11 March 2014 at 5.00pm**	

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

DELOITTE – 2013/14 ANNUAL AUDIT PLAN

Contact Officer: Nancy Leroux
Telephone: 01895 250353

SUMMARY

The attached document sets out the initial plans for the 2013/14 audit by Deloitte. The format of the plan follows that prescribed by the Audit Commission for external audit work. The plan sets out the approach to the audit and a broad timetable which should enable the whole process to be completed by early September. A separate audit plan has been produced for the pension fund audit, which is also attached.

RECOMMENDATIONS

The Committee is asked to note the report.

REASONS FOR OFFICER RECOMMENDATIONS

The Committee needs to be made aware of the plans for the audit of the 2013/14 accounts.

COMMENT ON THE CONTENT OF THE PLAN

Materiality: The expected level of materiality, calculated on the basis of gross expenditure for the full year, will be £10.3m. Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.515m.

Key Audit Risks: The plan highlights the significant audit risks as follows:

- Recognition of grant income
- Calculation of bad debt provision against sundry debtors
- Recording of capital spend
- Management override of key controls

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

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

COMMENT ON THE CONTENT OF THE PENSION FUND AUDIT PLAN

Materiality: Materiality is calculated on the basis of 1% of the net assets of the fund which for 2014 is £7.0m (2013 £7.5m). Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.35m (2013 £0.35m).

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

- Contributions
- Benefits
- Investments
- Management override of key controls

TIMETABLE

The main timetable remains unchanged with the deadline for draft accounts being 30 June and the audit opinion due by 30 September 2013.

FEES

The proposed fees for the 2013/14 audit are as follows:

	2013/14	**2012/13**
	£'000	**£'000**
Main Accounts	207.1	207.1
Pension Fund Accounts	21.0	21.0
Grant Claim Certification	57.6	90.2
Total Fees	**285.7**	**318.3**

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

Planning Report to the Audit Committee for year-ending 31 March 2014

27 February 2014

Contents

I am delighted to present this planning report for the 2013/14 audit of the London Borough of Hillingdon. This report sets out our audit approach and the more significant areas where we will focus our attention this year.

Heather Bygrave, Audit Partner

The big picture

The big picture

We have set out below an overview of the key developments at the Council and the more significant matters we have considered in developing this Audit Plan. We consider these matters as part of our audit risk assessment and this determines where we will focus our work. Details of the impact of these matters on our approach are set out in this Audit Plan.

Relevant developments

- At month nine the Council is forecasting a General Fund outturn net expenditure of £205.7m, which is £5.9m ahead of budget.
- The Council has a £17.1m savings plan, of which £13.8m (81%) is identified as 'banked' or on track for delivery.
- At month nine, General Fund capital expenditure was £53.0m, or 63% of the £84.0m forecast outturn. This represents a forecast underspend of £23.4m to the revised budget of £107.4m. The schools expansion programme represents the single biggest contributor to this underspend, which is largely due to contract awards being lower than originally budgeted for.
- There is an upgrade scheduled for Oracle financials. Whilst this is not expected to impact directly on our work in 2013/14, preparations are likely to be a draw on officers' time during the current year accounts and audit process. We will consider whether this may represent a risk for the 2014/15 year.
- The finance department has seen a new appointment in a key role in the preparation of the financial statements. We will work with Sian Kunert (Chief Accountant) and the rest of the finance team to ensure clear plans are in place for the audit.
- The Audit Commission has determined a reduction in the grants to be audited in the current year. A certification is no longer required for the NNDR grant.

Key developments in financial reporting requirements

- Changes to the Code requirements include the classification, recognition, measurement and disclosure of post-employment benefits.
- New guidance on the accounting entries required from the localisation of business rates.
- Clarification regarding the frequency of revaluations for properties. This amends previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date.
- Other smaller changes to presentation and disclosure matters in the financial statements.

General Fund net expenditure

£205.7m forecast

£211.6m Revised budget

General Fund reserves (£m)

£36.2m 2013/14 forecast

£30.3m 2012/13 actual

£15.0m minimum set

HRA net expenditure

£51.2m forecast

£57.3m Revised budget

General Fund Capital expenditure

£84.0m forecast

£107.4m Revised budget

Significant audit risks

- Recognition of grant income
- Calculation of the bad debt provision against sundry debts
- Recording of capital spend
- Management override of key controls, as presumed by auditing standards.

A reminder of our conclusions in 2012/13

Our audit opinion, significant estimates and audit adjustments

In September 2013, we issued the Council with an unmodified audit opinion on the financial statements. As a reminder, we have set our below our prior year consideration of your significant accounting estimates.

Description of the risk	Less prudent	← Acceptable Range →	More Prudent	PY Findings
Pension Liability		✓		A
Asset Revaluation		✓		G
Sundry Debt Provisioning		✓		G
Management override of controls		✓		G

G No unresolved issues   A Immaterial unadjusted items remaining   R Material unresolved matter

Prior year adjustments and recommendations

There was one uncorrected misstatement of £0.4m in the financial year to 31 March 2013 in relation to the carrying value of the pensions investment valuations. We would also like to remind you of the following unadjusted disclosure misstatement identified in the prior year with a view to addressing this at an early stage of the current year reporting process:

- External Audit Costs**:** In the note to the accounts, fees payable for the certification of grant claims and returns showed the fees for external audit on a cash basis. We noted that this should be disclosed on an accruals basis. The effect for the prior year was immaterial at £115k.

We also made control recommendations to Management in respect of:

- The checking of the accuracy of data sent to the actuary.
- Refresher training for all staff and for new joiners involved with journal posting to encourage journals to be posted correctly in the first instance and reduce the risks of miscoding.
- Increasing the level of documentation around asset valuations, and formalising the valuation process and engagement of specialist support where appropriate.
- Designing a capital monitoring system which is risk-focussed and highlights where projects are not progressing .
- Review of the CIPFA publication “Audit Committees: Practical guidance for local authorities”, with specific consideration of the guidance around right of access to individuals and effectiveness of the Audit Committee.
- Improving the monitoring of the National Fraud Initiative.
- Implementation of an e-mail archive and back-up solution to minimise risk of data loss.

Our audit quality promise

Our audit quality promise

Our new quality standard

The quality of our audit delivery is of great importance to us. In order to ensure we deliver an excellent service to you, we have developed our audit quality promise. Key aspects of this delivery are:

- how we communicate with you throughout the year;
- what insight we bring around the quality of your control environment, systems and audit risk areas; and
- how we ensure that our team is delivering the best quality audit at every level.

This section sets out our commitments to management, officers and members in these areas and we will actively seek feedback on how we have performed against them.

From discussions with you and the client satisfaction survey you recently completed, we know that you value an integrated audit approach which encompasses the main financial statements audit, the pensions audit and the grant certification. Our Audit Quality promise takes this into account. The changes we have made for this year include a combined management structure to provide an integrated approach, and the proposed introduction of more regular meetings to keep you up to date with our progress.

Our commitment to you

Communication

We believe that regular face to face communication is essential to delivering quality and insight through our audit. We have set out below our planned communications schedule for both the audit period and throughout the year.

Year round communication

We will hold bi-monthly meetings with Paul Whaymand and Nancy Le Roux and annual meetings with Fran Beasley and Cllr Ray Puddifoot. We will discuss with the newly appointed Audit Committee Chair the form of communication that they would like throughout the year.

In these meetings we will discuss the latest Council developments, and in-year performance. We will also provide any updates on our findings to date, and any relevant regulatory / technical updates.

These meetings will also include updates over pensions and grants where appropriate.

During the main audit period

During the audit period we will hold weekly progress updates with Sian Kunert and James Lake and fortnightly progress update meetings with Nancy Le Roux to discuss findings and any emerging issues on the financial statement and pensions audits.

We will hold a close meeting ahead of drafting our Audit Committee papers.

We will agree with the new Audit Committee Chairman the form of communication that they would like during the year and in the audit period.

During the period of the grants work we will hold fortnightly update calls with Nancy Le Roux and Muir Laurie to discuss any findings and update on progress.

Open feedback process

We will carry out debrief meetings with the Audit Committee Chair, and Paul Whaymand and Nancy Le Roux to discuss how we have delivered against the commitments on both sides, as set out in this document, and any other aspects of our delivery.

We will respond to this feedback with agreed actions and timescales.

We will also seek direct feedback through regular meetings during the year.

Responding to queries and requests

We will always endeavour to respond to queries and requests within 24 hours and to give definitive timescales for delivery or their resolution.

We will proactively set up meetings to discuss any technical accounting or regulatory developments, which could have a significant impact on the Council as soon as we become aware.

Bringing you insight

Audit Quality Promise

We have summarised below some of the ways we will provide the Council with insight during 2014

Sharing knowledge of sector developments, for example:

- We have attached at Appendix 5 a summary of our research into the state of local public services
- We have discussed the potential impact of the Better Care Fund with officers of the Council

Feedback comments from our VFM conclusion work

Share emerging issues with officers

Risk based journal analysis covering period end postings utilising our proprietary "Spotlight" software

- Early discussion of Code changes, their expected impact on the Council and proposed response
- Early review of draft financial statements

Working session with Chief Accountant to discuss audit requirements and Council provision of information to improve efficiency

Changes in your Statement of Accounts

Changes in your Statement of Accounts

Audit Reporting

New reporting requirements

We welcome this opportunity to set out for the Audit Committee a summary of the latest developments in financial reporting which will impact this year end.

Change in Code of Practice on Local Authority Accounting requirements	Impact on Hillingdon Council
• Post-employment benefits: changes have been made to Code requirements in respect of the classification, recognition, measurement and disclosure requirements introduced as a result of amendments to the relevant accounting standard.	• This is relevant to the Council and will require a number of changes to the calculation and presentation of entries.
• Accounting for business rates retention: the Code provides guidance on the accounting requirements arising from the localisation of business rates in England from 1 April 2013.	• This is relevant to the Council and will require a change in the form of accounting for the 2013/14 Statement of Accounts.
• Dedicated Schools Grant (DSG) – there is a change in the disclosures for DSG.	• Changes will be needed to the format of the note to bring into line with the latest guidance.
• Presentation of Financial Statements: the Code makes amendments to the format of the Comprehensive Income and Expenditure Statement. This is in respect of items that are potentially re-classifiable to Surplus or Deficit on the Provision of Services at a future time. Where authorities have these types of transactions, the items listed in Other Comprehensive Income and Expenditure must be grouped into those items that: a) will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and b) will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met.	• Where local authorities do not have such transactions, no change is needed to the format of the Comprehensive Income and Expenditure Statement. However CIPFA recommends in such circumstances that authorities clarify in their summary of significant accounting policies that, where this is the case, they do not have such transactions and have therefore not grouped the items in Other Comprehensive Income and Expenditure into amounts that may be re-classifiable and amounts that are not.

Changes in your Statement of Accounts (continued)

New reporting requirements

Change in Code of Practice on Local Authority Accounting requirements	Impact on Hillingdon Council
• Revaluation of properties - Clarification regarding the frequency of revaluations for Property, Plant and Equipment which amends previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date.	• This is relevant to the Council, and management should consider the current frequency with which they revalue their assets.
• The Carbon Reduction Commitment (CRC) Energy Efficiency scheme – The Code has been updated for changes in the scheme applicable to 2013/14. In particular, as 2013/14 is the end of the introductory phase, there is no option to carry forward allowances for use in respect of emissions in 2014/15 with any remaining unused allowances at the end of the introductory phase become invalid. Guidance on any allowances purchased prospectively for 2014/15 is pending.	• This is applicable to the Council and management should consider whether this has a material impact.
• Service Concession Arrangements (PFI and PPP Arrangements) – updates to ensure that provisions adequately reflect the grantor arrangements, particularly in relation to assets under construction and intangible assets.	• This is not relevant to the Council.

Scope of work and approach

This section sets out our planned scoping for the audit of the Council's financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

Scope of work and approach

We have six key areas of responsibility under the Audit Commission's Code of Audit Practice

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and the Audit Commission's Code of Audit Practice. The Council will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility.

Value for Money conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our conclusion is given in respect of two criteria:

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

In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.

Pensions Audit

Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds.

Based on guidance issued by the Audit commission, Auditors are asked to treat the Local Government Pension Scheme (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

We will also review reports from regulatory bodies and any related action plans developed by the Council.

Assurance report on the Whole of Government Accounts return

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

Grants

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by any Minister of the Crown or a Public Authority to a Local Authority.

The appointed auditor carries out work on individual claims and returns as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

Scope of work and approach (continued)

Independence

We confirm we are independent of the Council. We will reconfirm our independence and objectivity to the Audit Committee or the year ending 31 March 2014 in our final report to the Audit Committee. Appendix 1 sets out proposed fees for the year.

Approach to controls testing

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

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

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

Using the work of internal audit

Scoping of material account balances, classes of transactions and disclosures

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

Liaison with internal audit

We continue to rely on the work of the Internal Audit function to inform our risk assessment. The Auditing Standards Board has issued a revised version of ISA (UK and Ireland) 610 “Using the work of internal auditors”. This prohibits use of internal audit to provide direct assistance to the audit. Our current approach to the use of the work of Internal Audit has been designed to be compatible with the new requirements, and will not change the existing scope of Internal or External Audit’s work. However, this will prevent us from further increasing the extent of our use of Internal Audit’s work in future.

We have recently met with Muir Laurie to discuss internal audit work to date in the 2013/14 year and plans for the year ahead. We will arrange further meetings and review relevant internal audit reports prior to, and during, the main audit period.

Whole of Government Accounts

Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on The Council’s whole of government accounts return. We will review the return to check consistency with the audited statutory accounts.

Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

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

For the Council's 2013/14 financial statements, we have estimated materiality of £**10.3m** based on forecast income for the year. We will report to the Audit Committee on all unadjusted misstatements greater than **£515k** and other adjustments that are qualitatively material.

1. Recognition of grant income

We see this as an audit risk in view of the need for management judgement on recognition of grant income (capital and revenue), including determining whether the grant has conditions.

We have identified recognition of Grant Income as a significant risk due to:

- Grant income being recognised only once any conditions attached over grants have been met.
- Significant management judgement over determining if there are any conditions attached to a grant, and if conditions have been met.
- Complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

In the prior year grant income amounted to £416.6m, with plan for 2013/14 and capital grant and contributions income amounting to £22.6m.

There are three types of grant income which we have considered to be relevant to this risk: specific and non-specific revenue grants and capital grants. Below is a chart of the proportion of grant income split by type of grant.

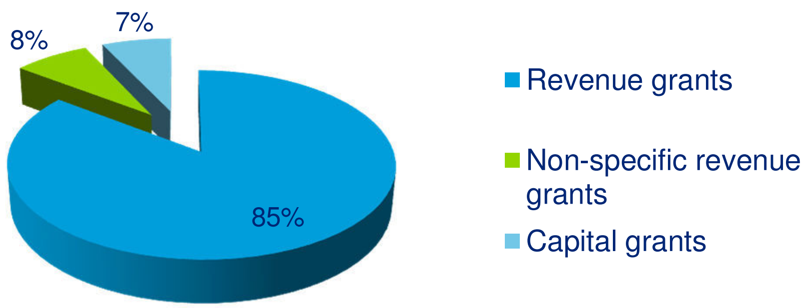
Grant Income (£m)

2012/13 **£416.6m**

Our approach

- We will carry out detailed testing of grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled.
- We will review correspondence attached to specific grants and compare to the Council's accounting treatment.
- We will test the design and implementation of controls around recognition of grant income.

Proportion of grant income split by type of grant



2. Calculation of bad debt provision against sundry debtors

The calculation of the bad debt provision against sundry debts is a significant audit risk in view of different judgements and assumptions used in calculating the provision for the various sub-categories of debt.

	Sundry Debt (£m)	Provision (£m)
2012/13	**£21.4m**	**£11.1m**

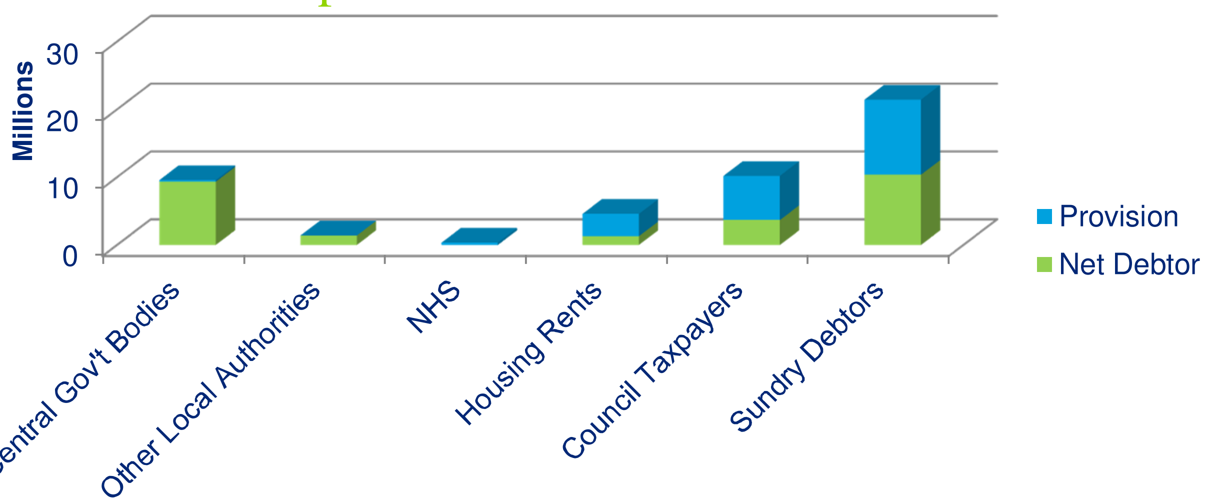
We have identified the calculation of the bad debt provision against sundry debts as a significant risk due to:

- Different methodologies for calculating the level of provision required against the different sub-categories of debt. The total sundry debt balance was £21.4m gross of provisions at 31 March 2013.
- Significant management judgement around the level of provision which should be based on sound assumptions and methodology. The provision against sundry debts totalled £11.1m at 31 March 2013.

Our approach

- We will challenge management's methodologies and assumptions used to calculate the sundry debt provision and the evidence to support the approach.
- We will consider whether provisions appropriately reflect the impact of the changing economic conditions and welfare reforms by reference to recent collection performance and trends.
- Two types of debt (housing and social services) attract significant provisions, as the Council considers these debts to have a higher risk of recovery. We will therefore test the reasonableness of these two types of debt provision held in the prior and current year.

Gross debtor as at 31 March 2013 split by the amount provided and the net remainder



3. Recording of capital spend

The Council is forecasting a significant amount of capital spend in 2013/14. Judgements are required in the classification of expenditure

	Actual (£m)	Forecast (£m)	Plan (£m)
2013/14 Actual*/Plan	**£53.0m**	**£84.0m**	**£107.4m**
2012/13 Actual	**£49.0m**		

*** Balance as at 31 December 2013**

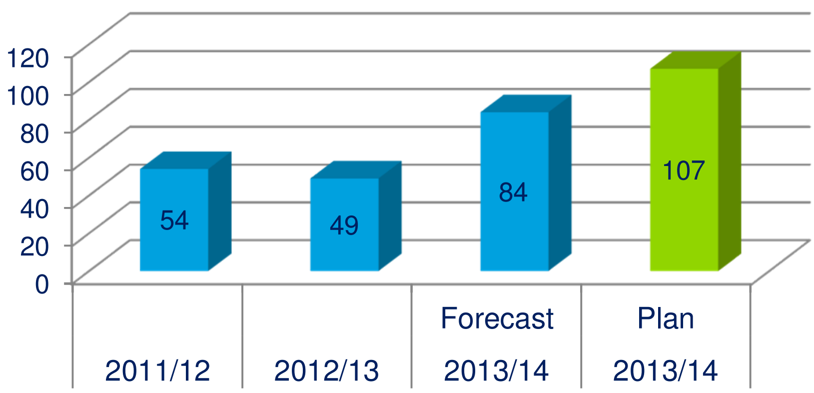
We have identified the recording of capital spend as a significant risk due to:

- A forecast of significant capital spend in 2013/14 by the Council compared with previous years.
- There being a significant management judgement over classification of expenditure on whether it is capital or revenue in nature.

Our approach

- We will perform detailed testing on the expenditure coded as capital additions in the year to confirm whether the expenditure has been coded correctly.
- Where the addition replaces another asset, we will test that the other asset has been appropriately disposed of.
- We will also perform detailed testing on repairs and maintenance accounts to identify any capital expenditure that has been incorrectly treated as revenue.

Detail of capital spend from 2011/12 to 2013/14



4. Management override of controls

In accordance with International Standards on Auditing (ISA 240), we presume that there is a risk of fraud as a result of Management override of controls.

Our approach

- We will consider those significant accounting estimates, which may be subject to Management bias, as set out in the other risks described in this section.
- We will also perform focussed work on the testing of journals, using data analytics to focus our testing on higher risk journals; significant accounting estimates, and any unusual transactions, including those with related parties.
- We will use enhanced data analytics to provide support through our new integrated system, Spotlight.

Spotlight

Spotlight is Deloitte's centralised analytics platform that provides access to pre-built analytics on a growing range of risks and account balances. It allows us to build and configure analytics in a risk-focused and user-friendly way.

Spotlight can be used for financial and analytical review (identifying trends), fraudulent financial reporting through identification of high risk journals, Fixed assets (assessment of additions and recalculating depreciation) accounts payable (assessment of year end payables balance).

We will use Spotlight to give us insight into your annual financials. We will also use Spotlight to identify high risk journals for our testing the specific identified risk of Management override of controls.

Spotlight will help us to deliver audits in faster, better way.

Value for money conclusion

Value for money conclusion

Our work will focus on the extent to which the Council has proper arrangements in place to secure value for money

Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the London Borough of Hillingdon has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as “the VFM conclusion”.

Specified criteria for auditors’ VFM conclusion	Focus of the criteria for 2014
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Preliminary assessment

Our preliminary assessment is that there are no significant risks in relation to our VFM responsibilities which requires local work to be carried out and we have therefore not identified any risks in our audit plan. This preliminary view is based on the undertaking of a risk assessment, which involves consideration of common risk factors for local authorities identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion on the Hillingdon Council.

We have undertaken this preliminary work through review of relevant documentation, including cabinet and committee papers, and discussion with officers as necessary. We will update our detailed risk assessment from April to take account of the outturn financial and performance information for 2013/14, and through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities.

Grants

Grants

Our work will focus on the audit over the grants in scope as per our contract with the Audit Commission

Scope

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 and returns 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 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 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.

Non-certification of NNDR3 claim for 2013/14

From 2013/14 the NNDR3 grant claim is no longer subject to external certification. In previous years we have placed reliance on the certification of this claim which has reduced the quantum of testing required on non-domestic rates in the main audit. The absence of the NNDR3 audit will therefore have the effect of increasing the volume of work required around domestic rates to support our main audit opinion. We understand the Audit Commission are considering if a fee adjustment should be made for this.

Grants included in the Audit Commission contract for the year ended 31 March 2014	Deadline for submission
Pooling of Housing Capital Receipts (CFB06)	26th September 2014
Housing benefits subsidy claim (BEN01)	28th November 2014
Teachers pension return (PEN05)	28th November 2014

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. We enhance this reporting with observations arising from our audit work and our Insight Plan performed to date which are designed to help the Board discharge its governance duties. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit
- Key regulatory and corporate governance updates, relevant to you

What we don’t report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the board.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary “Briefing on audit matters” circulated to you on 28 February 2012.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Chartered Accountants

St Albans

27 February 2014

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Independence and fees

We confirm we are independent of the London Borough of Hillingdon

As part of our obligations under International Standards on Auditing (UK & Ireland) we are required to report to you on the matters listed below:

Independence confirmation	We confirm we are independent of the London Borough of Hillingdon and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2014 in our final report to the Audit Committee.
Fees	Details of the non-audit services fees proposed for the period have been presented separately on the following page.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Appendix 1: Independence and fees (continued)

We have set out below our audit fees for 2013/14

The table below details our proposed audit fees and non-audit fees for the year ending 31 March 2014 for those services for which we have been engaged or proposed for as at the date of this report.

	Current year £'000	Prior year £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of the London Borough of Hillingdon's annual accounts, assurance report on the Whole of Government accounts and the value of money conclusion (note 1)	207.1	207.1
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	21.0
	228.1	**228.1**
Fees payable for the certification of grant claims	57.6	90.2
Total fees payable in respect of our role as Appointed Auditor	**285.7**	**318.3**
Non audit fees		
Deloitte Real Estate contract monitoring engagement (note 2)	52.1*	157.1*

Note 1:

From 2013/14 the NNDR3 grant claim is no longer subject to external certification. In previous years we have placed reliance on the certification of this claim which has reduced the quantum of testing required on non-domestic rates in the main audit. The absence of the NNDR3 audit will therefore have the effect of increasing the volume of work required around domestic rates to support our main audit opinion. We understand the Audit Commission are considering if a fee adjustment should be made for this.

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Note 2:

Deloitte Real Estate are monitoring the delivery of a building contract for the expansion of 6 primary schools. The fees detailed here are those to date. We have considered the potential independence risks, including any potential risk in respect of a 'self-review threat' or 'management threat'. We have concluded that this work does not compromise our independence as DRE is not exercising authority on behalf of the Council and not making any management decisions for the Council. Furthermore, the work is undertaken by a separate team to the audit team and we have not encountered the work of DRE in our capacity as external auditors when testing capital balances or through or value for money procedures. We have received approval from the Audit Commission to undertake this work.

Appendix 2: Fraud: responsibilities and representations

As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Characteristics

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

Responsibilities

Your responsibilities

- The primary responsibility for the prevention and detection of fraud rests with Management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities

- We are required to obtain representations from your Management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for the Council.

- Our responsibilities and those of the Council are explained in the Audit Commission's publication, 'The responsibilities of Auditors and of Audited Bodies – Local Government' issued March 2010.

Appendix 2: Fraud: responsibilities and representations (continued)

We make enquiries of Management, internal audit and the Audit Committee regarding fraud.

We will make the following inquiries regarding fraud:

Management	Internal Audit	The audit committee
Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments. Management's process for identifying and responding to the risks of fraud in the entity. Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity. Management's communication, if any, to employees regarding its views on business practices and ethical behaviour. Whether Management has knowledge of any actual, suspected or alleged fraud affecting the entity.	Whether internal audit, headed by Muir Laurie, has knowledge of any actual, suspected or alleged fraud affecting the entity, to obtain their views about the risks of fraud, and to obtain status reports on fraud cases during 2013/14.	How the audit committee exercises oversight of Management's processes for identifying and responding to the risks of fraud in the entity and the internal control that Management has established to mitigate these risks. Whether the audit committee has knowledge of any actual, suspected or alleged fraud affecting the entity.

We will request the following to be stated in the representation letter signed on behalf of the board:

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

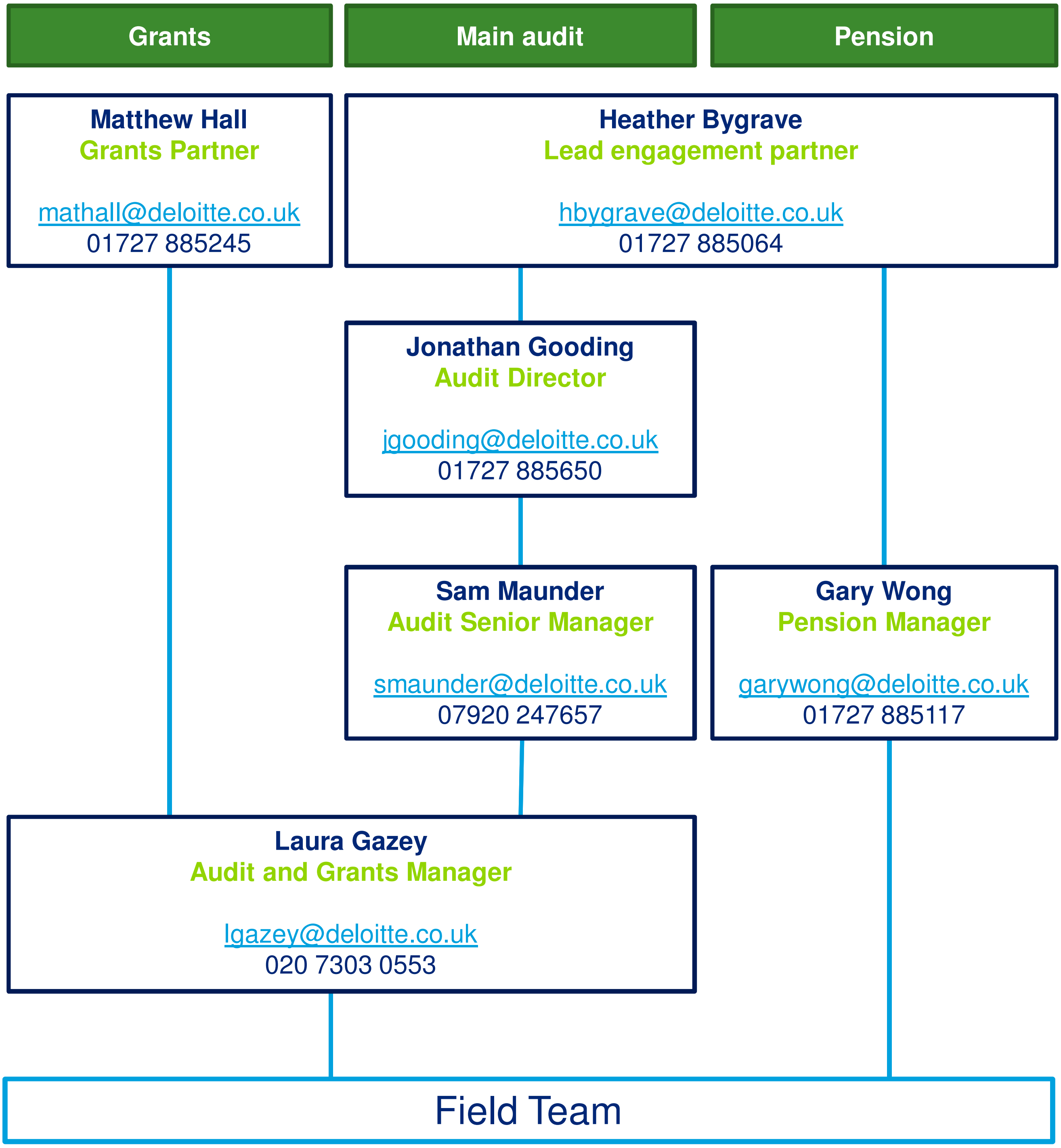
  (i) Management;

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

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

Appendix 3: Your audit team

A senior team, with continuity from last year, that incorporates specialists to perform audit work over pensions and grants and also provide insight and add value to the Borough in those areas



Appendix 4: Timetable

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

Planning	Interim audit	Year end fieldwork	Reporting	Post reporting
Planning meetings to • perform risk assessment • agree on key judgemental accounting issues • agree the audit plan Present audit plan to Audit Committee	Update discussions of key audit and business risks and testing of controls to mitigate significant risks Review of relevant internal audit work Document and test design and implementation of key controls Update understanding of systems, controls and developments in the business Performance of work in support of value for money conclusion	Performance of substantive testing Finalisation of work in support of value for money conclusion Review of annual accounts Audit issues meeting Work to support assurance statement on WGA return	Audit 'close meeting' with Management Final Audit Committee meeting Issuance of • audit report and opinion • value for money conclusion • limited assurance opinion on the WGA return	Audit feedback meeting Issue of annual audit letter
Feb 2014	**March - April 2014**	**June – Aug 2014**	**Aug - Sept 2014**	**Sept – Oct 2014**

Ongoing communication and feedback

Appendix 5: State of local public services

We summarise the outcome of our research which provides further context for our audit

During the spring and summer of 2013, Deloitte conducted detailed research to answer a simple question: what is the state of the UK state? As part of the research, we commissioned IPSOS MORI to capture the attitudes of people that run local public services. The results provide a snapshot of local services during a period of profound change.

We have summarised the key messages in relation to local public services below.

Overall

Overall chief executives told us that they feel their organisations are coping well and responding effectively to the challenging circumstances.

They also said that while the depth and speed of change has been difficult for staff, morale is holding up, although future cuts create understandable concerns.

Link between local economies and local services has moved up the agenda

Combined with cuts, the recession has put the health of local economies high on the agenda. Weak economic growth and unemployment has increased pressure on the local public sector as demand for spending has increased. This concern was a clear theme, particularly at a time when cuts are reducing capacity to provide. One police respondent reported that while crime was down overall, shoplifting for food has increased.

Local public service executives fear the impact of welfare reforms

Our research suggests that public service leaders are particularly concerned about the fallout from welfare reform. Some wondered if central government has assessed whether savings on welfare spending will be counterbalanced by increased demand on local services. This was particularly a concern for directors in children's services where interviewees described rises in child protection cases. Many expressed concerns that cuts will affect their ability to invest in preventative services.

The people in our local public services are focused on opportunities – not just challenges

Our research showed that local public service executives see the current climate as an opportunity to refocus their services on residents' needs and outcomes, as well as to use creativity rather than resources to solve problems. One police respondent told us that in the past, additional finance would have been used to deliver change – but now, the force explores service redesign. On balance, interviewees felt that the opportunities of the coming five years outweigh the challenges.

Appendix 5: State of local public services (continued)

The game has changed – so have leadership priorities

When interview responses were collated, a striking trend emerged: organisational leaders are focused on their people and how they can be empowered to rise to their organisation's challenges. Public value is a notably important issue; a number of executives mentioned values – such as caring, fair and trusted – as being central to the public service ethos. At a time of public sector headcount reductions, interviewees spoke of the importance of attracting staff with the right skills.

A new public services landscape has brought a new set of risks

A number of interviewees told us about the advantages of public sector partnerships in delivering joined-up services, transferring knowledge and generating savings. Most thought that partnerships with the private and third sectors were also beneficial. They thought that cross-sector working brought specific benefits, including exposure to new ideas and new delivery models, efficiency and quality from private sector and local knowledge and niche services from the third sector. But many also recognised that commissioning and partnerships outside the public sector brought new, critical risks that needed to be managed.

Deloitte.

London Borough of Hillingdon Pension Fund

Planning Report to the Pension and Audit Committees

Year ending 31 March 2014

27 February 2014

Contents

I am delighted to present this planning report for the 2013/14 audit of the London Borough of Hillingdon Pension Fund. The report sets out our audit approach and the more significant areas where we will focus our attention this year.

(Heather Bygrave, Engagement Partner, February 2014)

The big picture

The Big Picture

We have set out below an overview of the key developments in the Pension Plan and the more significant matters we have considered in developing this Audit Plan. We consider these matters as part of our audit risk assessment and this determines where we will focus our work. Details of the impact of these matters on our approach are set out in this Audit Plan.

Key developments in your Pension Fund

- Barings Asset Management have been appointed to manage an absolute return portfolio.
- There are plans to transfer additional £29 million from UBS to Kempen International.
- There are no significant changes to the scheme rules or other arrangements.
- There are no significant changes to the financial reporting framework.
- Focus within the sector on administration and investment manager fees.

Key developments in our audit

- No changes to the overall scope of the audit, however our level of materiality has reduced.
- Contributions remain a risk in view of the complexity arising from the participation of different admitted bodies within the fund, together with the fact that members may pay different rates depending on their pensionable pay
- Benefits in retirement and ill health remain risks in view of complexities around their calculation.
- The pension fund in the past has made some use of investments in unquoted investment vehicles and derivatives financial instruments which can give rise to complexities in accounting, disclosure and measurement and therefore this area remains a risk.
- Risk of management override of controls, is presumed by auditing standards to be a risk.

Significant audit risks

- Contributions
- Benefits
- Investments – namely unquoted holdings
- Management override of key controls, as presumed by auditing standards

Scheme net assets	Contributions	Benefits
2013: £683.1m	2013: £31.9m	2013: £31.4m
2012: £612.9m	2012: £30.5m	2012: £32.0m

Materiality

2014: £7.0m (est)
2013: £7.5m

Scope of work and approach

This section sets out our planned scoping for the audit of the financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

Scope of work and approach

Areas of responsibility under the Audit Commission's Code of Audit Practice

Responsibilities related to the accounts

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

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

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

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

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

- comparing the accounts to be included in the pension fund annual report with those included in the statement of accounts;
- reading the other information published within the pension fund annual report for consistency with the pension fund accounts; and
- where the pension fund annual report is not available until after the auditor reports on the financial statements, undertaking appropriate procedures to confirm that there are no material post-balance sheet events arising after giving the opinion on the pension fund accounts included in the financial statements.

The financial statements included in the pension fund annual report are prepared on the basis of the same proper practices - the Code of Practice - as the financial statements included in the statement of accounts.

Scope of work and approach (continued)

Approach to controls testing

As set out in "Briefing on audit matters" previously circulated to you, a copy of which can be made available, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Liaison with internal audit

The audit team, consistent with previous years, will leverage off of the work performed by internal audit wherever possible to allow efficiencies and limit a duplication of work. We will first update our assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function. We will refer to the internal audit's self-assessment and peer review assessment in carrying out this work. Over the course of the audit, we will review the findings of internal audit and where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work.

The Auditing Standards Board has issued a revised version of ISA (UK and Ireland) 610 "Using the work of internal auditors". This prohibits use of internal audit to provide direct assistance to the audit. Our approach this year to the use of the work of Internal Audit has been designed to be compatible with the new requirements, and therefore this development in auditing guidance will not change the existing scope of Internal or External Audit's work. However, this will prevent us from further increasing the extent of our use of Internal Audit's work in future.

For those areas where a significant risk has been identified, no reliance will be placed on the work of internal audit and we will perform all work ourselves.

Scope of work and approach (continued)

Materiality and error reporting threshold

We calculate materiality on the basis of the net assets of the fund, but have restricted this to the materiality established for the audit of the Authority's financial statements as a whole. We estimate materiality for the year to be £7 million (2013: £7.5 million). We will report to the Pension and Audit Committees on all unadjusted misstatements greater than £350,000 (£2013: £380,000) unless they are qualitatively material.

The materiality for the pension fund has historically been calculated using 3% of the Funds net assets and then capped at the level of materiality for the Authority as the figures form part of the authority financial statements. Following research with pensions governance bodies, the market and regulators we will determine materiality for the 2014 financial statements based on 1% of the Fund's net assets, which is lower than the materiality on the Authority.

We will update our assessment during the planning and interim visit based on latest outturn expectations

Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Authority's financial statements.

Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/ or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

Significant audit risks
1. Contributions

There are complexities around the calculation of contributions.

Nature of risk

Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS.

Contributions for the year ended 31 March 2013 were £31.9 million, showing that this is a material income stream for the pension fund. This is expected to continue in the current period with the continued active membership paying contributions. This coupled with the complexity introduced by the participation of more than one employer in the fund, together with the past introduction of a benefit structure with tiered contribution rates; we have identified this as a specific risk.

The key judgement areas and our planned audit challenge

We will evaluate the design and implementation of the Authority's arrangements and perform substantive audit testing in this area. This will include completing procedures to ascertain whether employer and employee contributions have been calculated and deducted correctly. Further procedures will be completed surrounding the completeness of the scheduled payments held at Capita and the accuracy of the receipts against that schedule.

2. Benefits

There are complexities surrounding the calculation of both benefits in retirement and ill health and death benefits.

Nature of risk

The complexities surrounding the calculation of both benefits in retirement and ill health and death benefits remains a key area of audit risk.

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

In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the same options as discussed above.

The completion of the legislation leading to the change in the revaluation basis to Consumer Price Index adds a further complexity to the above calculations going forward.

In the year ended 31 March 2013, total benefits paid were £31.4 million. The material values of these benefits further indicate that this is an area or key audit risk.

The key judgement areas and our planned audit challenge

We will review the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team at Capita and testing that controls were in force during the year under review. We will also:

- Obtain a schedule of benefits paid and selected a sample of benefits for detailed testing through agreement to supporting documentation, and review of the calculation, by reference to the qualifying service, Fund rules and benefit choices made by the member; and
- Develop an expectation based on the prior year balance, adjusted for changes in membership numbers and pension increases to analytically review the pension benefits paid in the year.

3. Investments

There are areas of judgement involved in the valuation of investments private equity, managed funds and derivatives.

Nature of risk

The pension fund makes some use of investments in unquoted investment vehicles, such as private equity funds.

Private equity funds are complex to value and include an element of judgement on the part of the investment manager, as at 31 March 2013 the Fund held £39.6 million in funds of this type. In addition, further amounts are invested in managed funds which are complex to value due to the difficulty in visibility of the underlying investments.

Given that these funds form a material balance within the pension fund accounts, we have identified the valuation of these funds as a specific risk.

The fund also holds a small number of derivative contracts which as at 31 March 2013 were valued as a liability of £81,000.

In addition to the risk of valuation, Barings Asset Management have been appointed to manage an absolute return mandate. Subsequently, £14 million and £47 million were divested from both UBS Asset Management and Ruffer LLP respectively, to fund the new mandate for Barings (£61 million). The transition of assets was managed by Nomura.

Also, completed in February, a further divestment of £29 million from UBS Global Asset Management has been transferred to Kempen International to extend the assets held under this mandate. Nomura again managed the transition of these assets.

The key judgement areas and our planned audit challenge

We will seek to understand the approach adopted in the valuation of such investments and inspect documentation relating to data sources used by the Authority. We will tailor further procedures depending on the outcome of that work and our assessment of the risk of material error taking into account the fund's investment holding at the year end.

Derivatives can be complex in terms of accounting, measurement and disclosure requirements. We will first understand the rationale for the use of the derivatives and then test compliance with the accounting, measurement and disclosure requirements of the Code of Practice.

We will discuss the investments with our internal financial instruments specialist and where necessary we may make use of their expertise in valuing complex instruments.

We will audit the transition of the assets in the two transactions with Barings Asset Management and Kempen International through to supporting documentation from the transition manager and reports from all related investment managers.

4. Management override of controls

We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year.

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The key judgement areas and our planned audit challenge

Our audit work will include:

- Reviewing a sample of journal entries that characteristics that may be indicative of potential fraud and management override of controls.
- Reviewing analysis and supporting documentation of key estimates and judgements.
- Performing substantive testing on journal entries to confirm that they have a genuine, supportable rationale.
- Reviewing ledgers for unusual items and on a test basis investigated the rationale of any such postings.
- Reviewing significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable.
- Making enquiries of those charged with governance as part of our planning and detailed audit processes.

Responsibility statement

Purpose of our report and responsibility statement
Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit.
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit and Pension committees.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" previously circulated to you and available on request.
- Our Audit Quality Promise and Insight Plan are included in the planning document of the Authority.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP.

Deloitte LLP
Chartered Accountants

St Albans
27 February 2014

This report has been prepared for the Pension and Audit committees, as separate bodies, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Independence and fees

We confirm we are independent of the London Borough of Hillingdon

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Audit Commission's Code of Audit Practice, we are required to report to you on the matters listed below:

Independence confirmation	We confirm we are independent of the London Borough of Hillingdon - and will reconfirm our independence and objectivity to the Pension and Audit Committees for the year ending 31 March 2014 in our final report to the Pension and Audit Committees.
Fees	No non-audit services fees relating to the pension fund have been paid to Deloitte in the year.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

We summarise our relationships with the Authority and explain our assessment of threats to auditor independence and safeguards in the Authority audit plan document.

Appendix 1: Independence and fees (continued)

We summarise earned or proposed audit fees for the year

The professional fees earned or proposed by Deloitte in the period from 1 April 2013 to 31 March 2014 are as follows:

	Current year £000	Prior year £000
Audit of the London Borough of Hillingdon pension Fund	21	21

There are no non audit services provided or proposed to the London Borough of Hillingdon pension Fund for the period from 1 April 2013 to 31 March 2014.

Professional fees earned or proposed by Deloitte for services in the period from 1 April 2013 to 31 March 2013 in respect of other funds of the Authority and other entities controlled by the Authority are set out in our audit plan for the Authority.

Appendix 2: Fraud: responsibilities and representations

We summarise our respective responsibilities regarding fraud

Characteristics	• Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. • Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.	
Responsibilities	**Your responsibilities** • The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.	**Our responsibilities** • We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement. • As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error. • As set out in Section 2 above we have identified the risk of fraud in management override of controls as a key audit risk for your organisation.

Appendix 2: Fraud: responsibilities and representations (continued)

We will make inquiries and obtain representations regarding fraud

We will make the following inquiries regarding fraud:

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

We will require the following to be stated in the representation letter signed on behalf of the Authority:

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

  (i) management;

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

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

Appendix 3: Operational arrangements

We set out key members of your audit team and other operational information

The work will be led by Heather Bygrave, supported by Gary Wong as audit manager.

Our work will be closely co-ordinated with the work carried out on other parts of main audit of the Authority. Details of our timetable for that work are included in the Authority audit plan.

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

Contact Officer: Nancy Leroux
Telephone: 01895 250353

SUMMARY

Audit Committee considered the draft Annual Treasury Management Strategy Statement and Investment Strategy for 2013/14 to 2015/16 at the meeting on 7 January 2014. This was in advance of the final Statement being presented to Cabinet and Council in February 2013.

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

RECOMMENDATIONS

That the contents of the report are noted.

INFORMATION

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

Since the draft TMSS was considered at Audit Committee in December a number of minor changes have been made to the final document to reflect updates to the Council's Capital Programme and to amend a few minor errors.

1. The forecast year-end cash balance at 31 March 2014 has increased by £10m from £96.4m to £106.4m as a result of a forecast increase in capital receipts for 2013/14. This change is reflected in paragraphs 1.2 and 5.7 and in Table 7.

2. The net borrowing requirement figures, detailed in Table 1, have reduced slightly as additional long term liabilities of £2.5m have now been included. As a result the amount by which the gross debt figure is below the CFR at 31 March 2014, included in paragraph 4.6, has changed from £78.8m to £76.3m.

3. Paragraph 4.12 quotes the Council's £49m variable rate borrowing. The rate on this borrowing is now 0.57%, previously 0.65%.

4. As a result of changes to the Capital programme (documented in the Budget Report to Cabinet in February) the Authorised Limit and the Operational Boundary, detailed in tables 2 and 3, have been updated. In addition the prudential indicators in Appendix B have all been refreshed following these programme changes.

5. A change was omitted from the draft strategy which has now been rectified in the final version, namely that the maximum limit of cash holdings which can be placed with Money Market Funds has decreased from 75% to 50%. This change is reflected in paragraph 5.5 and in table 13 in appendix D.

6. Table 6 - upper limit for 2014/15 has been reduced from £80m to £73m as a result of the increase in capital receipts.

7. A presentational change in Table 10 to show the split between GF and HRA borrowing has now been included.

8. In Section v of Appendix D - HRA indebtedness - the HRA potential headroom has reduced from £64m to £53.7m. This was a drafting error.

9. Appendix C has now been replaced with the latest available information.

10. Table 14 has been amended to be consistent with the narrative in the report, to clarify that only loans to other local authorities can exceed 1 year in length.

A copy of the final version of the report is attached at Appendix A.

Appendix A

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 £106.4m.

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 a 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 come 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.

1. Background

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to 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.

1.2. 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.

1.3. 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

1.4. These strategies are formulated in conjunction with the Council's Medium Term Financial Forecast (MTFF) and are reflected in 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.

1.5. 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.

1.6. 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.

2. Balance Sheet and Treasury Position

2.1. 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	208.8	243.4	296.3
HRA CFR 1	239.0	231.7	224.4	217.1
Total CFR	415.0	440.5	467.8	513.4
Existing Profile of Borrowing and Other Long Term Liabilities 2	(338.7)	(329.2)	(316.4)	(309.1)
Cumulative Maximum External Borrowing Requirement	**76.3**	**111.3**	**151.4**	**204.3**
Usable Reserves 3	(56.0)	(56.0)	(51.0)	(51.0)
Cumulative Net Borrowing Requirement	**20.3**	**55.3**	**100.4**	**153.3**

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 totaling £11m, £13m and £14m respectively will be in a state of call. Other long term liabilities include commitments under finance leases and a private finance initiative (PFI).
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.

2.2. 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.

2.3. 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.

3. Borrowing and Rescheduling Strategy

3.1. 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).

3.2. 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 attributable to the GF and £5.5m to the HRA.

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

Table 2

Authorised Limit for External Debt	2013/14 Approved £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	515	543	543	533
Other Long term Liabilities	2	2	2	2
Authorised Limit	**517**	**545**	**545**	**535**

3.4. The **Operational Boundary** is linked directly to the Council's estimates of the CFR and estimates of other day to day cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent scenario but without the additional headroom included within the Authorised Limit. This facilitates short term additional borrowing in the event of unforeseen adverse events.

Table 3

Operational Boundary for External Debt	2013/14 Approved £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	485	513	513	503
Other Long term Liabilities	2	2	2	2
Operational Boundary	**487**	**515**	**515**	**505**

3.5. 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.

3.6. 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 £76.3m below the CFR as at March 2014.

3.7. 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.

3.8. **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

3.9. 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.

3.10. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:

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

3.11. 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.

3.12. 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 0.57%.

3.13. 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.

3.14. 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'.

3.15. **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.

3.16. 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.

3.17. 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.

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

Table 4

Upper Limits for Interest Rate Exposure	**Estimated Level (or benchmark level at 31/03/14 %**	**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.

3.19. 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 5

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**

4. Annual Investment Strategy

4.1. 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.

4.2. 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.

4.3. 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.

4.4. 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%.

4.5. 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. In addition the total MMF exposure limit has been reduced from 75% to 50%.

4.6. 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.

4.7. The Council's estimated level of investments at 31 March 2014 is projected to be £106.4m (Appendix A).

4.8. 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.

4.9. Investment returns attributable to the HRA will be credited to the HRA and calculated in accordance to the DCLG's Item 8 determination.

4.10. **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.

4.11. 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.

4.12. 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

4.13. 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.

4.14. 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.

4.15. **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.

4.16. **Investments which constitute capital expenditure**: Investments meeting the definition of capital expenditure can be financed from capital or revenue resources. They are also subject to the CLG's Guidance on "non-specified investments". 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.

4.17. **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.

4.18. 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.

4.19. The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. 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 6

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	73	45	0

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

5. Outlook for Interest Rates

5.1. 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.

6. Balanced Budget Requirement

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

7. Adoption of the CIPFA Treasury Management Code:

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

8. 2014/15 MRP Statement

8.1. 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.

8.2. 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.

8.3. 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.

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

9.1. 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.

9.2. 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.

10. Other Items

10.1. **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.

10.2. **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.

APPENDIX A

EXISTING PORTFOLIO PROJECTION

Table 7

	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	106.4
Long-term Investments	0.00
Total Investments	106.4

APPENDIX B

Estimates of Capital Expenditure and other Prudential Indicators:

i. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, Housing Rent levels. In an environment of 'low rates for longer' the Council's strategy is currently to defer external borrowing and use internal borrowing where possible, thus saving revenue interest cost of carry and simultaneously reducing counterparty investment risks.

ii. Estimates for Capital expenditure shown in Table 8 are estimates of likely capital cash outflows.

Table 8

Capital Expenditure	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	119.8	96.7	122.2
HRA	26.0	0.0	23.1	24.0	24.7
Total	**117.6**	**87.3**	**142.9**	**120.7**	**146.9**

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

Table 9

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	17.1	15.4	6.0
Government Grants	35.8	50.4	51.7	37.6	55.8
Major Repairs Allowance	8.3	0.0	9.0	9.0	9.0
Revenue Contributions	3.5	7.4	27.6	19.3	18.4
Total Financing	**57.6**	**69.2**	**105.4**	**81.3**	**89.2**
Prudential Borrowing	60.0	18.1	37.5	39.4	57.6
Total Funding	60.0	18.1	37.5	39.4	57.6
Total	**117.6**	**87.3**	**142.9**	**120.7**	**146.8**

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

Table 10

Actual External Debt as at 31/03/2014	£m
General Fund Borrowing	86.6
HRA Borrowing	249.6
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 £53.7m to finance future capital as at 31 March 2014.

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 11

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 12

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**

APPENDIX C

Arlingclose's Economic and Interest Rate Forecast

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Downside risk										0.25	0.25	0.50	0.50
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.75	0.75	0.75	1.00	1.00	1.00	1.10
Arlingclose Central Case	0.45	0.45	0.50	0.55	0.65	0.70	0.75	0.80	0.90	1.00	1.10	1.20	1.25
Downside risk			0.05	0.10	0.20	0.25	0.30	0.35	0.45	0.55	-0.65	-0.75	-0.80
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	1.20	1.30	1.40	1.50	1.60	1.70
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	0.20	0.30	0.40	0.50	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.20
Arlingclose Central Case	1.70	1.75	1.85	1.95	2.00	2.00	2.05	2.10	2.20	2.35	2.50	2.65	2.80
Downside risk	-0.20	-0.20	-0.30	-0.40	-0.50	-0.50	-0.50	-0.50	-0.50	-0.75	-0.80	-0.90	-1.00
10-yr gilt yield													
Upside risk	0.20	0.35	0.45	0.50	0.60	0.70	0.75	0.80	0.90	0.90	0.95	1.00	1.00
Arlingclose Central Case	2.75	2.80	2.90	2.95	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80
Downside risk	-0.20	-0.30	-0.40	-0.50	-0.55	-0.60	-0.70	-0.80	-0.90	-0.95	-1.00	-1.05	-1.05
20-yr gilt yield													
Upside risk	0.30	0.40	0.50	0.60	0.75	0.85	0.90	0.95	1.00	1.05	1.05	1.05	1.05
Arlingclose Central Case	3.35	3.40	3.45	3.55	3.60	3.60	3.65	3.70	3.75	3.80	3.85	3.90	3.95
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.30	0.40	0.50	0.60	0.75	0.85	0.90	0.95	1.00	1.05	1.05	1.05	1.05
Arlingclose Central Case	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.95	4.00	4.05	4.10
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

Underlying assumptions:

- UK economic growth has steadily strengthened, although GDP remains around 1.3% below the pre-recession peak. The initial estimate showed that Q4 year-on-year GDP growth strengthened to 2.8% from the previous quarter's 1.9% rate. The service sector remains the main driver of growth.
- Expenditure breakdown of the GDP data during 2013 (Q4 details are awaited) indicates that the recovery has been led by consumer spending and housing investment. Given negative real earnings growth and the waning impact of temporary income boosts from bank mis-selling compensation, household spending growth at current rates appears unsustainable in the short to medium term. An expansion in business investment and rebalancing of the economy will be necessary for sustained growth.
- An expected slowdown in household spending growth should keep inflation contained. The CPI rate for December 2013 fell to the MPC's target of 2.0% and we expect it to

remain around this level for some time. Inflation expectations are well anchored and commodity price volatility is subdued.

- The recovery has not been accompanied by meaningful productivity growth. Business investment is expected to pick up in the medium term and should help to restore productivity growth, leading to higher wages and more sustainable growth in consumption. We expect this to have a material impact on growth from 2016. In the short term, however, on-going regulatory reform and a focus on balance sheet restructuring is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck, which will dampen business investment.
- The unemployment rate has fallen close to the 7% forward guidance threshold earlier than expected, although this number is flattered by the large numbers of people involuntarily underemployed. The MPC has made clear that 7% is not a policy trigger and we expect no response if surpassed in the short term. Additionally, any likely monetary tightening response is likely to be applied "gradually".
- Political risk for the UK will begin to influence gilt yields closer to the General Election in May 2015.
- Federal Reserve monetary policy expectations will remain predominant drivers of the financial markets. Tapering of asset purchases has begun and is expected to continue at a broadly steady rate in 2014. Additionally, the US political deadlock over the debt ceiling will need resolving in Q1 2014. This may prompt temporary volatility.
- The economic environment in the Eurozone is slightly more stable but structural issues persist and credit conditions remain challenging for European banks.
- There is a risk China will suffer from a credit crunch style crisis, as the authorities seek to stem lending growth. This has possible negative repercussions for domestic retail investors and the highly leveraged local government sector, which could dampen domestic spending and investment.

Forecast

- We are now forecasting the first rise in official interest rates in Q2 2016 but our long held theme of low for even longer remains. There is clear momentum in the economy although some weakness remains in some components of growth. Unemployment has fallen much faster than expected but has not led to any wage growth and productivity remains stagnant. We see both these indicators alongside business investment remaining the key to modestly higher interest rates. Inflation has fallen faster than expected and currently sits at target. The gradual recovery in the economy is underway. Whilst further challenges to that momentum cannot be ruled out, some upside potential for official interest rates must be ruled-in.
- We continue to project gilt yields on an upward path through the medium term as the recovery gradually takes hold.

APPENDIX D

Specified Investments & Non Specified Investments

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

Non Specified Investments are those which do not meet the above criteria, for example more than 1 year in duration. However 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 - 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 50%

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 2

	Maximum maturity	Max % of portfolio
▪ Deposits and Bonds with other UK Local Authorities	2 Years	40 in Aggregate
▪ Money Market Funds	N/A	

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 in

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BALANCES AND RESERVES STATEMENT 2014/15

Contact Officer: Paul Whaymand
Telephone: 01895 566071

SUMMARY

The budget reported to Cabinet and Council in February 2014 contained an extract from the Balances and Reserves Statement 2014/15 which summarised the recommended range for unallocated balances. This Balances and Reserves Statement provides further detail on the Council's approach to the management and measurement of these, outlining technical accounting guidance used and analysis of specific risks that lead to a determination of a prudent reserves and balances range.

RECOMMENDATIONS

That the contents of the report are noted.

REASONS FOR OFFICER RECOMMENDATIONS

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

INFORMATION

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

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

3 The recommended range for unallocated balances remains consistent with 2013/14 at £15m to £30m, with the overall upper limit for balances increasing by £5m to take account of the planning drawdown from reserves included in the Medium Term Financial Forecast for 2015/16.

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

LEGAL IMPLICATIONS

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

BACKGROUND PAPERS

The Council's Budget: General Fund Revenue Budget, Housing Revenue Account Budget and Capital Programme 2014/15 - report to Cabinet and Council February 2014

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

STATEMENT ON 2014 ANNUAL REVIEW OF RESERVES

SUMMARY

The Council's Corporate Director of Finance has a duty under the Local Government Act 2003 to comment on the robustness of the Council's budget for the coming year. This comment is also required to consider the adequacy of the Council's reserves and balances. The Corporate Director of Finance has recommended that based on the 2014/15 budget an appropriate level of unallocated balances for the authority is in the range from £20m to £35m.

1. BACKGROUND

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

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

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

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

1.4 Over the years, the Council has improved its level of reserves to an appropriate level from a relatively low base.

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

2. ADEQUATE LEVEL OF UNALLOCATED GENERAL FUND RESERVES

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

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

2.2 The assessment, although based on the Council's procedures and structures, does necessarily have an element of subjectivity. In acknowledging this, the optimum level of reserves incorporates a range. The recommended range for 2014/15 is £20m to £35m. The upper end of this range represents the highest level of unallocated balances that the Council could reasonably justify holding. If balances were above the upper level, the Corporate Director of Finance would recommend that plans were developed to use the excess balances towards enhancing the delivery of the Council's strategic objectives. The equivalent figures recommended at the time of budget setting for 2013/14 were £15m to £30m.

2.3 The array of risk factors that determine the need to hold balances and reserves has changed since last year's budget setting process to take account of the ongoing Governments reduction programme which will place greater pressure on the Council's Finances with cuts of 8% per annum expected in core funding in the medium term to 2018/19. Delivering this level of expenditure reduction year on year will need careful planning and longer lead in times to agree and deliver savings programmes across services. To manage the reductions in 2015/16 a planned drawdown from reserves is included for 2014/15 to support the budget in the following financial year. Appendix 1 summarises movements in the level of balances recommended to manage the criteria set out above.

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

2.5 Hillingdon has seen substantial population growth, evidenced by the 2011 census, which is set to continue into a period of further central government funding cuts over the medium term. Continuing pressures arising from demographic growth will see increased demand for key services, including Adult Social Care, Education, Housing and Waste Collection and Disposal. Secondly, a number of issues arise from the presence of Heathrow Airport within the borough. In particular this is the driver of the Council's exceptional asylum caseload, which has a fragile, unpredictable and inadequate funding stream attached to the support for asylum seekers.

2.6 In addition to these local issues, the 2012 Local Government Finance Act has resulted in a significant transfer of risks from Central Government in relation to both the localisation of Business Rates Income and introduction of a local Council Tax Reduction (CTR) Scheme. Whilst the first year of operating these significant funding changes in 2013/14 has not led to a draw on reserves, continued government tinkering with the amount of business rates income through restricting the increase in smaller business rates to less than inflation and the need to review the Councils CTR scheme for 2015/16 based upon the first years operation lead to continuing risks to the level of locally raised income.

2.7 Consideration of these risk factors have resulted in the level of unallocated reserves increasing at the upper level to £35m including a £5m drawdown planned for 2015/16 to support the budget in that year as set out above. This represents 7% of gross budget and 12% of controllable expenditure if Schools and Housing are excluded.

2.8 The approved budget for 2014/15 maintains balances at 2013/14 outturn levels, with neither a draw down from or payment into balances. The latest forecast for balances at 31 March 2014 as at period 9, is £36m

2.9 The General Fund revenue budget proposals for 2014/15 also included a contingency of £24.7m which is identified against specific in year risks that are funded within the budget. Many of these risks, although not precisely quantifiable, have a high degree of certainty that they will be called upon in the year.

3. EARMARKED RESERVES

3.1 The Council has ring fenced earmarked reserves with balances as at 31 March 2013, which are divided between those held in statutory funds and those held for management purposes. Table 2 details the balances held at 31 March 2013.

Table 2: Earmarked Reserves

Reserves	**Balance as at 31 March 2013 £000's**
Housing Revenue Account Reserves	19,804
Schools Delegated funds Reserves	14,950
Statutory Funds Reserves	**34,153**
Abbotsfield School	94
Backdated Council Tax benefit	180
Capital Investment Pump priming	1,000
Children Services Reserves	205
Elections	280
Environmental Waste	470
Grant Funded Reserve	2,188
Highways management	909
Housing	830
HS2 Contingency	129
Insurance Provision	1,220
Leisure Facilities Reserve	11
Libraries Reserve	81
Miscellaneous	1,947
Music Bursary Fund	350
Wards Budget Initiative	125
Workforce Restructure	400
Management Reserves	**10,419**
Total	**45,173**

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

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

4. UNFUNDED RESERVES

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

Risk Management

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

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

APPENDIX 1

Further detail on Assessment of Required General Fund Revenue Balances

Area of Risk	Details	Reserves Required 2014/15 (£m)	Reserves Required 2013/14 (£m)
The general financial climate to which the Council is subject	Indications are that the sustained reductions in funding over the medium term with the reductions in spend in the public sector are likely to continue for the next few years.	1.5 - 4.0	1.5 – 4.0
The overall financial standing of the authority	The financial strength of the council continues to improve with prudent assumptions factored into the MTFF for growth in income, while a comprehensive development and risk contingency is funded for 2014/15.	1.5 – 2.0	1.5 – 2.0
Estimates of level of locally raised income	With the local retention of business rate revenues together with Council Tax and other income streams now amount to 70% of the council's corporate funding. There continues to be a risk from volatility in this income which would impact upon the Council's finances.	2.0 – 3.5	2.0 - 3.5
The treatment of planned efficiency savings / productivity gains	The budget for 2014/15 contains £12.8m of savings. Whilst governance and monitoring arrangements have been strengthened, with regular reporting on delivery of savings to Cabinet, delivering these savings on top of the £70m already delivered since 2010 becomes more difficult and therefore the risk of slippage or non delivery increases.	2.0 – 4.0	2.0 – 3.0
The treatment of inflation and interest rates	Limited inflation has been included in the 2014/15 budget to reflect the latest intelligence. However, specific risks remain in relation to contracts energy and fuel. The low interest rate environment is likely to continue in 2014/15 and this has been factored into the budget.	1.0 – 2.0	1.0 – 2.0
The financial risk inherent in any major outsourcing arrangements	The Council is reliant on external providers for a range of key services, especially in social care for residential and nursing care provision, and housing providers for temporary accommodation. Some of these suppliers are reliant on private finance linked to asset values for their viability. In the current financial climate this poses an increased risk of	1.0 – 2.0	1.0 – 3.0

	service failure to the Council. Although the Council has outsourced facilities management, and revenues services, some services have been in sourced including leisure management. These contracts continue create residual risks to be managed by the Council.		
The treatment of demand led pressures	The Council has a robust financial planning process (MTFF) embedded across the organisation. Through this process, reasonable assumptions about demand and funding pressures have been made and a prudent view of demand led pressures has been taken. All known pressures across the Council are included as funded items in the MTFF, with additional funding in future years linked to forecast demand. The budgeted contingency and development fund is largely to take account of potential demand led pressures on key expenditure and income streams. The reduction in the level of required reserves for 2014/15 results from a lowering of the risk around the Council Tax Reduction scheme.	2.0 – 4.0	2.0 – 5.0
The financial risks inherent in any major capital developments	The Capital Programme includes substantial investment in primary and secondary schools and for new facilities such as a theatre and museum, which alongside the potential for extensive investment within the Housing Revenue Account will result in a corresponding increase in the level of financial risk arising from this significant investment.	1.0 – 3.5	1.0 – 2.5
Estimates of the level and timing of capital receipts	The estimate of the capital receipts in the 2014/15 Capital Programme is based on a schedule of assets that have been identified for sale. If disposals are lower than projected then alternative options to achieve disposals or compensatory improvements to asset utilisation will be considered.	1.0 – 2.0	1.0 - 2.0
The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions	Whilst there remains a continuous risk, the level of reserves has increased and an adequate level of provisions has been built into the budget.	2.0 - 3.0	2.0 - 3.0

Planned drawdown from balances in 2015/16	To manage the impact of funding further reductions of 8% in the council's budget in 2015/16 a drawdown from reserves is planned	5.0	N/A

Internal Audit - Draft Internal Audit Plan 2014/15

Contact Officer: Muir Laurie
Telephone: 01895 556132

REASON FOR ITEM

The Council's draft Internal Audit (IA) Plan details the planned IA activity which seeks to:

- Provide all IA key stakeholders with independent assurance that the risks within the Council's fundamental systems and processes are being effectively managed;
- Allow the Council to demonstrate it is complying with the relevant legislation and applicable professional standards;
- Demonstrate the Council's commitment to good governance and compliance with the UK Public Sector IA Standards (PSIAS); and
- Set out that IA resources are being properly utilised.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to consider the draft IA Plan for 2014/15 and subject to any further minor amendments approve the IA Plan.

INFORMATION

The outcomes from the work proposed in the IA Plan underpin the Head of IA's Annual Opinion Statement. This opinion concludes on the overall adequacy and effectiveness of the Council's internal control, risk management and corporate governance arrangements. It also supports the Council's Annual Governance Statement which forms part of the statutory financial statements.

The draft 2014/15 IA Plan sets out the high-level areas where we expect to utilise our resources. This year in preparation of the IA Plan, IA has adopted a greater risk based approach following a risk assessment exercise which has taken place throughout the year. This has involved consideration of risk registers, reviewing committee and HIP reports as well as reports from external inspectorates (e.g. Ofsted), as well as liaison with External Audit. We have also consulted with all senior managers and considered legislative updates as well as exercising our own professional judgement.

One of the key features of the draft IA Plan for 2014/15 is it includes a 400 days (25% of IA available resource) contingency. This allows for greater flexibility in IA coverage of new and emerging risks, which supports the continuously changing risk profile of the Council. It is also in response to the historical pattern of actual delivery of previous IA plans at Hillingdon.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

None.

HILLINGDON
LONDON

INTERNAL AUDIT

<u>Draft</u> **Internal Audit Plan 2014/15**

28 February 2014

Contents

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

Muir Laurie
Head of Internal Audit
t: 01895 556132
e: mlaurie@hillingdon.gov.uk

Anthony Dean
Principal Internal Auditor
t: 01895 556130
e: adean2@hillingdon.gov.uk

Sarah Hydrie
Principal Internal Auditor
t: 01895 277907
e: shydrie@hillingdon.gov.uk

1. Introduction

1.1 The Role of Internal Audit

1.1.1 Internal Audit (IA) provides an independent assurance 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.

1.1.2 IA gives an objective opinion to the Council on whether the control environment is operating as expected. In 'traditional' IA teams this usually means compliance testing of internal controls. However, the IA team at Hillingdon is fully embracing the risk-based approach from 2014/15 onwards, which means we will give a much greater assurance to the Council because it is based on the key risks to the organisation's objectives. As a result, we will not just be commenting on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.

1.2 The Purpose of the Internal Audit Plan

1.2.1 The IA Plan is a crucial component of the annual assurance statement provided by the Head of Internal Audit (HIA) to those charged with governance. In order to deliver this assurance it is vital to have a comprehensive IA Plan which gives sufficient risk-based coverage. Hillingdon, in common with other councils faces a number of challenges including increased demand for services in a number of key areas and the challenge for the Council is to try to balance the needs of some of our most vulnerable communities with ever-tighter resources.

1.2.2 To help meet this need, the risk-based IA Plan for 2014/15 has been linked to the organisational objectives and priorities, whilst taking account of the Council's wider assurance framework. The IA plan has also been developed in accordance with the recently updated IA Charter and is aligned to the current IA Strategy, although this is due to be updated in September 2014.

2. The Internal Audit Planning Process

2.1 Skills and Resources

2.1.1 In line with the PSIAS, the HIA is professionally qualified and suitably experienced. Although the skills mix within the rest of the in-house IA team is currently under development, it is supported by a partnership with Baker Tilly (formerly RSM Tenon). Consequently, overall available IA resources fulfil the PSIAS requirements in terms of the combination of professionally qualified and experienced staff. As a result, there are sufficient IA resources available to meet the skills and resource requirements needed to deliver the 2014/15 risk-based IA Plan.

2.1.2 Demand for IA assurance and consulting services usually exceeds available IA resources at local authorities. This means choices have to be made that will determine the impact IA has upon the Council and the way key stakeholders perceive the value of IA at Hillingdon. The starting point in the IA planning process is therefore to determine the total available IA resources. After deducting a sufficient time allocation for IA planning, management review, staff training and other IA overhead time, the calculated **Total Available IA Chargeable Time for 2014/15** at Hillingdon is **1,600 IA Days**. The IA staff skills mix is currently under review by the HIA and a further update on this will be included as part of the new IA strategy document, which is due to be considered by CMT and the Audit Committee in September 2014.

2.2 Planning Sources

2.2.1 Although the IA Plan for the year is determined by the number of days available, the primary purpose of the IA Plan is ensuring that the key risks facing the Council are given sufficient IA attention. Therefore the next step in developing the risk-based annual IA Plan has been to make reference to a variety of planning sources (as per the flowchart of the IA Process attached at **Appendix A**) including:

- **Team Plans** – We carried out a review of team plans where these could be traced, to help us confirm the strategic objectives of each service area;
- **Corporate Risk Registers** – We reviewed the Council's corporate risk registers to establish those charged with governance's view of the most significant risks facing the Council;
- **Senior Management** – We have met or spoken with most senior managers across the Council including members of CMT, to develop our knowledge of the risks and challenges facing their services;
- **Key Documents** – We have carried out a desktop review of key Council documents including minutes and reports of Cabinet and various committee meetings, as well as the recent Hillingdon Improvement Programme (HIP) reports and the draft budget papers for 2014/15;
- **Audit Committee** – The draft IA plan will be presented to the Audit Committee at its meeting on 11 March 2014 and will be subsequently updated to reflect any comments and observations the Audit Committee members may have, before being finalised by 31 March 2014;
- **Members** – We have met with the Leader of the Council to seek his views on the risks the Council faces, we have invited comments from all Cabinet Members and also intend to discuss the IA Plan at the induction sessions for new Members later this year;
- **External Audit** – We liaised with Deloitte to establish any areas of concern and to identify those areas where they are likely to place reliance on IA work to inform their own risk assessment;
- **External Inspections** – We have given consideration to any relevant external inspection reports i.e. Ofsted; and
- **IA Cumulative Knowledge** – We also make reference to the cumulative knowledge of the IA service (including Baker Tilly) of known weaknesses and risks facing the Council, including the wider strategic issues emerging elsewhere in local government.

2.3 Risk Assessment

2.3.1 Using the knowledge gained through the above process, we carry out a comprehensive **audit needs analysis** and define what is known as the **audit universe** (a long list of areas for potential IA review). We then conduct an IA risk assessment for each area in the audit universe based on three elements, as set out below:

Inherent Risk	Our assessment of the overall level of risk associated with the audit area. This is effectively a gross relative risk of the potential impact of this area.
Control Risk	Our assessment of the risk that exists within a particular area based upon the controls that we understand the Council has put in place. This affects the likelihood of the risk being realised.
Materiality	Our assessment of the potential financial or organisational consequence. This might be judged by the potential for a monetary loss or the extent to which it impacts on core Council objectives.

2.3.2 The Council's risk management framework is not sufficiently mature to place full reliance on service risk registers to identify all the risks the Council faces. However, the existing risk registers are developed adequately enough to inform the IA risk assessment process, including calculating the total audit risk. The total audit risk score is determined using each of the above (para 2.3.1) elements which enables each area in the audit universe to be categorised into one of three **overall risk assessment areas** as follows:

Overall Risk Assessment	Definition
HIGH	This relates to **a significant threat** or opportunity that impacts the Council's corporate objectives. This has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives.
MEDIUM	This relates to **a potentially significant threat** or opportunity that impacts on either corporate or operational objectives. This has an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives.
LOW	This relates to **a minor threat** or opportunity that impacts on operational objectives. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives.

3. The Detailed Internal Audit Plan

3.1 The results of the overall risk assessment process are then used to determine IA priorities and produce the initial allocation of IA resources. Further to this, attached at **Appendix B** is a pie chart which provides a high level estimation by audit type (excluding contingency) of where IA expects to utilise its resources over the coming year. We believe this allocation provides the best value to our key stakeholders, using a risk-based approach to internal control, risk management and corporate governance. The definitions of type of IA work and allocation (as highlighted at **Appendix B**) are as follows:

Type of IA Work	Definition	% of IA Plan	IA Plan Allocation
Assurance	Work which provides comfort to CMT and the Audit Committee that risks to the achievement of objectives (including transformation projects) are being effectively mitigated and arrangements are operating as expected.	**40%**	**480 Days**
Core Financial Systems	Assurance coverage of the core financial processes that have a material impact on the financial position of the Council.	**25%**	**300 Days**
RBIA - CRR	Risk-based IA (RBIA) reviews that provide assurance on the Council's strategic risks identified in the Corporate Risk Register (CRR).	**13%**	**156 Days**
Advice	Work where the primary purpose is to support management to improve systems and processes, mitigate risk and enable the achievement of objectives.	**10%**	**120 Days**
Grant Claims	Grant work on behalf of the Council including the Housing Subsidy and Troubled Families claims.	**7%**	**84 Days**

Follow Up	Activity which ascertains the implementation of agreed management actions.	**3%**	**36 Days**
Facilitation	Activity which supports management in their management of risk and the production of the Annual Governance Statement.	**2%**	**24 Days**
		100%	**1,200 Days**

3.2 However, in line with the PSIAS, risk-based IA is a continuous process and therefore the IA Plan will be subject to ongoing review to ensure it remains aligned with the Council's objectives and the risks identified by management in the risk registers. There are a significant number of audit areas identified in the audit universe which fall below the risk threshold and therefore do not currently form part of the detailed IA Plan. Formal updates of the IA Plan will be reported to CMT and the Audit Committee as part of the quarterly progress reports.

3.3 The **detailed IA Plan** (attached at **Appendix C**) has a number **key features** including:

- **Contingency** – An allocation for unprogrammed work of 25% (400 days) has been included in the IA Plan. This will be used to respond to new and emerging risks and unplanned requests for IA work.
- **Schools** – Previously IA coverage of Hillingdon schools was carried out using a cyclical approach over a three year basis. From 2014/15 onwards a risk-based approach will be taken with IA assurance reviews of Hillingdon schools. In particular cross-cutting audits of themed areas will be carried out at a risk-based selection of schools. The results of this work will be made suitably anonymous and then shared with all Hillingdon schools.
- **Consultancy** – In line with the PSIAS, IA coverage will include a range of consultancy work. The chart at **Appendix B** highlights that 150 days has been allocated for IA advice which can include certification of grant claims, training and the facilitation or conducting of specific consultancy reviews. Through participation in corporate project groups we will also provide insightful, independent and informed advice in order to reduce the risk of project failure.
- **ICT Audit** – The audit plan makes provision for specialised computer audit work to be undertaken by our external contractor Baker Tilly with some support provided by the in-house team. The scope of this assurance work will be to assess and report upon the adequacy of the key ICT controls present within major Council systems.
- **Value for Money** – As part of our assurance coverage, IA will conduct Value for Money (VfM) reviews on specific areas of expenditure and seek to reach a judgement on whether VfM has been achieved. Good VfM is defined as the optimal use of resources to achieve the intended outcomes (i.e. economy, efficiency and effectiveness). Our role is not to question the Council's policy objectives, but to provide independent and rigorous analysis to the Audit Committee on the way in which public money has been spent to achieve policy objectives. As well as reaching an overall conclusion on VfM, where applicable we will make recommendations on how to achieve better VfM and to improve the services under examination.
- **Projects** - Many local authorities have projects which struggle to deliver the benefits that are expected of them, often having major knock on effects with other projects and sometimes even conflicting with other projects. We can provide quality assurance on projects through the entire life cycle of change, from project identification through to final delivery.
- **Contracts** – With the increasing number of contracts in operation across the Council, there will be an increased focus by IA on contract related assurance audits. This will include reviews of the procurement process, as well as contract management arrangements for the significant / high value contracts.

- **Core Financial Systems** – As set out at section 2 of the detailed IA Plan, we will carry out comprehensive coverage of the core financial systems to enable the Director of Finance to discharge his responsibilities under section 151 of the Local Government Act 1972.
- **Anti-Fraud and Anti-Corruption** – Whilst IA has a responsibility to give regard to the possibility of fraud and corruption as part of its work, the Council's Corporate Fraud Investigation Team (CFIT) is the lead assurance provider for the Council on this area. As a consequence there is no specific allocation of resource set aside in the draft IA Plan for proactive anti-fraud and anti-corruption work. However, the IA service will continue to work closely with the Council's CFIT.

4. Internal Audit Reporting

4.1 IA reports the findings of its work in detail to key officers at the conclusion of each piece of its work, although if necessary Directors would be immediately informed of any significant internal control weaknesses identified by IA. With the exception of consultancy review reports, all IA reports issued include an assurance rating on the basis of the **IA assurance definitions** included at **Appendix D**.

4.2 A quarterly IA progress report is submitted to CMT and the Audit Committee, which summarises IA performance and work carried out in the period. These reports include an update on the progress made against the delivery of the IA Plan and provide details of IA work completed to date, the assurance opinions given and the number and type of recommendations made.

4.3 Furthermore, an annual IA report is presented to CMT and the Audit Committee which includes the HIA's statutory opinion statement on the Council's internal control, risk management and corporate governance arrangements. The individual assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations will have a bearing too. The annual IA report contributes to the assurances underpinning the Council's Annual Governance Statement.

5. Internal Audit Follow Up

5.1 IA evaluates the Council's progress in implementing management agreed recommendations against set targets, although detailed follow up work will not be carried out by IA for low risk recommendations. The full definitions of the **IA risk ratings** are included at **Appendix E**. If progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, IA will implement the escalation procedure agreed with management (as set out in the updated IA Management Protocol).

5.2 Linked to this, we need to be clear that IA does not tell management what to do; it identifies internal control, risk management and corporate governance weaknesses along with notable practices for management's attention. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways (**the 4 T's**):

i) **Transfer** the risk i.e. insure against it;

ii) **Terminate** the risk i.e. stop carrying out the activity that creates the potential risk;

iii) **Treat** the risk i.e. take mitigating action to reduce the risk;

iv) **Tolerate** the risk i.e. do nothing and accept that there is a potential risk that could materialise.

5.3 IA will support managers in formulating a response to the risks identified. As an organisational improvement function, IA will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Progress on the implementation of IA recommendations will be reported to CMT and the Audit Committee on a regular basis.

6. Measuring Internal Audit Performance

6.1 The Public Sector Internal Audit Standards

6.1.1 The Public Sector IA Standards (PSIAS) came into effect on 1 April 2013 and 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.

6.2 Internal Audit Measures of Success

6.2.1 The PSIAS are also clear that IA should be adding value to an organisation. At a time when all areas of the Council are being urged to deliver better and more efficient services, it is absolutely right that IA can itself demonstrate improvements in its services. Currently, the IA service at Hillingdon reports its actual performance against three KPIs to CMT and the Audit Committee on a quarterly basis; however these KPIs are all purely focused on timeliness. Whilst measuring the time taken to conduct an audit is an important element of measuring IA efficiency, modern IA practice suggests that IA success is reliant on and/or linked to a wide range of factors including:

- Quality
    - Is a fully risk-based IA approach applied?
    - How highly do clients rate the service provided by IA?
    - How much value do clients believe IA adds?
    - Is the HIA suitably qualified and experienced?
    - Is there an appropriate skills mix within the IA team including qualifications, experience and specialist skills?
- Economy
    - Does the cost per audit day provide good value?
    - Does the cost per chargeable audit day provide good value?
- Efficiency
    - How quickly is audit work completed from beginning to end?
    - Are audits delivered within the allocated IA days budget?
- Effectiveness
    - Is the Council successful i.e. are the Council's strategic objectives being achieved e.g. sound finances, value for money, high resident satisfaction?
    - Are projects delivering successful outcomes for the Council?
    - Does management agree with IA findings?
    - Is positive action proposed by management to address the issues identified by IA?
    - Is positive management taken within the agreed timescale?
    - Is the Council's control environment getting stronger?
    - Are the Council's governance arrangements improving?
    - Is the Council strengthening its approach to risk management?
    - What is the number of high/ medium/ low IA recommendations?
    - What is the number of substantial/ reasonable/ limited/ no assurance IA ratings?
    - Are assets properly safeguarded?

6.3 Reporting Internal Audit Performance

6.3.1 There are a wide range of IA stakeholders to satisfy, but the key stakeholders for the purposes of the IA progress reports are CMT and the Audit Committee. Further to this, attached at **Appendix E** are the proposed IA KPIs for use from 2014/15 onwards. The intention is that using the monitoring data maintained on our dedicated IA software system, a summary of actual IA performance against the targeted performance will be reported to CMT and the Audit Committee and included in the quarterly IA progress report. These results will allow all stakeholders to measure the performance and robustness of the IA service at Hillingdon.

6.4 Analysing Internal Audit Performance

6.4.1 All of the proposed IA KPIs (per **Appendix E**) need management co-operation to enable them to be achieved. In fact IA in isolation is unable to achieve any of these KPIs; they can influence the results but they cannot completely control them i.e. IA *KPI 4* (**HIGH** risk IA recommendations where management action is taken within agreed timescale); IA can influence this by raising pragmatic recommendations and agreeing reasonable timescales with management, but ultimately the reliance is on management to strengthen the control environment in the agreed timeframe.

6.4.2 It is therefore important that interpretation of the IA KPIs is not taken in isolation, as other factors should be taken into account i.e. the more risk focused IA approach being applied to the IA Plan in 2014/15 will probably result in a greater number of **HIGH** risk recommendations and a greater number of **LIMITED** assurance reports. The IA KPI targets as set out at **Appendix E** are ambitious, but they are achievable and realistic for a high performing IA team, which is what we strive to be at Hillingdon. In terms of *KPI 9* (Client Satisfaction Rating), this is based on an average score of 3.0 out of 4.0 from the IA Client Feedback Questionnaires completed by management. *KPI 10* (IA reviews compliant with the PSIAS and IIA Code of Ethics) is an internal quality check completed by the HIA and IA management to verify that all IA work meets the required standards.

6.5 Individual Internal Audit Staff Performance

6.5.1 As well as the proposed KPIs for quarterly reporting to CMT and the Audit Committee, a further set of KPIs is being introduced that the HIA will use to monitor and assess the performance of individual staff in the IA team. These operational KPIs will form the basis of the annual performance targets for IA staff and be aligned to the more detailed IA procedures and standards, as set out in the IA Manual and outlined in the IA Charter, both of which have been recently updated. The IA standards aim to ensure that all IA staff follow a consistent process for each audit and that the planned IA programme is completed within agreed timescales and to the required quality standards.

7. Acknowledgement

7.1 The draft IA Plan will be considered by the Audit Committee at its meeting on 11 March 2014. The IA Plan will then be finalised by 31 March 2014 and circulated to all key stakeholders including all senior managers across the Council.

7.2 IA would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management of the Council as part of the risk-based planning process.

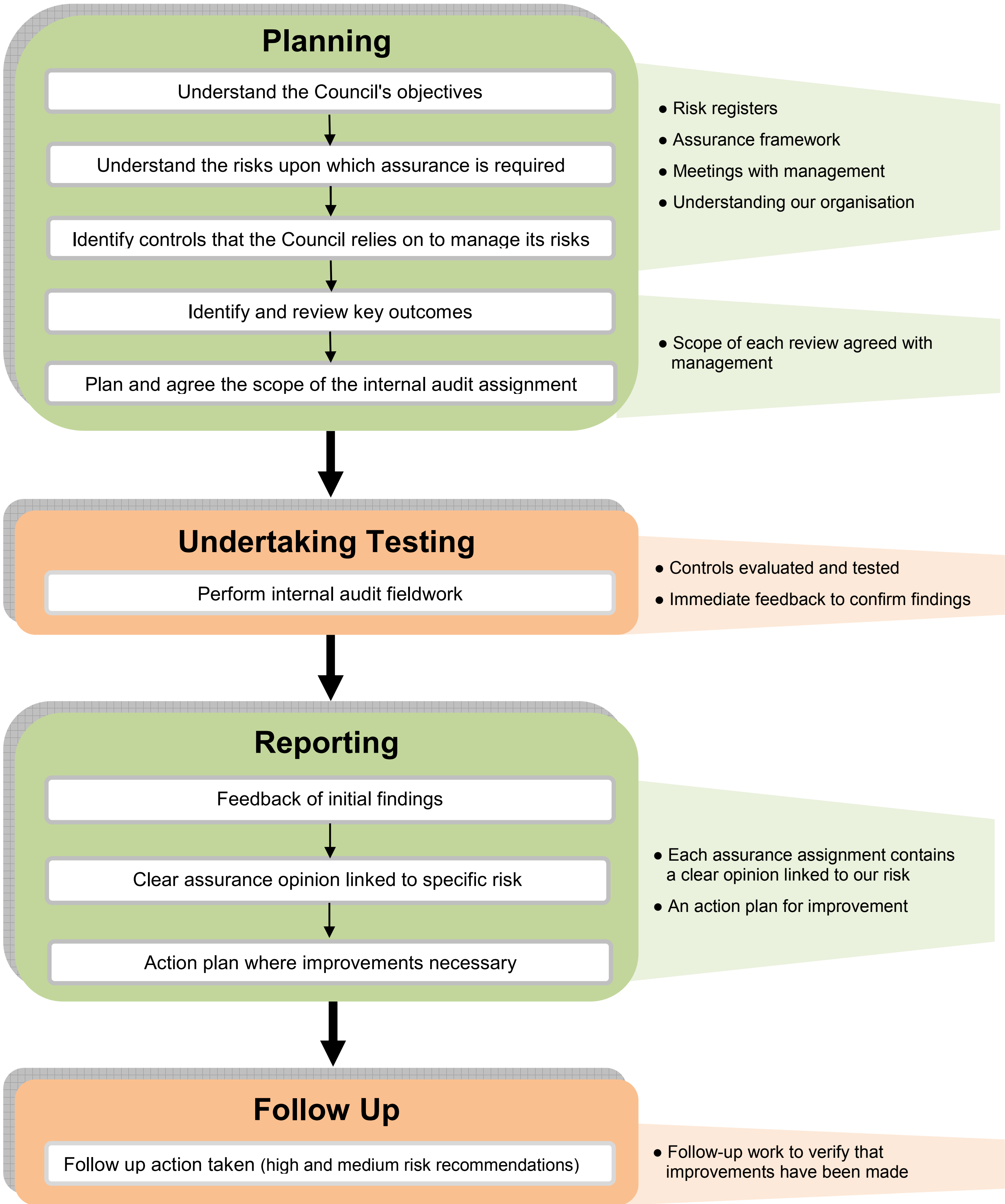
Muir Laurie ACCA CMIIA MAAT
Head of Internal Audit

28 February 2014

APPENDIX A

THE INTERNAL AUDIT PROCESS

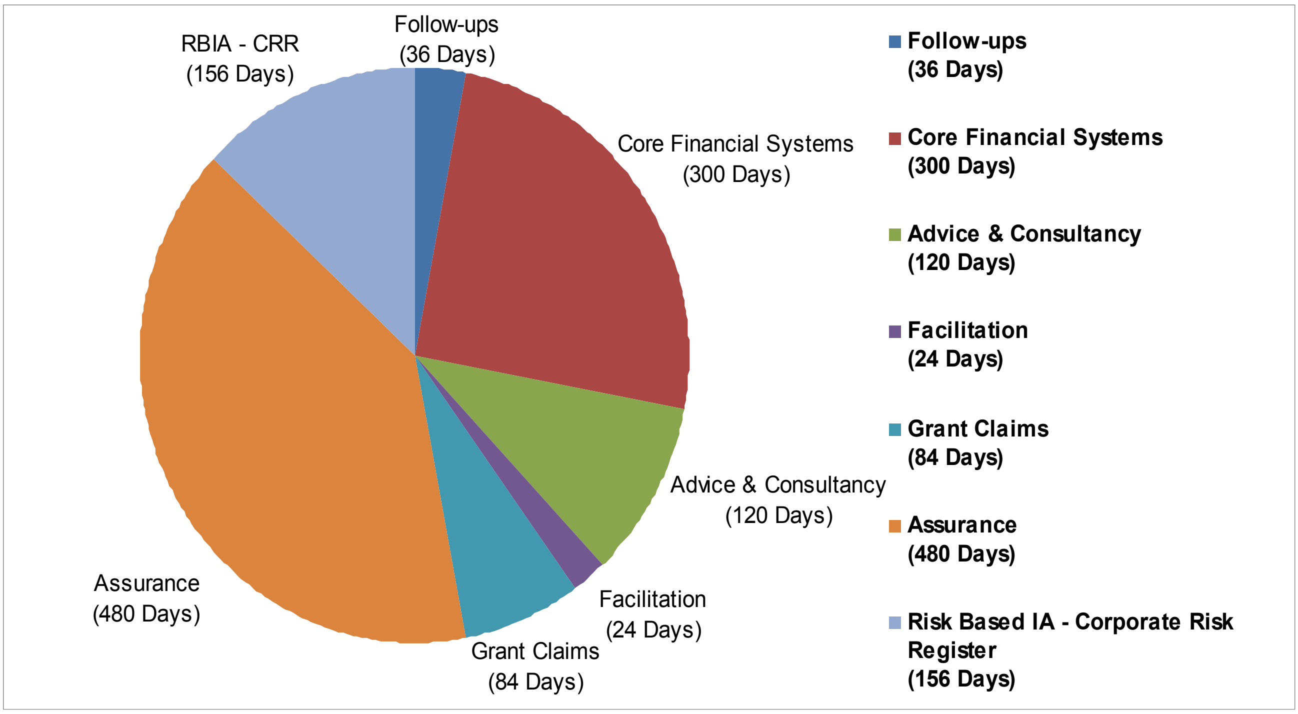
As per para 2.2.1, once total IA available IA resources have been determined, the overall IA process is summarised below:



APPENDIX B

INTERNAL AUDIT PLAN ALLOCATION BY AUDIT TYPE

As per the definitions at para 3.1, the IA Plan allocation by audit type (excluding contingency) is as follows:



APPENDIX C

DETAILED INTERNAL AUDIT PLAN 2014/15

Section 1 - Assurance (Quarter 1):

IA Ref.	Planned Audit Area	Risk Assessment	Review Sponsor	Provisional Timing
A1	Health Contributions / CCG	HIGH	Merlin Joseph, Director of Children & Young People's Services	Q1 - April
A2	ICS Data Quality	HIGH	Merlin Joseph, Director of Children & Young People's Services	Q1 - May
A3	Ofsted Improvement Action Plan	HIGH	Merlin Joseph, Director of Children & Young People's Services	Q1 - June
A4	Housing - Temporary Accommodation	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1
A5	Corporate Construction	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1
A6	Schools - Budgetary Control	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1
A7	Business Continuity	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1 - April
A8	Performance Management	MEDIUM	Fran Beasley, Chief Executive and Corporate Director of Administration	Q1 - June
A9	Mortuary	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1 - June
A10	Northgate - contract management	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1
A11	Software Licensing	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1
A12	Planning Applications & Appeals	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q1

APPENDIX C (cont'd)

DETAILED INTERNAL AUDIT PLAN 2014/15 (cont'd)

Section 1 - Assurance (Quarter 2):

IA Ref.	Planned Audit Area	Risk Assessment	Review Sponsor	Provisional Timing
A13	Housing - Repairs	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q2
A14	Schools - Payroll	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q2
A15	Leisure Services - contract management	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q2
A16	Corporate Procurement/Commissioning	MEDIUM	Paul Whaymand, Corporate Director of Finance	Q2
A17	Capita Income ICT system	MEDIUM	Paul Whaymand, Corporate Director of Finance	Q2
A18	Data Protection and FoI	MEDIUM	Fran Beasley, Chief Executive and Corporate Director of Administration	Q2

Section 1 - Assurance (Quarter 3):

IA Ref.	Planned Audit Area	Risk Assessment	Review Sponsor	Provisional Timing
A19	Schools - Recruitment	HIGH	Deputy Chief Executive and Corporate Director Residents Services	Q3
A20	IAS Data Quality	HIGH	Tony Zaman, Director of Adult Services	Q3
A21	Mental Health & Learning Disability Residential Placements	MEDIUM	Tony Zaman, Director of Adult Services	Q3
A22	Personalised Budgets & Financial Assessments - Children's & Adults	MEDIUM	Tony Zaman, Director of Adult Services	Q3
A23	Transitional Arrangements - Children to Adults	MEDIUM	Tony Zaman, Director of Adult Services	Q3
A24	All Age Disability Service	MEDIUM	Tony Zaman, Director of Adult Services	Q3
A25	Airport Services	MEDIUM	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q3

APPENDIX C (cont'd)

DETAILED INTERNAL AUDIT PLAN 2014/15 (cont'd)

Section 1 - Assurance (Quarter 4):

IA Ref.	Planned Audit Area	Risk Assessment	Review Sponsor	Provisional Timing
A26	Schools - Safeguarding	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q4
A27	Housing - Planned Maintenance Work	HIGH	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q4
A28	HIP/BID/Transformation Programme	MEDIUM	Fran Beasley, Chief Executive and Corporate Director of Administration	Q4
A29	Absence Management System	MEDIUM	Fran Beasley, Chief Executive and Corporate Director of Administration	Q4
A30	Corporate Governance	MEDIUM	Fran Beasley, Chief Executive and Corporate Director of Administration	Q4
A31	Risk Management	MEDIUM	Paul Whaymand, Corporate Director of Finance	Q4
A32	Schools - Contracts & Procurement	MEDIUM	Deputy Chief Executive and Corporate Director Residents Services	Q4

APPENDIX C (cont'd)

DETAILED INTERNAL AUDIT PLAN 2014/15 (cont'd)

Section 2 - Core Financial Systems:

IA Ref.	Planned Audit Area	Risk Assessment	Review Type	Review Sponsor	Provisional Timing
CF1	Payroll	MEDIUM	Assurance	Fran Beasley, Corporate Director of Administration	Q2 - July
CF2	Asset Register	HIGH	Assurance	Paul Whaymand, Corporate Director of Finance	Q2 - Sep
CF3	E-Invoices	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Oct
CF4	Benefits	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Oct
CF5	Budgetary Control	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Oct
CF6	Treasury Management	LOW	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Nov
CF7	Council Tax	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Nov
CF8	Pensions	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Nov
CF9	NNDR	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Dec
CF10	Capital Accounting	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q3 - Dec
CF11	Main Accounting System	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q4 - Jan
CF12	Creditors	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q4 - Jan
CF13	Debtors	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q4 - Jan
CF14	Cash & Bank	MEDIUM	Assurance	Paul Whaymand, Corporate Director of Finance	Q4 - Jan
CF15	Housing Rents	HIGH	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director Residents Services	Q4 - Jan

APPENDIX D

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

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 E

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

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**.

APPENDIX F

INTERNAL AUDIT KEY PERFORMANCE INDICATORS

The proposed Key Performance Indicators (KPIs) for IA reporting to CMT and the Audit Committee from 2014/15 onwards are set out below:

KPI Ref.	Performance Measure	Target Performance	*Actual Performance	RAG Status
IA KPIs for quarterly reporting to CMT and the Audit Committee:				
KPI 1	**HIGH** risk IA recommendations where positive management action is proposed	**98%**	**100%**	**GREEN**
KPI 2	**MEDIUM** risk IA recommendations where positive management action is proposed	**95%**	**99%**	**GREEN**
KPI 3	**LOW** risk IA recommendations where positive management action is proposed	**90%**	**92%**	**GREEN**
KPI 4	**HIGH** risk IA recommendations where management action is taken within agreed timescale	**90%**	**91%**	**GREEN**
KPI 5	**MEDIUM** risk IA recommendations where management action is taken within agreed timescale	**75%**	**71%**	**AMBER**
KPI 6	Percentage of IA Plan delivered to **draft report** stage by 31 March	**90%**	**88%**	**AMBER**
KPI 7	Percentage of IA Plan delivered to **final report** stage by 31 March	**80%**	**78%**	**AMBER**
KPI 8	Percentage of draft reports issued as a final report within 15 working days	**90%**	**67%**	**RED**
KPI 9	Client Satisfaction Rating	**75%**	**83%**	**GREEN**
KPI 10	IA work fully compliant with the **PSIAS** and **IIA Code of Ethics**	**100%**	**90%**	**RED**

Key:

- * = Actual Performance is at 7 February 2014 for illustrative purposes
- CFQ = Client Feedback Questionnaire
- PSIAS = Public Sector Internal Audit Standards
- IIA = Chartered Institute of Internal Auditors (UK)
- **GREEN** = currently meeting or exceeding this performance target
- **AMBER** = currently not meeting this performance target (just short of target performance)
- **RED** = currently this performance target is not being met (significantly short of target performance)

APPENDIX F (cont'd)

INTERNAL AUDIT KEY PERFORMANCE INDICATORS

The **current IA KPIs** 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.

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Internal Audit – Revised Internal Audit Charter

Contact Officer: Muir Laurie
Telephone: 01895 556132

REASON FOR ITEM

The Internal Audit (IA) Charter, which under the previous guidance was known as the IA Terms of Reference, sets out the purpose, authority, responsibility and position of the IA Service within the London Borough of Hillingdon. As such it is a key document in respect to the Council's internal control, risk management and corporate governance framework. The IA Charter was last agreed by the Council's Corporate Management Team and Audit Committee in June 2013. However, the IA Charter has now been further updated to provide clearer compliance with the UK Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013. Attached to this report is the June 2013 IA Terms of Reference (for comparative purposes).

Whilst the main changes to the IA Charter are presentational, it has also been updated to include several new sections including Fraud and Corruption as well as Quality Assurance. These are areas specifically referred to in the PSIAS and therefore the revisions result in the IA Charter now being more closely aligned with the PSIAS. The IA Charter will continue to be reviewed annually and be approved by the Council's Corporate Management Team and Audit Committee to ensure that it remains relevant to the needs of the Council.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to review and approve the revised IA Charter.

INFORMATION

The IA Charter sets out how the IA service complies with the PSIAS across the following 14 key areas:

1. Purpose
2. Statutory Requirement
3. Responsibilities and Objectives
4. Status of IA within the Council
5. Authority and Rights of Access to Obtain Information
6. Scope of IA
7. Fraud and Corruption
8. Professional Standards
9. The IA Plan
10. Management of Internal Audit Engagements and Follow-up
11. Staff Training and Development
12. Proficiency and Due Professional Care
13. Reporting
14. Quality Assurance

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

None.

INTERNAL AUDIT

Internal Audit Charter

1. Purpose

1.1 The London Borough of Hillingdon Internal Audit (IA) Charter describes the *purpose*, *authority*, *responsibility and* position of the IA Service within the London Borough of Hillingdon. The Head of Internal Audit (HIA) is responsible for applying this IA Charter and ensuring it is kept up to date. The IA Charter shall be reviewed annually and be approved by the Audit Committee to ensure that it remains relevant to the needs of the Council.

2. Statutory Requirement

2.1 The Local Government Accounts and Audit Regulations 2011 require every local authority to maintain an adequate and effective internal audit of its accounting records and its systems of internal control. IA's work will be performed with due professional care in accordance with these regulations and in line with the UK Public Sector Internal Audit Standards (PSIAS).

2.2 The IA service provides assurance to all of its key stakeholders including the Audit Committee, senior management and in particular the Chief Financial Officer to help him discharge his statutory responsibilities under Section 151 (S151) of the Local Government Act 1972. An effective IA service will be seen as a catalyst for improvement at the core of the Council and will become recognised across the Council as a value added, trusted advisor and business assurance provider.

3. Responsibilities and Objectives

3.1 IA is defined in the PSIAS as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".*

3.2 IA is not responsible for control systems and managing risks. Responsibility for effective internal control and management of risks rests with the management of the Council.

4. Status of Internal Audit within the Council

4.1 IA is independent of all activities that it audits to enable internal auditors to perform their duties in a way that allows them to make professional and impartial judgements and recommendations.

4.2 The IA activity will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not engage in any activity that may impair their judgement.

4.3 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

4.4 The IA service is part of the Finance Directorate and is led by the HIA who reports directly to the Corporate Director for Finance (& S151 Officer) but also has unrestricted access to the independent Chair of the Audit Committee, the Chief Executive (& Corporate Director of Administration), External Audit (Deloitte), the Leader of the Council and all other Members and staff.

5. Authority and Rights of Access to Obtain Information

5.1 IA's authority is defined in statute and internally is derived from policies, procedures, rules and regulations established by the Council. This includes the IA Charter, the Council's Financial Regulations and the Employee Code of Conduct and Conditions of Service.

5.2 IA, with strict accountability for confidentiality and safeguarding information, is authorised to have full and unrestricted access to all Council records (both manual and computerised), Council property, and personnel pertinent to carrying out any engagement. All employees are requested to assist IA in fulfilling its roles and responsibilities. IA will also have free and unrestricted access to the Audit Committee.

6. Scope of Internal Audit

6.1 The HIA is required to give an annual opinion to the Council and to the Chief Financial Officer, through the Audit Committee, on the overall adequacy and the effectiveness of the Council's risk management, internal control and governance arrangements. In support of this, IA undertakes risk based assurance reviews.

6.2 IA also has the responsibility to provide consulting and advisory services to management relating to risk management, control and governance as appropriate for the Council. The IA service may also evaluate specific operations at the request of the Audit Committee or senior management, as appropriate. Before any consultancy work is agreed, the HIA will ensure that IA has the appropriate skills, resources and approval to undertake the review. The HIA will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future IA activity. This may include assigning this work to a different internal auditor.

7. Fraud and Corruption

7.1. IA does not have responsibility for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. IA procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. The Council's Corporate Fraud Investigations Team provides expertise in investigating fraud, corruption and malpractice. There is active joined-up working between IA and the Corporate Fraud Investigations Team.

7.2. Management has a responsibility to promptly inform the HIA of all suspected or detected fraud, corruption or improprieties. This allows consideration to be given to the adequacy of the relevant controls, and to evaluate the implication of fraud and corruption in informing the opinion on the Council's internal control environment.

8. Professional Standards

8.1. In undertaking its work, IA adopts the professional standards set out in the PSIAS. These have been set in collaboration with the UK Chartered Institute of Internal Auditors and the Chartered Institute of Public Finance & Accountancy.

9. The Internal Audit Plan

9.1. The IA plan is a crucial component of the annual assurance statement provided by the HIA to those charged with governance. In order to deliver this assurance it is vital to have a comprehensive IA plan which gives sufficient risk-based coverage.The HIA will seek to co-ordinate the IA plan using a risk based methodology, including input from senior management, the Audit Committee and other Members. The HIA seeks to ensure that the most effective IA coverage is achieved which focuses on the Council's key risks. Managers are required to ensure that key staff are available to IA during the agreed period of an IA review and for ensuring that information requested by IA is accurate, timely and reliable.

9.2. The IA plan is presented to the Council's Corporate Management Team (CMT) and Audit Committee for approval. Any significant deviation from the approved IA plan will be communicated to senior management and the Audit Committee through periodic activity progress reports.

10. Management of Internal Audit Engagements and Follow-up

10.1. For each audit engagement, a detailed Terms of Reference (ToR) will be prepared and discussed with the relevant managers. The ToR will establish the engagement's key risks and scope for the review that is aligned to service objectives. Each engagement will be sponsored by a member of the CMT and engagements intended to provide an audit assurance opinion will be undertaken using a risk-based approach. IA will promptly communicate its findings and conclusions with management, proposing recommendations to address any weaknesses. The HIA will inform the Council (via the Audit Committee) of any remaining material weaknesses.

10.2. A report will be prepared and issued following the conclusion of each IA engagement and will be distributed as appropriate to the review sponsor and key contact(s). The report will include an executive summary with a particular emphasis on risk management, internal control and governance strengths and weaknesses identified during the review. A management action plan is appended to reports (where applicable) which provides management with the opportunity to respond to the recommendation(s) raised and set out what action they propose to address the risk(s) identified by IA.

10.3. The HIA will have systems in place to ensure that internal auditors obtain and record sufficient evidence to support their conclusions and that they can demonstrate the adequacy of evidence obtained to support professional judgements. IA will follow-up all but 'low' risk-rated recommendations to establish if management has taken appropriate action to address any weaknesses identified. Escalation procedures are in place for any management responses that are judged to be inadequate in relation to the identified risk. These procedures will ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level.

11. Staff Training and Development

11.1. IA will be appropriately staffed in terms of numbers, professional qualifications and experience, having regard to its objectives and to the standards set out in the PSIAS. The staffing of IA will be kept under review by the HIA and the Audit Committee. All IA staff will be properly trained to fulfill their roles and responsibilities and they will each maintain their professional competence through an appropriate on-going continuing professional development programme. When necessary, in-house IA resources will be supplemented by external resources.

12. Proficiency and Due Professional Care

12.1. IA will abide by the Code of Ethics set out in the PSIAS. IA staff are bound by the two essential components of the Code of Ethics: 1) *Principle;* and 2) *Rules* of *Conduct,* applicable to the four elements of a) Integrity; b) Objectivity; c) Confidentiality; and d) Competency. IA will apply the four *Attribute Standards* and the seven *Performance Standards* set out in the PSIAS. Any instances of non-conformance with the Code of Ethics or the PSIAS that impact the scope or operation of IA activity will be reported to CMT and the Audit Committee. Internal auditors will also abide by the Committee on Standards of Public Life's *Seven Principles of Public Life.*

12.2. IA staff must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility. The HIA must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

13. Reporting

13.1. In agreement with those charged with governance (CMT and the Audit), the HIA will determine the way in which findings will be reported. Standards will be set for reporting and will include arrangements for the review and approval of reports by the HIA before issue. Reports will be balanced, clear, concise and constructive and will be issued within laid-down timescales.

13.2. The HIA will provide a written annual report to those charged with governance timed to support the Council's Annual Governance Statement. The annual report will provide the statutory opinion on the overall adequacy and effectiveness of the Council's system of internal control, risk management framework and corporate governance arrangements. The report will also include a summary of the work that supports the opinion, a statement on conformance with the PSIAS and the results of the IA quality assurance process (as detailed in section 14 below).

14. Quality Assurance

14.1. The work of Internal Audit will be controlled at each level of operation to ensure that a continuously effective level of performance, compliant with the UK Public Sector Internal Audit Standards (PSIAS) is being maintained. The HIA has developed a quality assurance and improvement programme designed to gain assurance that the work of Internal Audit is compliant with PSIAS and achieves its objectives. The quality assurance and improvement programme covers all aspects of the Internal Audit activity, including but not limited to:

- A Client Feedback Questionnaire (CFQ) that is sent out at the completion of each audit;
- Annual self-assessment of the service and its compliance with the PSIAS; and
- On-going internal performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

Proposed 2014/15 Training & Development Plan for Audit Committee Members

Contact Officer: Muir Laurie
Telephone: 01895 556132

REASON FOR ITEM

As requested by the Audit Committee at its meeting of 7 January 2014, a proposed Training and Development Plan has been produced for Audit Committee members. This plan aims to support the Audit Committee in discharging its duties effectively.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to review the proposed plan and approve it, with amendments suggested as applicable. Potential areas to consider include the following:

- **Are the topics proposed appropriate and does the scope and rationale meet expectations?**
- **Is a one hour duration the right length for each session?**
- **Should refreshments be provided as part of the sessions?**
- **When should these sessions be held? and**
- **Should these sessions be extended to include invitations to all Members or just be restricted to Audit Committee Members?**

INFORMATION

The proposed plan aims to provide guidance, advice and support to the Audit Committee in the following key areas:

- Corporate Governance;
- Internal Audit;
- External Audit;
- Anti-Fraud and Anti-Corruption;
- Risk Management; and
- Financial Reporting.

If approved, this training and development programme would form part of the Council's existing Member Training and Development Programme for the 2014/15 municipal year which is co-ordinated by Democratic Services.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

None.

HILLINGDON
LONDON

__Proposed:__ **Training & Development Plan for Audit Committee Members - 2014/15**

Subject	Scope	Rationale	Provided by	Provisional Timing
Overview of the Council's Corporate Governance arrangements	Overview of: • Principles of Corporate Governance; • The role of Audit Committee in demonstrating good governance; • Local Code of Corporate Governance; • Nolan's Seven Principles of Public Life; and • Annual Governance Statement.	This training aims to support Audit Committee members on Corporate Governance matters and update them of changes which may have occurred in the past 12 months.	Policy Team / Internal Audit	June 2014

The role of External Audit	Overview of:
	• External Audit roles and responsibilities;
	• Statutory powers including the review of:
	  - final accounts;
	  - Treasury Management Strategy; and
	  - Grant claims.
		Gain an understanding of External Audit's role as an assurance provider and the services they supply to the Council.	External Audit (Deloitte)	September 2014

The role of Internal Audit (IA)	Overview of: • IA roles and responsibilities; • IA Plan; • IA Charter; • IA Strategy; and • IA process from risk identification through to final report stage	Gain an understanding of IA's role as an assurance and consultancy provider to the Council.	Internal Audit	October 2014

	including the follow-up of recommendations.			

Subject	Scope	Rationale	Provided by	Provisional Timing
Overview of the Council's Financial Reporting arrangements	Overview of: • Financial statements; and • Treasury Management (strategy and process).	An introduction for Members assisting them in their oversight of the Council's financial statements and Treasury Management strategy.	Finance	November 2014
Overview of the Council's approach to Anti-Fraud and Anti-Corruption	Overview of: • Relevant policies and procedures; • Relevant legislation; and • Public Sector Internal Audit Standards (PSIAS) and its relation to Anti-Fraud and Anti-Corruption work.	Understanding Anti-Fraud and Anti-Corruption arrangements which are in place at the Council.	Corporate Fraud Investigations Team / Internal Audit	December 2014
Overview of the Council's approach to Risk Management	Overview of: • Risk Management Strategy; • Risk Management Policy; • Risk Management process. • Roles and responsibilities of the Corporate Risk Management Group; and • Risk Registers (Corporate and departmental).	This training aims to provide Members with a clear and concise understanding of the Council's Risk Management process including identification, mitigation and escalation of risks at a Corporate and departmental level.	Policy Team / Internal Audit	March 2015

Delivering the Annual Governance Statement (AGS) 2013-14

Contact Officer: Kevin Byrne
Telephone: 0665

SUMMARY

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

2. The Council is utilising the framework developed over the past five years to evaluate the management of internal controls, risk and control assurances across all services. This will conclude with a formal statement outlining overall performance and any measures needed to address identified weaknesses as part of the Statement of Accounts. The Corporate Governance Working Group (CGWG) will provide leadership and support to compile the 2013-14 AGS.

REASON FOR REPORT

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

RECOMMENDATION

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

BACKGROUND INFORMATION

<u>AGS Requirements</u>

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

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

Progress on the AGS 2013-14

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

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

8. The Corporate Governance Working Group will guide and oversee the delivery of the AGS. The group will ensure that key changes to governance arrangements and control systems are reported, review actions against control weaknesses identified in the AGS 2012-13 and highlight cross-council assurance sources.

9. Gathering assurance statements is a central component of the AGS. In discharging this accountability senior officers are responsible for putting in place proper risk management processes and internal controls to ensure the right stewardship of resources. Group Directors and Heads of Service are required to submit assurance statements by the 4th April 2014.

10. The 2013-14 AGS will be presented to the Audit Committee in June 2014 for comment and approval.

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