



HILLINGDON
LONDON



Audit Committee

Members on the Committee

Rajiv P Vyas (Chairman)
Cllr Richard Lewis (Vice-Chairman)
Cllr Tony Eginton (Labour Lead)
George Cooper
Susan O'Brien

Date: TUESDAY, 16 DECEMBER
2014

Time: 5.00 PM

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

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

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<http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=256&Mid=2036&Ver=4>

Putting our residents first

Lloyd White
Head of Democratic Services
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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 23 September 2014 **(Pages 1-6)**
- 4 Exclusion of Press and Public
To confirm that all items marked Part I will be considered in public and that any marked Part II will be considered in private.
- 5 Deloitte - 2014/15 Annual Audit Plan **(Pages 7-30)**
- 6 Corporate Fraud Investigation Progress Report **(Pages 31-38)**
- 7 Internal Audit Progress Report Quarter 3 2014/15 and Plan Amendments **(Pages 39-60)**
- 8 Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2019/20 **(Pages 61-78)**
- 9 Proposed 2015/16 Training and Development Plan for Audit Committee Members **(Pages 79-82)**
- 10 Audit Committee Work Programme **(Pages 83-86)**

PART II

- 11 Risk Management Report 2013/14 **(Pages 87-108)**

Agenda Item 3

Minutes

Audit Committee

Tuesday 23 September 2014

Meeting held at Committee Room 4- Civic Centre,
High Street, Uxbridge UB8 1UW



HILLINGDON
LONDON

	<p>Members Present: Councillors George Cooper (Vice-Chairman - In the Chair), Peter Davis, Tony Eginton and Susan O'Brien.</p> <p>Apologies: Councillor Richard Lewis (Councillor Peter Davis substituting).</p> <p>Officers Present: Dan Kennedy (Head of Performance and Improvement), Sarah Hydrie (Assistant Internal Audit Manager), Sian Kunert (Chief Accountant), Muir Laurie (Head of Internal Audit), Nancy Le Roux (Deputy Director of Strategic Finance), Paul Whaymand (Corporate Director of Finance) and Khalid Ahmed (Democratic Services Manager).</p> <p>Others Present: Heather Bygrave and Sam Maunder (External Auditors - Deloitte).</p>
15.	<p>DECLARATIONS OF INTEREST</p> <p>Councillor Tony Eginton declared a Non-Pecuniary Interest in Agenda Item 6 – External Auditor Report on the Pension Fund Annual Report and Accounts because he was a deferred Member of the Local Government Pension Scheme. He remained in the room and took part in discussions on the item.</p>
16.	<p>MINUTES OF THE MEETINGS HELD ON 30 JULY AND 10 SEPTEMBER 2014</p> <p>Agreed as accurate records, subject to an amendment to the Minutes of the meeting held on 30 July, 2014, Minute No 2 - Declarations of Interest, so that it reads:- "Councillor George Cooper declared a Non-Pecuniary Interest in Agenda Item 5 - Corporate Fraud Investigation Report because one of the prosecutions related to a constituent who he knew as a resident. He remained in the room and took part in discussions on the item."</p>
17.	<p>EXCLUSION OF THE PRESS AND PUBLIC</p> <p>It was agreed that all the items on the Agenda be considered in public with the exception of Agenda Item 10 - Risk Management.</p>
18.	<p>APPROVAL OF THE 2013/14 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2014</p> <p>Consideration was given to a report which summarised the</p>

	<p>findings of the External Auditor on the audit of the 2013/14 Statement of Accounts.</p> <p>Deloitte reported that, subject to completion of some minor procedures, an unqualified opinion would be given and the Statement of Accounts would be given a 'true and fair' view. In addition an unqualified conclusion would be issued on the Council's arrangements for securing value for money.</p> <p>Deloitte reported on the significant audit risks which were as follows:-</p> <ul style="list-style-type: none"> • Grant Income Recognition - Grant income was £475.6m for the year which from Deloitte testing was appropriate • Bad Debt Provision against sundry debt - Testing concluded that the sundry debt provision balance of £25.2m with a provision of £13.4m was within a materially reasonable range • Recording of capital spend - No significant issues had been identified and the proposed re-classification of an asset under construction to a surplus asset was accepted by management • Management Override of Controls - No weaknesses had been identified. <p>Reference was made to internal control observations and documentation of valuation methodology. Members were informed that Deloitte had identified several assets within the same category which had been valued using different methodologies. It was suggested that although this approach had been reasonable, that documentation of the rationale for a particular methodology be improved.</p> <p>RESOLVED -</p> <ol style="list-style-type: none"> 1. That the Committee considered and approved the Statement of Accounts for 2013/14. 2. That the Auditors findings and adjustments as outlined in Appendix 1 to the report be noted. 	Action By:
19.	<p>EXTERNAL AUDITOR REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS</p> <p>Members were reminded that regulations required the auditor's report to be communicated to the Audit Committee as the body charged with governance of the Council's accounts.</p> <p>Members were informed that the Council would be issued with an unmodified audit opinion.</p>	

	<p>Reference was made to the Pension Funds audited accounts and that for next year this Committee would be provided with an opportunity to satisfy themselves of their accuracy.</p> <p>Members reviewed the Pension Fund Annual Report & Accounts, and noted that these would also be approved by the Pensions Committee.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1. That the auditor’s findings contained in the report be noted and agreed. 2. That the Committee considered and approved the Accounts of the Pension Fund. 	
20.	<p>DELOITTE – ANNUAL AUDIT LETTER – DRAFT</p> <p>Deloitte’s Draft Annual Audit Letter provided a summary of the expected conclusions from their external audit work undertaken for the year ended 31 March 2014.</p> <p>Members were informed that the letter identified the key areas of Deloitte's work over the year and these were summarised as follows:</p> <ul style="list-style-type: none"> • The Council's Financial Statements – the Council would be issued with an unqualified opinion on the Council’s accounts for the year ended 31 March 2014. • The Local Government Pension Scheme Annual Report – An unqualified opinion on the information in the Council’s pension scheme annual report for the year ended 31 March 2014 would be issued. • Value for Money conclusion – An unmodified conclusion on the Council's arrangements for securing value for money during the year ended 31 March 2014 would be issued. • Whole of Government Accounts – work was ongoing on the audit of the WGA and was expected to be completed by 4 October 2014. • Grants Certification – Members were informed that there would be a separate letter on grant certification issued to the Committee early in 2015. <p>RESOLVED -</p> <ol style="list-style-type: none"> 1. That the Committee noted the report and that a final version would be copied to Members prior to submission to the Audit Commission. 	

21.	<p>INTERNAL AUDIT - PROGRESS REPORT FOR QUARTER 2 2014/15</p> <p>The Head of Internal Audit presented the report which provided summary information on all Internal Audit work covered in relation to the 2014/15 Internal Audit Plan, together with assurance levels in respect of the quarter two period.</p> <p>Members were informed that during this quarter, the new Internal Audit software, TeamMate, had been used. This software would increase the effectiveness and efficiency of the internal audit process and would improve monitoring, follow-up work and tracking of recommendations by management.</p> <p>Reference was made to the risk based thematic school reviews which had taken place and Members were informed that this new approach had been well received by schools.</p> <p>The Committee was informed that in relation to the assurance review at Chantry school, the audit had been finalised and almost all recommendations had been implemented. The Committee congratulated the Internal Audit Team on the comments received from Chantry School on the work which the team had carried out during their audit.</p> <p>Discussion took place on Internal Audit reviews which had been deferred and Members were assured that these would be on track for quarter 3.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1. That the Internal Audit progress report for 2014/15 Quarter 2 be noted. 2. That the coverage, performance and results of Internal Audit activity be noted. 	
22.	<p>WORK PROGRAMME 2014/15</p> <p>Noted.</p>	
23.	<p>RISK MANAGEMENT REPORT 2013/14</p> <p>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed ‘information relating to the financial or business affairs of any particular person (including the authority holding that information)’ (paragraph 3 of the schedule to the Act).</p>	

	<p>Discussion took place on the summary of changes in risks and officers responded to questions asked by Members.</p> <p>In relation to a point regarding recruitment and retention, the Committee asked for information on the percentage breakdown of agency / temporary staff to full time posts, within the Council.</p> <p>RESOLVED –</p> <p>1. That the Committee reviewed the Corporate Risk Register (as at the end of June 2014), as part of the Committee's role to independently assure the risk management arrangements in the Council.</p>	Action By:
	<p>The meeting which commenced at 5.00pm, closed at 5.55pm</p> <p>Next meeting: 16 December 2014 at 5.00pm</p>	

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

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Deloitte – 2014/15 Annual Audit Plan

Contact Officer: Nancy Leroux
Telephone: 01895 250353

SUMMARY

The attached document sets out the initial plans for the 2014/15 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 will be produced for the pension fund audit and brought to Committee in March 2015.

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 2014/15 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 £10.1m. Deloitte plan to report on all unadjusted misstatements greater than £0.505m.

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

- Recognition of grant income
- Recording of capital spend
- Management override of key controls
- Upgrade of Oracle financial system

Deloitte have also identified a potential risk from a change in accounting for schools as guidance is still emerging in this area.

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

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

Deloitte carry out work on behalf of the Audit Commission to certify grant claims. In 2014/15 Deloitte will audit the Housing benefits subsidy claim under the requirements of section 28 of the Audit Commission Act 1998.

TIMETABLE

The main timetable remains unchanged with the deadline for draft accounts being 30 June and the audit opinion due by 30 September 2015.

FEES

The proposed fees for the 2014/15 audit are as follows:

	2014/15	2013/14
	£'000	£'000
Main Accounts	207.1	207.1
NNDR testing	3.5	3.5
Pension Fund Accounts	21.0	21.0
Grant Claim Certification	<u>TBC</u>	<u>45.3</u>
Total Fees	TBC	276.9

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

London Borough of Hillingdon Planning Report to the Audit Committee for year-ending 31 March 2015



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I am delighted to present this planning report for the 2014/15 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



1. The big picture

Key developments for the audit of the year ending 31 March 2015

Council developments (at month 6)

- The Council is forecasting a General Fund outturn net expenditure of £209.6m, which represents a £2.6m underspend compared to budget.
- The 2014/15 revenue budget includes a £16.5m savings plan, of which we are informed by officers that £13.4m (81%) is banked or on-track for delivery.
- The General Fund Capital forecast is a £21.9m underspend against the revised budget of £111.1m. This is largely due to the re-phasing of capital projects from 2014/15 to the period 2015/16-2018/19.
- The Collection Fund is forecasting net income which is £2.2m higher than budget. This is largely being generated by an increase in Council Tax income yield due to new developments in the Borough.
- The Housing Revenue Account is forecasting a £4.2m underspend, mostly relating to planned maintenance. We understand this is largely the result of a re-phasing of the programme.
- Plans are underway to upgrade to Oracle financials. The go-live date has been deferred but is still expected to take place in the 2014/15 financial year.

National / regulatory changes

- The 2014/15 Code includes a number of clarifications, and also introduces a number of new IFRS standards. The key points include:
 - Introduction of a set of IFRS standards relating to group reporting and consolidation.
 - Introduction of IAS 32 Financial Instruments: Presentation.
 - Clarification regarding presentation of information relating to changes in accounting policy.
- The Code also attempts to clarify reporting requirements for local authority maintained schools. CIPFA are currently consulting on the practical implications of implementing this guidance.

	2014/15 revised budget £m	2014/15 forecast £m	Forecast variance £m
General Fund net expenditure	212.2	209.6	(2.6)
General Fund capital programme	111.7	89.8	(21.9)
Collection Fund net (income)	(148.1)	(150.3)	(2.2)
Housing Revenue Account (surplus)	-	(4.2)	(4.2)

Materiality

- We have estimated materiality of £10.1m, which is consistent with the 2013/14 audit. We will revisit our estimate of materiality on receipt of the draft financial statements.
- Based on the above materiality, we plan to report to the Audit Committee on all unadjusted misstatements greater than £505k (2013/14: £505k) and other adjustments that are qualitatively material.

Significant audit risks

- A summary of our proposed significant audit risks is include below.
 - Recognition of grant income.
 - Recording of capital spend.
 - Management override of key controls, as presumed by auditing standards.
 - **Upgrade of Oracle financial system.**
- New significant risks for the 2014/15 year have been highlighted in bold.

We have also identified a potential significant risk regarding accounting for schools.



2. Our audit quality promise

In the prior year audit plan we put forward our audit quality promise where we identified a range of key quality metrics against which we expected to be measured. We believe that we have delivered all of the key quality promises in 2013/14 and propose to continue with the following actions in the current year:

Year round communication	Delivered in 2013/14?
<ul style="list-style-type: none"> We will hold bi-monthly meetings with the Council finance team to discuss audit progress and emerging issues. 	✓
<ul style="list-style-type: none"> We will hold annual meetings with Fran Beasley and Ray Puddifoot to understand key Council developments and their implications for the external audit. 	✓
<ul style="list-style-type: none"> We will arrange to meet with the incoming Audit Committee Chairman to discuss preference for communication and hold an annual private meeting. 	X*

* Audit Committee Chair was not appointed during the 2013/14 financial year. We have arranged to meet with the incoming Audit Committee Chair, Rajiv Vyas, ahead of the December 2014 audit committee meeting.

Main audit period	Delivered in 2013/14?
<ul style="list-style-type: none"> 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. 	✓
<ul style="list-style-type: none"> We will hold a close meeting ahead of drafting our Audit Committee papers. 	✓

Responding to queries and requests	Delivered in 2013/14?
<ul style="list-style-type: none"> We will always endeavour to respond to queries and requests within 24 hours of receipt and give definitive timescales for their resolution. 	✓
<ul style="list-style-type: none"> We will proactively arrange meetings to discuss any significant technical accounting developments, or changes to quality report arrangements, as soon as they are issued. 	✓

Open feedback process	Delivered in 2013/14?
<ul style="list-style-type: none"> We will carry out debrief meetings with the Audit Committee Chairman, 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. 	✓
<ul style="list-style-type: none"> We will respond to this feedback with agreed actions and timescales. 	✓
<ul style="list-style-type: none"> We will also seek direct feedback through regular meetings during the year. 	✓

3. 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.

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.

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.

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.

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.

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.

3. Scope of work and approach (continued)

Approach to controls testing

As set out in our "Briefing on audit matters" previously provided to the Council, 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.

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.

Risk assessment

Below we have summarised the sources we have drawn upon in undertaking our initial risk assessment and preparing this audit plan:

Internal audit	We have reviewed the internal audit plan and the reports issued by internal audit to date in the 2014/15 financial year. We have also held discussions with internal audit regarding key findings to date. We will continue to liaise with internal audit and review further reports as they are issued.
Audit Committee / Cabinet / Council meetings	We have reviewed the papers and minutes of these meetings in order to gain an understanding of relevant and significant events in the year to date. We will continue to attend audit committee meetings and review papers and minutes of Cabinet and Council meetings for the remainder of the financial year.
Meetings with Officers	We have regular meetings with members of the finance team to understand key developments. As outlined on page 3, we will continue to do this both outside and during the main audit period.
Review of financial performance and financial planning	We have reviewed the monthly finance reports for the year to date, and the latest Medium Term Financial Forecast (MTFF). We have summarised the key points relating to revenue and capital plans, and the potential impact on the external audit, on pages 6 and 7.
Consideration of relevant accounting changes	We have reviewed the 2014/15 Code of Practice on Local Authority Accounting and considered the potential impact of changes on the Council's financial statements. Whilst the changes to the Code for 2014/15 are not significant, the potential risk relating to accounting for schools (page 11) has arisen from this review.

Liaison with Internal Audit

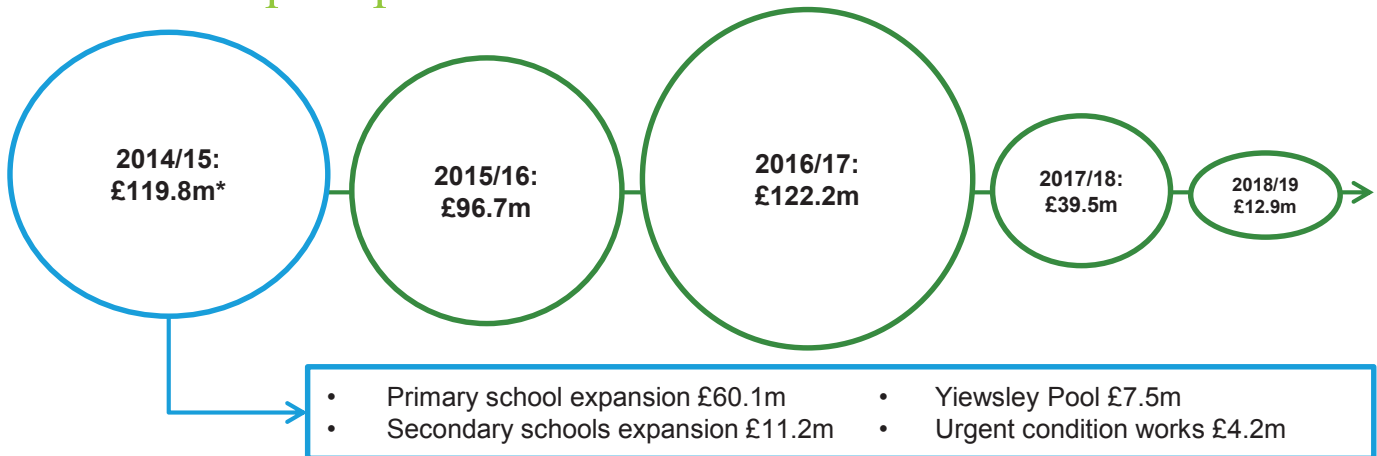
The Auditing Standards Board has issued a revised version of ISA (UK and Ireland) 610 "Using the work of internal auditors". This prohibits use of internal audit to provide "direct assistance" to the audit with effect from 2014/15. Our approach to the use of the work of Internal Audit has been designed to be compatible with the new requirements.

The audit team, following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit department, will review the findings of internal audit and adjust the audit approach as is deemed appropriate. As noted above, we have reviewed internal audit reports issued to date, and will continue to review and consider these as they are issued.

3. Scope of work and approach (continued)

On the following pages we have provided a summary of our review of the Council's Medium Term Financial Forecast (MTFF), undertaken as part of our financial performance and financial planning review. We have provided a high-level summary of the key capital and revenue plans, and the potential implications from an external audit perspective.

Estate / capital plans



* Taken from Medium Term Financial Forecast- month 6 forecast general fund capital spend reports a forecast spend of £89.8m.

Summary

The Medium Term Financial Forecast shows an estimated £391m capital spend over the next five years, with the majority of that spend within the first three year. Capital plans extend across all key directorates and sites, with the most significant projects being the completion of the primary and secondary schools programme. Funding will largely be obtained from prudential borrowing (38%) and Government grants (44%).

Impact on the financial statements audit

The significant level of capital expenditure presents a number of risks. The first relates to the volume of activity and the judgement in determining whether expenditure is revenue or capital in nature. We have identified this as a significant audit risk on page 9.

The second element relates to the timing of completion of capital projects and the presentation of such assets in the notes to the financial statements. Whilst we recognise this as a risk, we do not consider it to be material in nature and so we have not classified this element as a significant audit risk.

Other potential impact

Under our value for money responsibilities we are required to consider whether the Council has arrangements in place to secure economy, efficiency and effectiveness in its use of resources. In this area, areas for consideration might include overspend on material projects or issues relating to weaknesses in the Council control environment.

In undertaking our initial risk assessment, we have not identified any such concerns at this time. However, we will continue to monitor performance and if we identify any areas of concern we will discuss these with Council officers in the first instance.

3. Scope of work and approach (continued)

General fund revenue and savings plans

	2014/15	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m	£m
Resources	212.2	204.3	203.9	200.6	199.2
Pressures, contingency etc.	13.8	21.1	34.8	44.0	50.4
Savings requirement*	(12.8)*	(28.1)	(42.1)	(54.6)	(62.3)

* Represents the financial savings target required to achieve a balanced budget. The savings requirement is calculated after consideration of the anticipated pressures and contingency shown above. The £12.8m savings requirement noted above for 2014/15 has been taken from the MTFF presented in February 2014. This has since increased to a £16.5m savings plan, as quoted on page 2.

Summary

The MTFF shows a reduction in resources over the medium term, largely driven by a reduction in Revenue Support Grant. This is partially offset by a planned increase in council tax and business rate income.

The Council's savings requirement is largely driven by the need to mitigate against this net reduction in income, and to offset inflationary and service pressures.

The £12.8m savings requirement noted above for 2014/15 has been taken from the MTFF presented in February 2014. This has since increased to a £16.5m savings plan, as quoted on page 2. At month 9 the Council reported that £13.4m (81%) is banked or on-track for delivery.

Impact on the financial statements audit

The Council's savings programme does not have a direct impact on the external audit of the financial statements, although the impact of achievement or non-achievement will clearly be seen in the results at the end of the financial year, which are subject to audit. We will also consider financial planning as part of our going concern review.

Other potential impact

The planning and reporting of savings and the Council's arrangements to secure financial resilience are one of the key areas we consider as part of our value for money responsibilities.

As part of our initial value for money risk assessment (discussed further on page 13), we have reviewed the Council's historic record of achieving savings, and the arrangements around savings plans in the current and future years. Whilst we note the reported 81% year to date position, we will continue to monitor this area, including the extent of plans for future years, as part of our ongoing work.

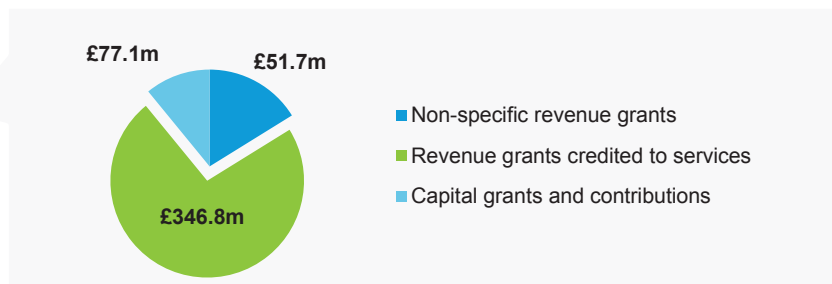
4. Significant audit risks

Grant income recognition

2013/14

Income (£m)
£475.6m

Actual



Nature of risk

We identified recognition of grant income as a significant risk due to:

- complex accounting for grant income, as the basis for revenue recognition in the financial statements will depend on guidance associated with each individual grant; and
- significant management judgement over determining if there are any conditions attached to a grant, and whether conditions have been met.

Whilst central government grant income is reducing on an annual basis, and no significant errors were identified from the testing undertaken in the 2013/14 audit process, it remains a significant area of income for the Council.

Key judgement areas, its impact on the financial statements and our audit challenge

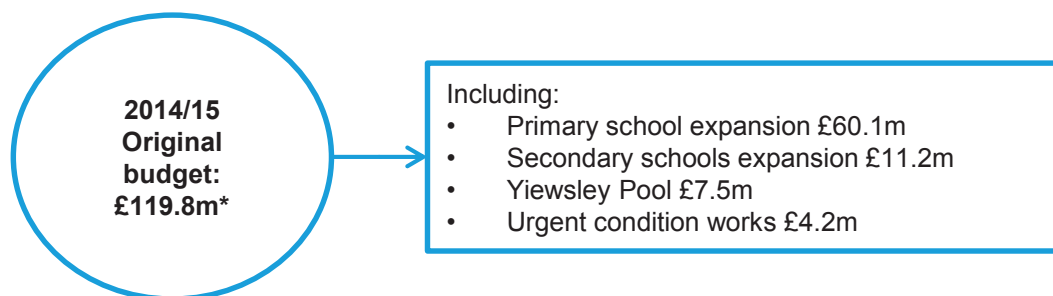
We will carry out detailed testing of grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled.

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.

4. Significant audit risks (continued)

Recording of capital spend



* Taken from MTFF- month 6 forecast general fund capital spend reports a forecast spend of £89.8m.

Nature of risk

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

- A forecast of significant capital spend in 2014/15.
- There being a significant management judgement over classification of expenditure on whether it is capital or revenue in nature, and when a project has been completed and ready for use.

Key judgement areas, its impact on the financial statements and our audit challenge

We will perform detailed sample 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 de-recognised.

We will also perform detailed sample testing on repairs and maintenance accounts to identify capital expenditure that has been incorrectly treated as revenue.

4. Significant audit risks (continued)

Management override of controls

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 significant risk in relation to management override, its potential impact on the financial statements and our planned audit challenge

Our work will focus on:

- the testing of journals, using data analytics to focus our testing on higher risk journals;
- significant accounting estimates. In addition to the estimates discussed above in respect of grant income recognition, we will also consider expenditure and debt provisions, and accruals; and
- any unusual transactions or one-off transactions, including those with related parties.

Our wider response to the risk of fraud is set out in Appendix 1.

Other audit work planned to address the significant risk

In considering the risk of management override, we will:

- assess the overall position taken in respect of key judgements and estimates; and
- consider our view on the overall control environment and 'tone at the top'.

4. Significant audit risks (continued)

Oracle finance system upgrade

Nature of risk

The Council is in the process of upgrading its finance system to Oracle R12. We understand that the go-live implementation date has been deferred, but is expected to take place ahead of the year date of 31 March 2015.

Given the all encompassing nature of such a change on financial reporting, we consider there to be a pervasive risk to the financial statements.

Key judgement areas, its impact on the financial statements and our audit challenge

We will understand the arrangements the Council has in place regarding the transition to the new system, including the control checks put in place and testing of the completeness of the data transfer.

We will focus our testing on the risks to the financial statements, including the completeness of the transfer of trial balance data, the reporting format of the new systems and review of the various reconciliations and testing undertaken by the Council internally.

5. Other audit risks

We have identified the following risk as a potential significant audit risk. This is because at the current time, CIPFA has issued a consultation concerning the practical considerations of accounting for schools, but no 'final' guidance has been issued. We will monitor this potential risk and work closely with the Council finance team to address it.

Accounting for schools

Nature of risk

The 2014/15 Code of Practice on Local Authority Accounting includes a section covering the 'reporting requirements for local authority schools within the control of local authorities'. This addition was in response to differing practices being adopted by local authorities regarding the consolidation of schools in the local authority financial statements. The Council currently recognises the non-current assets of community schools, but not foundation or voluntary aided schools.

Following the publication of the Code, there have been several CIPFA technical bulletins and consultations, which attempt to clarify queries regarding accounting for different categories of schools, and specifically schools which are aligned with a religious or charitable body. At the time of issuing this report, definitive guidance has not yet been published.

There are several potential implications for the financial statements in relation to the above, including the application of a change in accounting policy and the recognition of school non-current assets on the balance sheet.

Given the emergent nature of this issue, we are currently working with the Council finance team to understand the potential implications of this change across different scenarios. If accounting guidance is updated prior to the preparation of the financial statements, we will reconsider whether we still consider this to be a significant risk.

Key judgement areas, its impact on the financial statements and our audit challenge

There are two key judgement areas regarding this risk. Firstly, regarding the Council's interpretation and application of the available guidance regarding the recognition of school assets, and secondly, how such assets are recognised on the balance sheet.

We will undertake the following procedures:

- Perform testing on the design and implementation of controls regarding the identification, classification and valuation of schools and their assets, including reviewing the Council's interpretation against available guidance.
- Perform sample testing on a sample of schools to test the classification, and to test how non-current assets have been accounted for.

We note that the current guidance is likely to develop ahead of the financial year-end. The Council finance team is aware of the current uncertainties regarding this issue and we understand they have been in contact with CIPFA directly. As noted above, we will reconsider whether this is a significant audit risk as further guidance is issued.

6. 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 2015
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 Council'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 is none expected in 2014/15; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Preliminary assessment

Our preliminary assessment, based on information reviewed to date, 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 Hillingdon Council.

In stating the above, we draw attention to our review of the MTFF on page 7, and specifically the Council's reported revenue savings requirements. We will continue to monitor this area during the course of our audit work, consider whether it presents a risk to the VFM conclusion, and undertake additional procedures where necessary.

During the course of the year we will update our risk assessment to take account of the outturn financial and performance information for 2014/15, 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.

7. 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.

Grants expected to require certification relating to the 2014/15 year

Housing benefits subsidy claim (BEN01)

8. 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 Council 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 previously.
- Our Audit Quality Promise provide the details of additional procedures we have agreed with you we will perform alongside the audit of the financial statements.
- 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

4 December 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.

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 2015 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 2014/15

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	207.1	207.1
Additional procedures in respect of non-domestic rates ¹	3.5	3.5
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	21.0
	231.6	231.6
Fees payable for the certification of grant claims ²	TBC	45.3
Total fees payable in respect of our role as Appointed Auditor	TBC	276.9
Non audit fees		
Deloitte Real Estate contract monitoring engagement ³	5.0	53.6

¹ This fee represents the additional procedures required in respect of audit testing non-domestic rates following the removal of grant certification work in this area in 2013/14. The 2013/14 fee was agreed by the Council and the Audit Commission, but we are currently awaiting confirmation from the Audit Commission in relation to the 2014/15 fee.

² The Audit Commission website includes an indicative 2014/15 grants scale fee for Hillingdon as £66,350. This is an indicative fee only and requires further review and discussion with Officers and the Audit Commission.

³ Deloitte Real Estate has been monitoring the delivery of a building contract for the expansion of 6 primary schools. 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. The above 2014/15 figure is an estimate of the costs to finalise the project, which is expected to be completed in the current financial year.

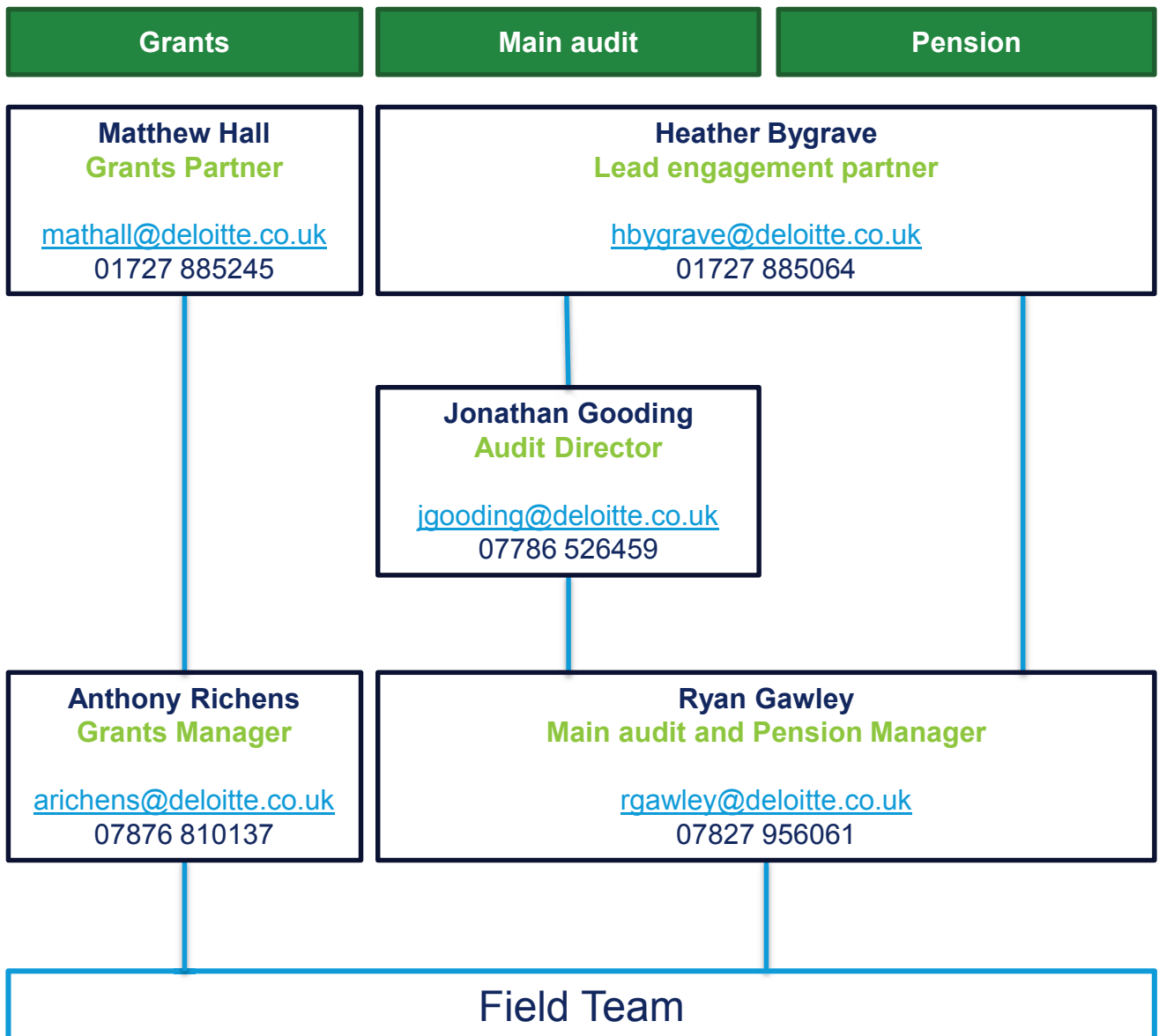
Appendix 2: Prior period misstatements

There were no uncorrected misstatements in the 2013/14 year

The Council corrected all significant misstatements and disclosure deficiencies identified through the 2013/14 audit.

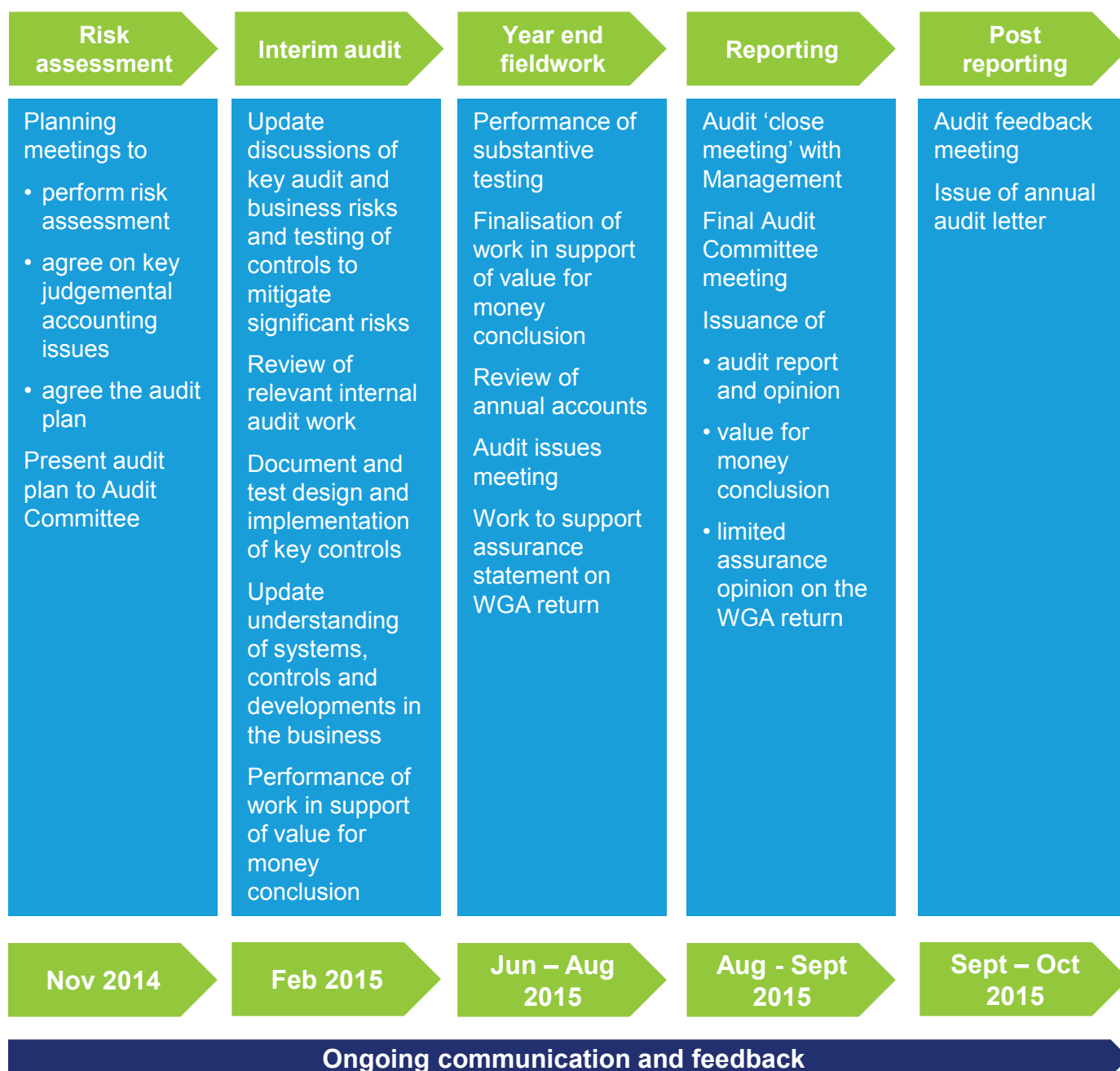
Appendix 3: Your audit team

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.





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Member of Deloitte Touche Tohmatsu Limited

Corporate Fraud Investigation Progress Report

Contact Officers: Garry Coote
Telephone: 01895 250369

REASON FOR ITEM

To inform members of the work undertaken by the Corporate Fraud Investigation Team (CFIT) from April 2014 to September 2014.

OPTIONS AVAILABLE TO THE COMMITTEE

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

INFORMATION

1. Roles and Responsibilities

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

1.2 In September 2014 the Leader agreed a Business Case to re-structure the Corporate Fraud Investigation Team (CFIT) with effect from October 2014. This re-structure will ensure a fully resourced Fraud Team to deliver the Council's aim to detect and prevent fraud through a zero tolerance approach and take appropriate action against offenders.

1.3 Corporate Investigation Team activities since April 2014 included:

- Social Housing fraud
- Council Tax/Business Rates inspections
- Right to Buy investigations
- First time buyer investigations
- Proceeds of Crime investigations
- Temporary Accommodation and Housing Needs Reception
- Grants and Blue Badge prosecutions
- Empty Properties Project
- Single Fraud Investigation Service (SFIS) pilot (Q1 only).

2. Performance Outcomes April 2014– September 2014

2.1 Social Housing Fraud

Blow the whistle on Housing Cheats poster appears in every issue of Hillingdon People, this helps to generate calls to our fraud hotline, and all referrals are fully investigated. In October 2013 the Government passed legislation to criminalise sub-letting fraud. On conviction, tenancy fraudsters face up to two years in prison or a fine. Hillingdon will use these powers to prosecute suitable cases.

The Audit Commission, in their report 'Protecting the Public Purse 2014' estimated that nationally it costs councils on average £18,000 a year for each family placed in temporary accommodation.

From April to September 2014 this would equate to a saving of £ 522,000 by detecting housing tenancy fraud and recovering 29 properties. As shown in table 1. These properties have been re-let to residents with genuine housing need.

Table 1

Social Housing Fraud						
	Q1 2014/15		Q2 2014/15		YTD 2014/15	
	Number	Savings	Number	Savings	Number	Savings
Social Housing properties recovered	18	£324,000	11	£198,000	29	£522,000

We are currently working with a credit reference agency (Experian) to data match all Hillingdon's housing tenancy records with credit reference data. These matches will identify if tenants are linked to another address other than their council property, if they have a mortgage for a different address or if there are people other than the registered tenants living at the property. Results from this exercise should take effect from February 2015.

Examples of combating social housing fraud are publicised in Hillingdon People. These articles often describe the improved quality of life for Hillingdon residents who have been allocated the tenancy of a recovered property. This generates positive feedback from residents and encourages reporting of suspected social housing fraud.

To increase awareness of social housing fraud with residents the Corporate Fraud Investigation Team will be promoting their work at residents meetings from January 2015.

2.2. Council Tax and Business Rates Inspections

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

From April to September 2014 over 5,000 visits were carried out. The visiting programme is very intense and officers are trained in all areas of work to ensure an efficient and planned approach to all visits.

Council Tax Inspections are generally reactive and identify the status of those claiming single person discount and other discounts. Where the visit establishes the wrong amount of Council

Tax is being charged the account is changed and the person re-billed. 3,585 Council Tax inspection visits have been made from April to September 2014.

Business Rate inspection visits are carried out to check occupation status of commercial premises to ensure the Council maximises the non domestic rate revenue. Similarly, the new build visits are carried out to ensure properties are rated for domestic or business rates as soon as they are completed. It is estimated that for the 2 year period from April 2014 there will be approximately 1,400 new build properties being developed in Hillingdon. This represents a significant amount of additional revenue. 2022 visits were made between April and September 2014 to check Business Rates and New Build Inspections.

Table 2

Council Tax and Business Rates Inspections			
2014/15			
	Q1	Q2	Income
Number of Council Tax Inspections	1752	1833	Increase in CT revenue«
Number of Business rates and New Build Inspections	950	1072	Increase in Business Rate/New Build revenue«

« Data is not specifically recorded of the increased revenue from CFIT inspections. This additional income contributes to the overall Council Tax and Business Rates revenue.

Since July 2014 the number of Business Rates inspectors has increased from 2 to 4 Officers through MTFE funding, this will enable more inspection visits to be carried out and also facilitate the development of new initiatives to detect business Rates avoidance. These initiatives include data matching Business Rates records to highlight new or unregistered businesses and maximising potential Business Rate revenue through expanding charging opportunities, for example charging business rates for advertising hoardings.

Inspection visits verify that the correct Council Tax or Business Rates are being charged, any discrepancies identified result in revised bills to residents and businesses.

2.3 Right to Buy

From 1st July 2014 all Right to Buy applications have been verified by the Corporate Fraud Investigation Team. Prior to this date only applications associated with housing benefit were examined. Table 3 shows the results from April to September 2014.

Table 3

Right to Buy			
2014/15			
	Q1	Q2	Savings
Number of Right to Buy visits	11	41	
Number of applications rejected	3	1	£359,300 (discount) +

From 1st December the Council is introducing a new form to capture additional information from prospective Right to Buy applicants. This form has been designed with input from the Corporate

Fraud Investigation Team to ensure relevant information is collected to enable comprehensive checks to be made on the funding of the purchase and to verify eligibility for the scheme.

2.4 First Time Buyer Applications

Unannounced visits are carried out to verify owner details and to ensure that the conditions of the scheme are not being abused. In Q1 there was 1 case investigated where there was evidence that the first time buyer was sub letting their property. This was clearly an abuse of the scheme, as a result of our investigations the owner repaid £12,025.

Table 4

First Time Buyer Applications						
	Q1 2014/15		Q2 2014/15		YTD 2014/15	
	Number	Income	Number	Income	Number	Income
Number of First Time Buyer Visits	40		32		72	
Number of cases under investigation	1	£12,025	-	-	1	£12,025

2.5 Proceeds of Crime Investigations

The role of the Accredited Financial Investigator within the Corporate Fraud Team is crucial in the fight against fraud and offences including breaches of planning, trading standards and other regulations. The aim is not only to prosecute serious offenders but also to look at recovering additional monies where a criminal lifestyle can be demonstrated, or where a person has been able to purchase assets as a result of their fraud. Table 5 shows the number of investigations currently taking place. These investigations are complex and are often challenged by the offender which results in lengthy legal processes. Therefore it may take many months for a case to reach court and a settlement to be agreed and paid.

Since April 2014 the CFIT have been working on 11 investigations of which 5 have progressed to Proceeds of Crime Court Hearings. Settlements have been agreed and the offenders have been ordered to pay money to Hillingdon under Confiscation Orders as part of the Home Office Incentivisation Scheme. These will be settled by the end of the financial year. A further 5 cases are still being investigated and 1 case has been withdrawn.

Table 5

Proceeds of Crime Investigations	
	YTD 2014/15
Number of Corporate Fraud Investigations	1
Number of Benefits Investigations	1
Number of Planning investigations	2
Number of Trading Standards investigations	7
Total number of investigations	11
Court Orders (payable by 31.3.15)	5 cases
	£493,000

In July a Proceeds of Crime Project Team, comprising Senior Managers from CFIT, Legal Services and Planning was established. This aims to ensure that the Council uses the full extent of the Proceeds of Crime Act in all prosecutions to maximise income and ensure appropriate punishment for offenders. This also sends a clear message of zero tolerance to fraud by Hillingdon Council.

2.6 Temporary Accommodation and Housing Needs Reception

In June 2 Housing Officers were seconded to the Corporate Fraud Investigation Team, to work alongside Corporate Fraud Officers to investigate current bed & breakfast and temporary accommodation placements. To maximise results unannounced visits are undertaken outside office hours to verify residency. This has been very successful in identifying non residency and therefore false homelessness claims as shown in table 6. The 18 cases where temporary accommodation has been cancelled average a total saving of £5,400 per week.

Also from August 2014 Corporate Fraud Officers have been working with Housing Needs reception staff to carry out enhanced checks and verification of people's homeless status. This work has ensured resources are only allocated to residents with a genuine housing need.

Currently 3 cases are being reviewed for possible prosecution. The first case relates to false address details claiming 10 year residency. The second case concerns a housing applicant presenting a false earnings document to attempt to represent economic independence, which is one of the criteria to be eligible for housing. The third case relates to a person in temporary accommodation signing the bed and breakfast register on a daily basis to confirm their residency when they were not actually occupying the accommodation.

Table 6

Temporary Accommodation & Housing Needs Reception		
	YTD 2014/15	
	Number	Average Savings
Temporary Accommodation Cancelled	18	£5,400 per week
Referrals from Housing Needs reception	30	
Number of cases pending prosecution	3	

2.7 Grants and Blue Badge Fraud

One person was prosecuted in Q1 when an attempt to obtain a Disabled Persons Facilities Grant was identified. The applicant failed to notify that she was the owner of several properties and received a substantial amount of rental income. As a result of the prosecution the applicant has been fined £6,000.

So far in 2014/15 a non resident was found to be falsely using a Blue Badge, this case has been successfully prosecuted and a fine imposed.

Table 7

Grants and Blue Badge Fraud		
	Number	Fine/Costs
Disabled Facilities Grant prosecution	1	£ 6,000
Blue Badge prosecution	1	£483

2.8 Empty Properties Project

In July a project commenced to look at properties in the borough which were not registered for Council Tax and therefore were classified as empty. Data matching was carried out with a credit reference agency which identified financial activity at 53 properties. Following investigation these properties were confirmed as occupied and Council Tax is now being claimed on these residences. This project has raised £85,000 in additional Council Tax revenue.

In addition, the Governments New Homes Bonus is payable for properties that are found to be occupied but have been recorded as being unoccupied for more than six months. Overall 99 properties in Hillingdon have been identified under this scheme, raising £140k in revenue. The work of the CFIT identified 53 of these properties.

Table 8

Empty Properties Project		
	Number	Revenue
Number of properties identified as occupied	53	£85,000

2.9 Single Fraud Investigation Service (SFIS) pilot (Q1 only).

From 1st July 2014 benefit investigations were transferred back to Department of Works and Pensions (DWP). From April to June the CFIT had 5 successful prosecutions which resulted in a savings in benefit payments of £40,688.

Benefit Prosecutions - Q1		
	Number	Saving
Prosecutions	5	£40,688

3. New Projects from January 2015.

3.1 Single Person Discount

Currently 30,500 people are registered for Single Person Discount for Council Tax, this equates to 28% of Hillingdon residents. In January 2015 a CFIT project team will commence a data matching exercise of credit reference data and electoral registration records. This will establish if applications for Single Person Council Tax Discount are genuine. Officers from the CFIT will investigate all relevant cases.

3.2 Insurance Claims

In January the CFIT will be examining insurance claims against the Council to establish if they are bona-fide. This exercise has been carried out in another Local Authority with very positive outcomes where claims were reduced by £368,000 in one year.

PART I – MEMBERS, PUBLIC & PRESS
Audit Committee - 16 December 2014

3.3 Enhanced Recruitment Verification

Work will commence with HR to carry out enhanced checks to verify identity, qualification, education documents and employment history. This would ensure eligibility to work and effective recruitment. The CFIT has previously identified staff through routine data matching who were ineligible to work because of their immigration status. Expanding these checks in the recruitment process would prevent the future employment of fraudulent applicants. This would save the Council reputation, reduce unnecessary recruitment costs and ensure the appointment of suitably qualified staff.

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Internal Audit - Progress Report for Quarter 3 2014/15

Contact Officer: Muir Laurie
Telephone: 01895 556132

REASON FOR ITEM

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in relation to the 2014/15 IA Plan and assurance in this respect during the Quarter 3 period. It also provides an opportunity for the Head of IA to highlight to the Audit Committee any significant issues that they need be aware of that have arisen.

It also enables the Audit Committee to hold the Head of IA to account on delivery of the 2014/15 IA Plan and facilitates in holding management to account for managing risk and control weaknesses identified during the course of IA activity.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the IA Progress Report for 2014/15 Quarter 3 (24 September to 8 December 2014).

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

INFORMATION

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

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

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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INTERNAL AUDIT

Progress Report to Audit Committee

2014/15 Quarter 3

8 December 2014



Contents

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

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

1.2 The Purpose of the Internal Audit Progress Report to Audit Committee

- 1.2.1 This report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all 2014/15 Quarter 3 IA assurance and consultancy work covered during **the period 24 September to 8 December 2014**. It also provides an opportunity for the Head of Internal Audit (HIA) to highlight to CMT and the Audit Committee any significant issues arising from IA work, as well as any further changes to the 2014/15 IA Plan since its approval in March 2014.
- 1.2.2 IA would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the Council during the period.

2. Executive Summary

- 2.1 IA work on the 2014/15 IA Plan commenced on 2nd April and work has now been completed or is in progress for all Quarter 1, 2 and 3 audits, with the exception of audits that have been deferred. There have been four deferrals requested in Quarter 3, mainly within the Children and Young People's Service. These deferrals were at the request of management following the recent change in Senior Management and will allow the Children and Young People's Service more time to refocus on its journey of improvement. Whilst IA has the authority to insist on carrying these audits out in the original timeframe agreed by CMT and the Audit Committee, the HIA believes a more collaborative and supportive IA approach achieves a better overall outcome for the Council. As a result, we have agreed all requests for audits to be deferred and management has supported us bringing forward other audits to ensure IA resource is effectively utilised throughout the year (refer to [Appendix B](#)). This will help enable delivery of the IA Plan and the associated assurances to all key stakeholders.
- 2.2 Within this quarter we have also completed the restructure of the IA service to improve the skills mix across the team and increase the overall efficiency and effectiveness of the IA service in the longer term. Specifically, two trainee Internal Auditors joined us in October and we have appointed a Principal Internal Auditor, with the successful candidate due to join us in early February 2015. As would be expected, the period of operating with four staff vacancies in a team of eleven has significantly reduced available IA resources within the quarter. However, despite this reduction in IA capacity, reasonable progress has still been made with a steady state maintained to prevent too much slippage in the 2014/15 IA Plan. This has been achieved in part by beginning to realise the benefits of TeamMate and its associated lean auditing principles. Improving the efficiency of the IA process in this way creates greater capacity for IA to add value across the organisation, evidenced through the increasing number of direct requests to IA by management for advisory work.

- 2.3 During Quarter 3, the first audit recommendations utilising the new IA software (TeamMate) have been piloted within Finance. The follow-up module of TeamMate, TeamCentral, noticeably increases the ease for management to access, update, view, track and monitor recommendations effectiveness and efficiency of the IA process. The software will also help improve the ownership of IA recommendations whilst enabling Senior Management to have clear oversight, monitoring, follow-up and tracking of recommendations raised by IA. Feedback from participants has been positive, in particular the ease of the system for the user.
- 2.4 Also in this quarter, IA has continued to deliver risk based thematic school reviews. Our reflections on the new approach to IA coverage of Hillingdon schools is that it has generally been very well received by the schools we have visited, as well as the rest of the Hillingdon schools who we have shared the final report with. This has now been supported by the customer feedback questionnaires (CFQ) received from schools selected within our sample (highlighted in para. 3.5.4 below).
- 2.5 Linked to this, we have followed up on the recommendations raised within the IA assurance review at Chantry School earlier this year, where a **NO** assurance opinion was issued. We are happy to report that positive management action has been taken against each of the issues highlighted within the review. Further details on this audit can be found in section 3 of this report (para ref 3.3.7).
- 2.6 During this quarter we also finalised our assurance review of Planning Applications which focused on the transition from Section 106 Agreements to the Community Infrastructure Levy (CIL) in which a **LIMITED** assurance opinion was provided. Further details on this review and wider work carried out by IA within the Quarter 3 period are included in section 3 of this report.

3. Analysis of Internal Audit Activity in 2014/15 Quarter 3

3.1 2014/15 Internal Audit Assurance Work

- 3.1.1 All of the IA assurance reviews carried out in the 2014/15 Quarter 3 period are individually listed at [Appendix A](#). It details the assurance levels achieved (in accordance with the assurance level definitions outlined at [Appendix C](#)) and provides an analysis of recommendations made (in accordance with the recommendation risk categories outlined at [Appendix D](#)).
- 3.1.2 Good progress has been made with the quarterly allocation of the IA Plan with **11%** at planning stage, **37%** at fieldwork/ testing stage and **52%** at reporting stage. IA performance in relation to timely delivery of the IA Plan has remained reasonably steady throughout the quarter despite the anticipated shortfall in resources. Timely delivery of the 2014/15 IA Plan remains a challenge for the IA service and the Council; however proactive measures have been put in place by the HIA to ensure completion of the IA Plan.
- 3.1.3 Since the last Audit Committee meeting on 23 September 2014, **four** 2014/15 IA assurance reviews have been completed to final report stage as highlighted in the table below:

Table 1 - 2014/15 IA Assurance audits finalised since the last Audit Committee:

IA Ref.	IA Assurance Review	Assurance Opinion (ref. App C)
A7	Housing - Temporary Accommodation	REASONABLE Assurance
A10	Business Continuity	REASONABLE Assurance
A16	Planning Applications - Community Infrastructure Levy	LIMITED Assurance
A18	Schools - Payroll Arrangements	REASONABLE Assurance

- 3.1.4 There was one 2014/15 **LIMITED** assurance opinion issued by IA this quarter, which was in relation to **Planning Applications - Community Infrastructure Levy**. This review was requested by the Head of Planning, Green Spaces & Culture who had some concerns about the effectiveness of the processes in place. He therefore asked IA to conduct a review focusing on the strategy and processes in place to manage the transition from Section 106 Agreements (S106) to the Community Infrastructure Levy (CIL). This review replaced the planned audit of planning application and appeals, to provide senior management with the assurances they required in relation to CIL.
- 3.1.5 As detailed at [Appendix A](#), we issued the final report for this audit on 18 September 2014 and raised 9 recommendations including **1 HIGH** risk recommendations. As part of this review we undertook a data matching exercise comparing Commencement Notices received by Building Control (from August 2012) to all current outstanding CIL leviable developments, as per Ocella. The data match identified instances in which the development has commenced and the Council had not issued a subsequent Demand Notice and invoice for payment. As a result, the Council is failing in its obligation as a charging and collecting authority for the Mayoral Scheme under the CIL (Amendment) Regulations 2013. The authority would be able to retain 5% of Mayoral CIL payments collected as an administrative fee. Positive management action has been proposed to address the IA findings with detailed improvement action recorded. Further, client feedback received by IA in relation to this review was very positive with a 97% client satisfaction rating received; clearly supporting the value provided through this piece of work.
- 3.1.6 In addition, [Appendix A](#) highlights that as at **8 December** 2014 there are an additional **18** IA assurance reviews in progress, **8** of which are at draft report stage. Whilst we are on track to complete all of these audits over the coming weeks, there remains a significant challenge ahead in Quarter 4 for the IA service and the Council to ensure timely completion of the 2014/15 IA Plan. The assurance level for each of these **18** reviews will be confirmed at final report stage and reported to CMT and the Audit Committee as part of the Quarter 4 IA Progress Report due to be presented to Audit Committee at its planned meeting of 17 March 2015. The HIA will also provide an oral update on Quarter 3 progress to the Audit Committee at its meeting on 16 December 2014.

3.2 2014/15 Internal Audit Consultancy Work

- 3.2.1 IA continues to undertake a variety of consultancy work from the contingency allocation within the IA Plan. We see this as a positive trend as this evidences the value that management see in the IA service and the assistance and advice that we can provide to help management and the Council achieve their objectives. Any revisions to the planned programme of IA work are discussed and agreed with the relevant senior managers (refer to [Appendix B](#) for the changes to the 2014/15 IA Plan agreed this quarter). The consultancy coverage includes IA staff attending project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach is helping increase IA's knowledge of corporate developments which feeds into the risk based deployment of IA resource on assurance work. Also, participation in project/ working groups is helping individual IA staff develop, whilst at the same time increasing the value IA provides to the Council. There remains further scope to ensure that any work IA carries out is aligned to the transformation work which continues to be carried out across the Council.
- 3.2.2 During Quarter 3, IA was involved in a range of advisory work including active involvement in a number of the Council's working groups. Attached at [Appendix A](#) is the list of 2014/15 consultancy requests and advisory work carried out to date. As detailed at [Appendix A](#), we also conducted **four** specific pieces of consultancy and **two** pieces of grant verification work during this quarter. Due to the nature of consultancy work, we do not provide an assurance opinion or formal recommendations for management action. Whilst the methodology of our consultancy work is still under development, as part of our advisory reports and memos we do provide specific suggestions for senior management to consider. For grant claim verification work the HIA is usually required to certify the work carried out by IA to the grant provider.

3.2.3 Table 2 below highlights the consultancy reviews finalised since the last Audit Committee meeting on 23 September 2014:

Table 2 - Consultancy work completed since the last Audit Committee:

IA Ref.	Consultancy Review Area
C3	Standby Payments (final memo currently being drafted)
C5	Planning Applications - prior approvals and low fee income generation
C7	Primary Care Contracts
CF2	Asset Register (final memo currently being drafted)
GC5	Bus Subsidy Grant
GC6	Troubled Families Grant – Quarter 3

3.2.4 The IA consultancy review of Planning Applications - prior approvals and low fee income generation identified several areas where control improvements could be made to assist with the effectiveness, efficiency and economy of current practices. In particular, current KPIs do not appear to be playing an effective or meaningful role in helping to improve the service or add value. The management reports produced by TerraQuest were found to be generally of poor quality, consisting of errors and mistakes. We also found inconsistencies in the numbers of prior notifications for households which TerraQuest were claiming to have validated when compared to reports from Ocella.

3.2.5 As part of the Standby Payments consultancy review we provided advice to the Employee Relations Manager to help establish a robust control framework whilst ensuring compliance and consistency with the requirements under the Council's Conditions of Service Handbook.

3.2.6 In addition, Appendix A details that as at **8 December** there are a further **3** IA consultancy reviews in progress. Management feedback on our consultancy work has been positive and there is an increasing trend of management coming to IA to request advice and support. The HIA believes this is an indicator of success for the Council that IA and management can work together collaboratively to help the organisation change and improve.

3.3 Follow-up of Previous Internal Audit Recommendations

3.3.1 IA continues to monitor all **HIGH** and **MEDIUM** risk recommendations raised through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. IA does not follow-up **LOW** risk IA recommendations as they tend to be minor risks i.e. compliance with best practice, or issues that have a minimal impact on a Service's reputation i.e. adherence to local procedures. It would also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations.

3.3.2 The implementation of recommendations raised by IA continues to be monitored solely by one member of the IA team until TeamCentral (a module of TeamMate) is fully embedded across the Council. Having this single point of contact for this area of work allows the rest of the IA team to focus on delivery of the IA Plan and also ensures that organisationally IA has a more consistent and streamlined approach to the process of following-up IA recommendations. This approach has achieved extremely positive results for the Council's overall control environment in the last year 12 months, with the vast majority of **HIGH** and **MEDIUM** risk IA recommendations raised now promptly implemented by management.

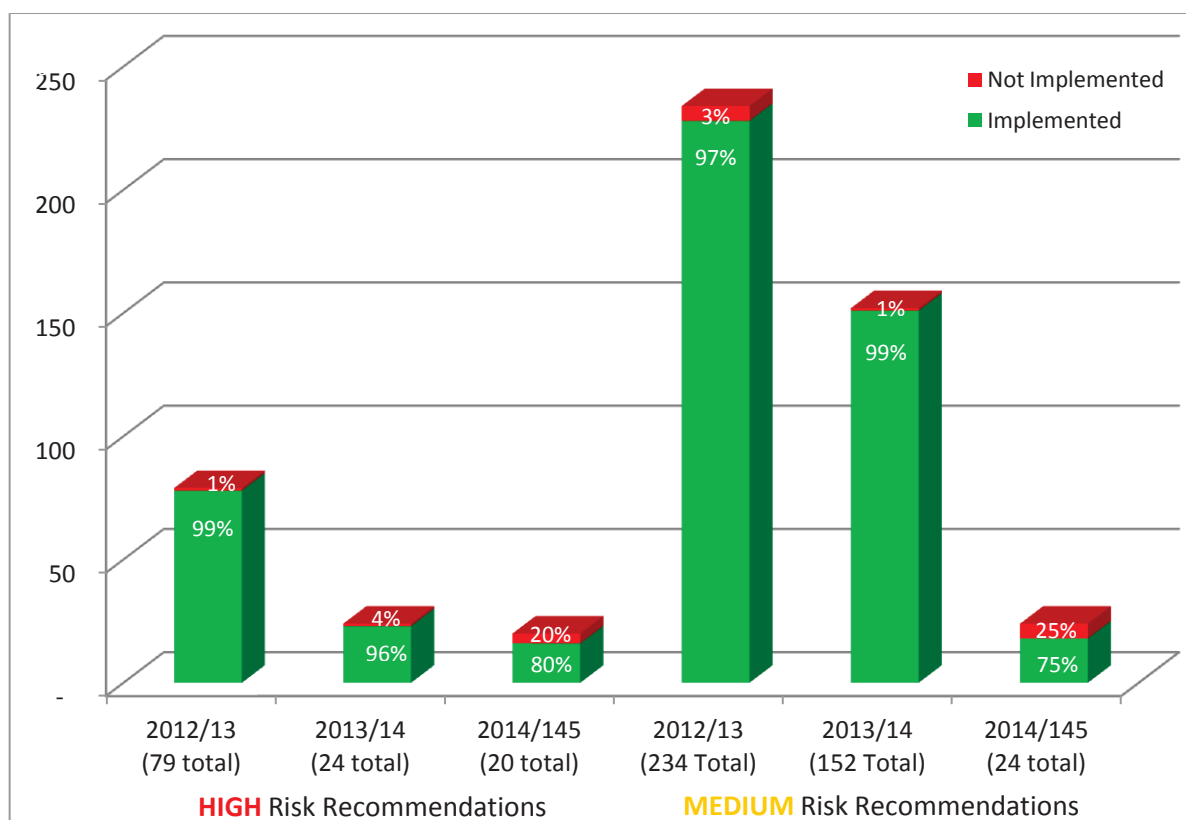
3.3.3 The focus of the Quarter 3 IA work on follow-up has been on **all** of the outstanding **HIGH** and **MEDIUM** risk IA recommendations due for implementation. In total, there have been **533 HIGH** and **MEDIUM** risk IA recommendations raised in the last three financial years that were due to have been implemented by **8 December 2014**. The table over the page summarises the status of all of these recommendations:

Recommendation Status as at 8 December 2014	HIGH			MEDIUM			TOTAL
	12/13	13/14	14/15	12/13	13/14	14/15	
Total No. of IA recommendations raised	79	25	25	238	169	49	585
Total No. of IA recommendations raised that are due	79	24	20	234	152	24	533
No. of recommendations implemented	78	23	16	228	151	18	514
No. of recommendations outstanding	1*	1	4	6*	1	6	19
% of recommendations outstanding	1%	4%	20%	3%	1%	25%	4%

* = All outstanding 12/13 (1 **HIGH** and 6 **MEDIUM** risk) IA recommendations have had their implementation dates revised/ extended by management with these revised dates now passed.

3.3.4 Positive management action has been proposed to address all **268** of the 2013/14 and 2014/15 **HIGH & MEDIUM** risk IA recommendations raised. Given that we are taking a risk based IA approach at the Council, it is broadly in line with expectations that approximately **22%** of the total recommendations raised due for implementation were **HIGH** risk. However, **20%** of the 2014/15 **HIGH** risk recommendations and **25%** of **MEDIUM** risk recommendations remain outstanding as at **8 December 2014**. This is a substantial increase from previous quarters and the HIA believes that this is partly due to the shortfall in IA resource within the quarter to be able to facilitate the process, prompting management that recommendations are due for implementation. However, it should be noted that **all 10 of the outstanding 2014/15 IA recommendations relate to schools**. It is their responsibility to proactively manage their risks and controls, address IA recommendations within agreed timescales and notifying us accordingly.

3.3.5 **The bar chart below** illustrates the results of our follow-up work on all the 2012/13, 2013/14 and 2014/15 outstanding **HIGH** and **MEDIUM** risk IA recommendations due for implementation as at **8 December 2014**:



- 3.3.6 The IA software (TeamMate) once fully embedded will further enhance the IA follow-up work through a dedicated follow-up module within the software. This has been piloted within the Finance directorate and is scheduled to go live across the Council, on a Group by Group basis, from December 2014, once training has been provided to the relevant Council staff. This enhanced process will allow IA and Senior Management to more easily monitor the progress and status of all IA recommendations and management action plans established. The new process will also place greater responsibility on management, as owners of the risks, to provide progress updates on the recommendations.
- 3.3.7 During the quarter we have undertaken a detailed follow-up on the 15 **HIGH** and 7 **MEDIUM** recommendations raised within the 2014/15 **NO** assurance IA review of Chantry school. We are happy to report that 18 of the 21 recommendations which were due for implementation were verified by IA as to have been implemented. Against each of the remaining three IA recommendations raised progress was found to be ongoing. A follow up assurance audit at Chantry School is currently planned for January 2015.
- 3.3.8 Overall, the results of our follow-up work demonstrate a reasonably positive outcome for the Council regarding the management action taken in response to IA recommendations raised. Nevertheless, there is still more work for IA to do in terms of working collaboratively with management and in particular schools, to improve the timely implementation of management action to mitigate exposure to **HIGH** and **MEDIUM** risks.

3.4 Other Internal Audit Work in Quarter 3

- 3.4.1 During the quarter IA has also assisted the Council's External Auditors (Deloitte), with a review of the Council's Housing Benefit Subsidy Grant Claim. This included:
- Module 2 - Up Rating
Testing to help ensure the Council's Revenues and Benefits software is using the correct housing benefit parameters to calculate benefit entitlement;
 - Module 3 - Workbooks
Testing that involved reviewing calculations and verifying evidence for an initial sample of 60 cases (HRA, Non HRA and Private Tenants). IA reviewed calculations and verified evidence for 20% of the 40+ and Cumulative Audit Knowledge and Experience (CAKE) workbooks (i.e. HRA and Non HRA earnings claims, Non HRA claims with partner, Non HRA JSA claims, Private Tenants earnings claims, Non-Dependants claims and Tax Credits claims) completed by the HB Quality Control Team;
 - Module 5 - Software Diagnostic Tool
Testing ensured the subsidy claim had been completed using recognised software for claim completion, and reconciled benefit 'granted' to benefit 'paid' in accordance with the software supplier's instructions. IA documented evidence to verify that the Council had complied with a series of control questions relevant to the Council's Revenues and Benefits software;
 - Module 6 (Test 9: Local Schemes)
Testing involved checking the calculations and verifying supporting evidence for a sample of 13 cases (HRA and Rent Allowance claims).
- 3.4.2 The Housing Benefit Subsidy Grant Claim audit has been a significant piece of work for IA (approximately 40 audit days). However, the work we carry out in this audit area saves the Council money by way of a considerably reduced external audit fee in relation to grant claims. In addition, feedback on the work provided by IA in relation to this grant claim audit has been very positive with Deloitte stating *"Support from IA was very good, best support in all the Councils we are working with. The testing carried out by IA highlighted issues, but the quality of testing was very good"*. This helps demonstrate good collaborative working between IA and Deloitte, as well as a positive direction of travel for IA in terms of the effective and efficient use of IA resources.

3.5 Internal Audit Performance

3.5.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. As at **8 December** 2014, actual cumulative IA performance against its KPIs is highlighted below:

IA KPI	Description	Target Performance	Actual Performance	RAG Status
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%	100%	GREEN
KPI 3	LOW risk IA recommendations where positive management action is proposed	90%	N/A	N/A
KPI 4	HIGH risk IA recommendations where management action is taken within agreed timescale	90%	90%	GREEN
KPI 5	MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	89%	GREEN
KPI 6	Percentage of IA Plan delivered to draft report stage by 31 March	90%	85%	AMBER
KPI 7	Percentage of IA Plan delivered to final report stage by 31 March	80%	75%	AMBER
KPI 8	Percentage of draft reports issued as a final report within 15 working days	90%	71%	RED
KPI 9	Client Satisfaction Rating	80%	86%	GREEN
KPI 10	IA work fully compliant with the PSIAS and IIA Code of Ethics	100%	100%	GREEN

3.5.2 As at **8 December** 2014, only nine 2014/15 IA assurance reports have been issued as final reports and as a result it is still relatively early days in terms of being able to fully report on actual performance against the new suite of IA KPIs. The delays in finalising a number of quarter one and quarter two IA reports also explains why actual performance against IA KPI 6 and KPI 7 (as highlighted above) is not quite in line with the target set. Performance against KPI 8 is currently being reported as **RED**. This is due to three instances where management responses to the draft reports have not been received within the set timescales. Whilst we facilitate this process, we are reliant on timely management responses to achieve this indicator. On three of the nine assurance reviews finalised to date, we experienced significant delays in receiving management responses. However, other than these three anomalies we are happy to report that the time taken to finalise final reports from draft stage is on average only 10 working days. The HIA remains confident that all IA KPIs will be achieved for the 2014/15 year once the range of operational and strategic changes being implemented across the IA service become fully embedded.

3.5.3 Due to a change in our report format, implemented in mid September 2014, we plan to retire KPI 3 - **LOW** risk IA recommendations where positive management action is proposed. This is as a result of feedback from management regarding the length of time

required to complete management responses to **LOW** risk recommendations. The cost benefit of response was considered and it was agreed that as IA do not follow-up on low risk recommendations it was appropriate that detailed management action to these issues is not provided within our audit reports. Consequently, data to report against this indicator is no longer captured and we are therefore proposing that it is retired.

- 3.5.4 We have also received a number of client comments on IA performance this quarter, some examples of which are highlighted below:

Schools Budgetary Control (thematic review across a number of schools)

"I found the whole experience positive. I fully understand the formatting of the feedback given and would be happy to assist with any requirements for the future."

"The auditor put us at ease, she was aware of previous poor relationship with schools audit. We ran through the history and background of the school including some of the complexities we work under. The auditor worked in a structured and professional manor; she would be welcomed back into the school to work with us again. It is reassuring to have confirmation that we are following all the procedures set by the LA, our governors will be assured that the school reflects best practice management."

"It was good to get confirmation that the strategies we have in place are considered effective and even in places 'examples of good practice'. The only reason I only identified 'agree' for No.8 is that all are a little fearful of an audit or inspection process. However I would say that this approach greatly reduces the tension in such a process and further, from what has been seen from completed focused reports, given significant material for future consideration."

"The auditor has always dealt with us fairly but professionally. Of the two recommendations one was an oversight in the documentation which wouldn't have been identified without the Audit while the second related to a procedure (costing the School Development Plan) which isn't strictly necessary in a school of our size with the current financial constraints, where the Head-teacher works very closely with the School Bursar; we will however, update the Plan as appropriate."

4. Forward Look

- 4.1 Looking ahead to Quarter 4, by early February IA will be fully staffed following a major staffing restructure. Whilst the restructure will generate significant cash savings for the Council, the key purpose was to improve the skills mix across the team and increase the overall efficiency and effectiveness of the IA service in the medium to longer term. In the interim, we will continue to buy-in audit support from external contractors, although the success of the work carried out by professional IA firms for Hillingdon to date has been mixed.
- 4.2 Linked to this, an updated IA Strategy is currently being devised in consultation with a range of key stakeholders which will include the new Independent Chair of the Audit Committee. The IA Strategy will have a five-year time horizon and have a road map based on the Council's overall strategy, changing stakeholder expectations, regulatory requirements and the role of the other risk and assurance functions across the Council.
- 4.3 There are no other matters that the HIA needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie FCCA, CMIIA
Head of Internal Audit

8 December 2014

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15**

Key:	
IA = Internal Audit	NP = Notable Practice
H = High Risk	CFQ = Client Feedback Questionnaire
M = Medium Risk	ToR = Terms of Reference
L = Low Risk	

2014/15 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 8 December 2014	Assurance Level	Risk Rating			CFQ Received?
				H	M	L	
A14	Software Licensing	Final report issued 30 July 2014	Reasonable	1	2	-	✓
A15	Members' Declarations of Interests	Final report issued 30 July 2014	Substantial	-	1	-	✓
A1	Schools - Recruitment Procedures	Final report issued 3 September 2014	Reasonable	6	17	6	5/6 rec'd 1 Overdue
A36	Chantry School	Final report issued 3 September 2014	No	15	7	4	✓
A9	Schools - Budgetary Control	Final report issued 5 September 2014	Reasonable	-	5	7	✓
A16	Planning Applications - Community Infrastructure Levy	Final report issued 18 September 2014	Limited	1	5	3	✓
A10	Business Continuity	Final report issued 24 September 2014	Reasonable	-	3	4	✓
A7	Housing - Temporary Accommodation	Final report issued 19 November 2014	Reasonable	-	1	2	✓
A18	Schools - Payroll Arrangements	Final report issued 28 November 2014	Reasonable	3	10	8	Not yet due
A11	Performance Management	Testing complete, draft report in progress					
A5	IAS Data Quality (Adult Services)	Testing complete, draft report in progress					
A20	Capita Income ICT System	Testing complete, draft report in progress					
Total Number of IA Recommendations Raised in 2014/15				25	49	24	16
Total % of IA Recommendations Raised in 2014/15				26	50	24	-

APPENDIX A (cont'd)**2014/15 IA Assurance Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 8 December 2014	Assurance Level	Risk Rating			CFQ Received?
				H	M	L	
A21	Data Protection and FoI	Testing complete, draft report in progress					
A24a	Learning Disability Residential Placements	Testing complete, draft report in progress					
A24b	Mental Health Residential Placements	Testing complete, draft report in progress					
A35	Schools - Contracts & Procurement	Testing complete, draft report in progress					
CF1	Payroll	Testing complete, draft report in progress					
A19	Leisure Services Contract Management	Testing in progress					
A28	Imported Food Office (formally Airport Services)	Testing in progress					
CF5	Budgetary Control	Testing in progress					
CF6	Treasury Management	Testing in progress					
CF7	Council Tax & NNDR	Testing in progress					
CF8	Pensions	Testing in progress					
A22	Corporate Procurement & Commissioning	Planning and background research					
A39	Chantry School Follow-up	Planning and background research					
CF4	Benefits	Planning and background research					
CF10	Capital Accounting	Planning and background research					
Total Number of IA Recommendations Raised in 2014/15			25	49	24	16	
Total % of IA Recommendations Raised in 2014/15			26	50	24	-	

APPENDIX A (cont'd)**2014/15 IA Consultancy Reviews:**

IA Ref.	IA Review Area	Status as at 8 December 2014
C1	Domestic Violence Homelessness Process	Final IA consultancy memo issued 11 April 2014
C2	Purchase Requisitions - Chargeable Reactive Maintenance Works under £250	Final IA consultancy memo issued 15 April 2014
C4	Cemeteries Process	Final IA consultancy memo issued 18 June 2014
C6	Ruislip High School	Final IA consultancy memo issued 5 August 2014
C5	Planning Applications - prior approvals and low fee income generation	Final IA consultancy memo issued 6 October 2014
C7	Primary Care Contracts	Final IA consultancy memo issued 28 October 2014
C13	Journal Analysis work for Strategic Finance	Excel work provided for Strategic Finance
C8	Hillingdon in Bloom Gift Vouchers content and terms and conditions	Verbal consultancy advice provided
C9	Charville Children's Home – security of key safes	Verbal consultancy advice provided
C10	Cash collection in youth centres	Verbal consultancy advice provided
C11	Early Intervention Services for Children and Young People (use of P-cards)	Verbal consultancy advice provided
C12	Theatre Service cash collection	Verbal consultancy advice provided
C15	Internal Repairs Team (IRT) Supply Chain	Verbal consultancy advice provided
CF2	Asset Register	Final IA consultancy memo currently being drafted
C3	Standby Payments	Final IA consultancy memo currently being drafted
C14	EFA & SFA Mock Audit - Hillingdon Adult & Community Learning	Work in Progress
C16	Northgate Contract Management (previously an assurance review)	Work in Progress
C17	Transitional Arrangements Peer Review	Work in Progress

APPENDIX A (cont'd)**2014/15 IA Verification Reviews:**

IA Ref.	IA Review Area	Status as at 8 December 2014
GC1	Troubled Families Grant – Quarter 1	IA memo issued 29 April 2014
GC2	Adoption Reform Grant	IA memo issued 27 May 2014
GC4	Troubled Families Grant – Quarter 2	IA memo issued 5 August 2014
GC5	Bus Subsidy Grant	Statement of compliance provided 30 September 2014
GC6	Troubled Families Grant – Quarter 3	IA memo issued 9 October 2014
GC3	Housing Benefits Subsidy Grant	Work for External Audit complete 17 October 2014

APPENDIX B**REVISIONS TO THE 2014/15 INTERNAL AUDIT PLAN****IA reviews added to the 2014/15 Operational IA Plan for Quarter 3**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
A35	Schools - Contracts & Procurement	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Following a risk assessment this audit was incorporated into the plan within quarter 3, replacing Schools - Safeguarding which was deferred to quarter 4.
C10	Young People's Centres, cash collection arrangements	Consultancy Advice	Annette Reeves, Finance Manager- Control Accounting	Advice sought on the transfer of income from Youth Centres to the Civic Centre for banking
C11	Early Intervention Services for Children and Young People	Consultancy Advice	Annette Reeves, Finance Manager- Control Accounting	Advice sought on the use of Procurement Cards, Paypal and I-Tunes for Tunecore, a music distribution service.
C12	Theatre Service cash collection	Consultancy Advice	James Rodger, Head of Planning, Green Spaces and Culture	Advice sought on the controls and segregation of duties in place regarding cash collection at the Theatre.
C13	Journal Analysis for Finance	Consultancy Advice	Nancy Le Roux Deputy Director Strategic Finance	Manipulation of excel for finance to enable analysis of Journals.
C14	Education Funding Agency (EFA) & Skills Funding Agency (SFA) Mock Audit - Hillingdon Adult and Community Learning 2013-14 ILR data	Consultancy Review	Andy Evans, Deputy Director Corporate Finance & Head of Operational Finance	Advice and mock audit of the Skills Funding Agency (SFA) who have set out the audit programme of the grant funding provided. There is a suggestion by the SFA that providers undertake an internal audit themselves of the Individual Learner Records.
C15	Internal Repairs Team (IRT) for housing - Cabinet Report	Consultancy Advice	Andy Evans, Deputy Director Corporate Finance & Head of Operational Finance	Advice sought on the controls in place regarding the use of the Mears' supply chain across a wide range of materials, consumables and handheld tools.
C16	Northgate Contract Management	Consultancy Review	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Initially a planned assurance review (A13), this was changed to consultancy following discussions with the Head of Service. It was agreed that greater value would be obtained from undertaking an assurance review of the Contractor's operations, including contract compliance within the 2015/16 operational IA Plan.

APPENDIX B (cont'd)**REVISIONS TO THE 2014/15 INTERNAL AUDIT PLAN (cont'd)****IA reviews added to the 2014/15 Operational IA Plan for Quarter 3 (cont'd)**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
CF2	Asset Register	Consultancy Review	Paul Whaymand, Corporate Director of Finance	Further to preliminary discussions with key stakeholders it was agreed that, following issues highlighted by external audit, a detailed consultancy review would add substantial value in this area rather than the planned assurance review.
GC5	Bus Subsidy Grant	Grant Claim Verification	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	The Bus Service Operators Grant (BSOG) for both commercial and non-commercial bus routes is administered centrally by the Department for Transport. The BSOG is the partial refund on fuel duty received from the government by operators of local bus services in England. The grant claim required Head of Internal Audit certification.
GC6	Troubled Families Grant Claim (Q3)	Grant Claim Verification	Tony Zaman Director Children & Young People's Service (Interim)	The London Borough of Hillingdon Council receives a payment by results grant from the Department for Communities and Local Government (DCLG) for each identified 'turned around' troubled family. Internal Audit (IA) checked that the grant claim was only made for families where there was sufficient evidence of improvement in the last six months as per the payment by results criteria.

APPENDIX B (cont'd)**IA reviews deferred from the 2014/15 Operational IA Plan**





IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Original Timing	Scope / Rationale
A2	Health Contributions / CCG (C&YP Services)	Assurance	Tony Zaman Director Children & Young People's Service (Interim)	Quarter 1	At the request of the Director, this has now been deferred to the 2015/16 Operational Plan due to staffing and operational pressures.
A3	Health Contributions / CCG (Adult Services)	Assurance	Tony Zaman Director Children & Young People's Service (Interim)	Quarter 1	At the request of the Director, this has now been deferred to the 2015/16 Operational Plan due to staffing and operational pressures.
A4	ICS Data Quality (C&YP Services)	Assurance	Tony Zaman Director Children & Young People's Service (Interim)	Quarter 1	At the request of the Director, this has now been deferred to the 2015/16 Operational Plan due to staffing and operational pressures.
A27	All Age Disability Service	Assurance	Tony Zaman, Director of Adult Services	Quarter 3	At the request of the Director, this has now been deferred to the 2015/16 Operational Plan due to staffing and operational pressures.

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

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

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
 - establishing and monitoring the achievement of the authority's objectives;
 - the facilitation of policy and decision-making;
 - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - the financial management of the authority and the reporting of financial management; and
 - the performance management of the authority and the reporting of performance management.
2. **Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.
3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

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

Risk	IA 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.

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Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2019/20

Contact Officer: Nancy Leroux
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SUMMARY

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

RECOMMENDATIONS

The contents of the report are reviewed.

INFORMATION

Treasury Management Strategy

- 1 The investment strategy has been developed with the intention to maintain a broadly risk averse approach, whilst being able to seek an optimum yield within the security and liquidity restrictions. The Council has had to take into account new banking reform legislation which removes government support to failing banks when compiling the strategy in 2015/16 as there is a heightened risk to the Council's unsecured investments due to bail-in.
- 2 To help mitigate the bail-in risk it was agreed at Cabinet in November 2014 to make two new changes to the current Treasury Management Strategy - a) to add the use of Reverse Repurchase Agreements (Repo) and b) to add one overseas bank to the counterparty list (Svenska Handelsbanken) providing greater capacity to place short term deposits.
- 3 The report now proposes some further changes to the strategy for 2015/16 to further mitigate risk by expanding the number available counterparties to further diversify the Council's instant access and fixed term portfolio and to extend the available investment vehicles for depositing funds.
- 4 The main proposed changes to the strategy for 2015/16 are the inclusion of one new UK counterparty, namely Goldman Sachs International; the addition of four new overseas banks namely Chinese Banking Corp, DBS Bank Ltd, National Australia Bank and Nordea; the introduction of use of Covered bonds as a method of secured deposit within existing counterparties; and finally the addition of pooled funds as an investment vehicle.

- 5 At this stage, the draft borrowing strategy for 2015/16 will maintain the approach of utilising internal resources to fund a large proportion of capital expenditure. The current interest rate environment of low investment returns compared with borrowing costs, means the current strategy is more cost effective, and risk is reduced from holding additional cash in advance of capital programme spend. Where internal resources are unable to meet the capital expenditure requirement a variety of options will be appraised, however the Public Works Loan Board will remain the primary and most likely source of borrowing. The Council does not expect to require new borrowing until 2016/17.
- 6 Throughout the year the specific investment guidelines in relation to additions and removals to the counterparty list and duration and value limits of investments are kept under continual review and changes are agreed by the Corporate Director of Finance under his delegated authority. Amendments to the strategy are submitted to Cabinet for approval.
- 7 It should be noted that at this stage although a draft strategy for next year has been developed, the figures contained within it are not finalised as work will continue on refining the estimates of the balances and reserves position until the budget is completed in February. As a result many of the figures within the report are subject to change such as the CFR, prudential indicators and projected borrowing. This will be fully reviewed by Cabinet on 12 February 2015, prior to the Strategy being presented to Council for approval on 26 February 2015.

BACKGROUND DOCUMENTS

None

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2015/16 to 2019/20

SUMMARY

The Treasury Management and Investment Strategy represent the Council's operating guidelines on the daily management of cash, investments and borrowing. Through daily cashflow management, surplus cash is invested with security of investments being the prime consideration. Only then are the liquidity of investments and yield, within the Council's risk parameters, considered.

Over the longer term, the Council considers the need to borrow money to fund its major capital projects and when the best time is to do this. The strategy is to minimise borrowing and make use of internal funds where available. Currently, there is no expectation to need to take out new debt until 2016/17. As interest rates are expected to remain low in the near future, using internal funds rather than borrowing will reduce interest costs; lower credit risk; and relieve pressure on the Council's counterparty list.

This report details the investment instruments and counterparties in which the Council can invest. All institutions on the counterparty list are regularly monitored assessing risk and determining the duration and value of limits on investments with counterparties. From January 2015, new banking legislation will be introduced removing government support of failing banks which increases the risk facing Local Authorities unsecured investments. To offset this risk the Council has introduced access to secured deposits, Reverse Repurchase Agreements and Covered Bonds, and in this strategy proposes adding pooled funds to the available investment instruments.

To further diversify exposure the Council has increased the number of eligible counterparties in which it can place funds including more highly rated overseas banks and UK bank Goldman Sachs International. The proposed overseas banks have a superior credit rating to most of the UK banks currently being used.

1. INTRODUCTION

- 1.1 Under the Local Government Act 2003 the Council has a legal obligation to have regard to both the CIPFA Code and DCLG Guidance on local authority investments in determining their Treasury Management Strategy Statement (TMSS), Prudential Indicators and Minimum Revenue Provision Statement for the following financial year. The strategy is developed as part of the Council's MTF process.
- 1.2 The Council has significant investments and borrowing and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. As such treasury management operations are fundamentally concerned with managing risk. Whilst there are regulations and controls in place designed to minimise or neutralise risk there is still some risk exposure due to the nature of managing loan and investment portfolios and cash flow activities. Active monitoring of both the economic outlook and changes in regulations is undertaken which define many of the changes in treasury management strategy and risk parameters.

- 1.3 Whilst there is evidence of growth in the UK economy, the general market expectations is that interest rates will not begin to rise until the end of 2015 or later. Once the base rate begins to rise, it is expected to rise slowly levelling off around 2.5% to 3.5%. Returns on investments during 2015/16 are, therefore, forecast to remain low and as a result internal resources will be used rather than taking out new debt to support the capital programme.

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. Estimates of the CFR, based on the projected Revenue Budget and Capital Programme over the next five years are shown in table 1. The Council's CFR is set at £412m for 2015/16, outstanding loans total £327m, resulting in a gross borrowing requirement of £86m. Existing borrowing is identified into separate loan pools for GF and HRA. GF debt is currently £83m and HRA £244m.

Table 1

	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund CFR	201	233	266	277	284	278
HRA CFR	211	209	201	193	184	175
Total CFR	412	442	467	470	468	453
Existing Borrowing ^{1&2}	-327	-315	-307	-291	-273	-256
Gross External Borrowing Requirement	85	127	160	179	195	197
Projected Usable Reserves ³	-131	-115	-96	-74	-68	-71
Projected Working Capital	-40	-40	-40	-40	-40	-40
Investments / (New Borrowing Requirement)	86	28	-24	-65	-87	-86

Notes:

- HRA borrowing includes £191.6m paid to central government in settlement on the introduction of the self financing regime introduced in March 2012.
- The existing profile of borrowing does not include potential LOBO loan maturities which may or may not occur. Over the next five years, loans totalling £13m, £14m, £5m, £10m and £6m respectively will be in a state of call. Other long term liabilities include commitments under finance leases and private finance initiatives (PFI's).
- 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 increasing General Fund CFR is due to the Council's programme of capital investment, particularly the schools capital programme, whilst the reducing HRA CFR is

as a result of repayment of debt transferred from central government. The Council expects to require additional borrowing from 2016/17 to meet the costs of the capital programme.

- 2.3 Under the Prudential Code for Local Authorities, the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this requirement.
- 2.4 The Council's projected Capital programme over the next five years, alongside the projected financing, is fundamental in determining a borrowing strategy. Appendix A provides detail on the Prudential Indicators associated with capital expenditure projections and its incremental impact on council tax and housing rent levels.

3. BORROWING STRATEGY

- 3.1 The Council's external debt at 31 March 2015 will be £327m, a decrease of £9.3m on the previous year as a result of debt maturing naturally. There were no opportunities to repay debt early in 2014/15 and £12.3m is scheduled for repayment in 2015/16. The Council's loan portfolio currently has average rate of 3.00%.
- 3.2 Projected capital expenditure levels, market conditions and interest rate levels are monitored throughout the year. This enables the Council to adapt borrowing strategies to minimise borrowing costs over the medium to longer term whilst maintaining financial stability. Table 1 above shows the Council does not expect to need to borrow until 2016/17. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains negative and this is expected to continue through 2015/16. The 'cost of carry' associated with medium and long term borrowing compared to temporary investment returns means that new fixed rate borrowing would not be cost effective when internal balances and working capital can be utilised over borrowing in advance of need. This also reduces credit risk and takes pressure off the Council's counterparty list.
- 3.3 If however market conditions change and the Council takes out new borrowing the Council will consider the following approved sources of borrowing:
 - Public Works Loan Board
 - UK local authorities
 - Any other bank or building society authorised to operate in the UK
 - UK public and private sector pension funds (except Hillingdon Pension Fund)
 - Capital market bond investors
 - Municipal Bonds Agency (subject to Cabinet approval)
- 3.4 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. The Council has access to the preferential PWLB "certainty rate", which is 0.2% lower than normal PWLB lending rates.

- 3.5 Where temporary borrowing is required this will be attributed directly to either the GF or HRA loan pools. Interest costs will be separated between the two pools and allocated accordingly.
- 3.6 To cover unexpected cash flow shortages, the Council may borrow short term loans, normally for up to one month, which would mainly be sourced from other local authorities.

Interest rate risk

- 3.7 The Council holds a mixture of loans, with £266m of fixed rate loans protected against interest rate rises. Variable rate loans of £61m take advantage of favourably low rates and although exposed to increases in rates, the additional costs are offset by a corresponding increase in investment income. Additionally, the variable rate loans held can be prematurely repaid with minimal cost should the need arise.
- 3.8 The Council has £48m of Lender's Option Borrower's Option (LOBO) loans of which £13m will be in their call period in 2015/16. It is highly unlikely that the loans will be called given interest rates are now lower than those at the inception of the loan. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the new terms 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 by borrowing from the approved sources. The default position however will be early repayment without penalty. The Council does not intend to utilise LOBOs as an instrument for new borrowing during 2015/16.

Debt Rescheduling

- 3.9 The PWLB allows authorities to repay loans before maturity at a premium or discount. The Council may take advantage of this and replace some loans with new loans or repay early without replacement. The rationale for rescheduling is to reduce interest costs with minimal risk; balance the volatility profile (i.e. the ratio of fixed to variable rate debt); or amend the profile of maturing debt to reduce any inherent refinancing risks.
- 3.10 Rates and markets are regularly monitored to identify opportunities for rescheduling and any borrowing and rescheduling activity is reported monthly to Cabinet. However, current market conditions are resulting in significant early redemption costs and unless these are significantly reduced, it is unlikely any debt rescheduling will be undertaken in 2015/16.
- 3.11 Rather than the early redemption of debt the Council may consider transfer of debt between the GF and HRA. Transfer of debt will be undertaken at a zero premium, with the debt specified for transfer based on a "last in, first out" basis and matched to optimise maturity profiles and financing costs.
- 3.12 The Council will limit and monitor large concentrations of fixed rate debt needing to be replaced. The percentage limits in table 2 are intended to control excessive exposure to volatility in interest rates on refinancing of maturing debt. The first scheduled LOBO call option is included as maturity date within this indicator.

Table 2

Maturity structure of fixed rate borrowing	PWLB Estimated level at 31/03/15 %	Market LOBO 1st call option at 31/03/15 %	Lower Limit for 2015/16 %	Upper Limit for 2015/16 %
under 12 months	3.76	3.98	0	25
12 months and within 24 months	2.23	4.28	0	25
24 months and within 5 years	15.85	4.59	0	50
5 years and within 10 years	23.82	1.83	0	100
10 years and within 20 years	17.74	0.00	0	100
20 years and within 30 years	13.17	0.00	0	100
30 years and within 40 years	1.53	0.00	0	100
40 years and within 50 years	7.22	0.00	0	100
50 years and above	0.00	0.00	0	100
Total	85.32	14.68	0	100

3.13 Prudential indicators in relation to borrowing limits and interest rate exposure are shown in Appendix A.

4. 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; and
- an optimum yield which is commensurate with security and liquidity.

4.2 When investing funds the Council looks to balance risk and return, minimising the risk of incurring losses from defaults, and the risk receiving unsuitably low investment income.

4.3 The Corporate Director of Finance under delegated powers will, on a daily basis determine the most appropriate form of investments in keeping with investment objectives, income and risk management requirements and with reference to the Prudential Indicators and from the list detailed in Appendix A. Decisions concerning the core strategic investment portfolio will be reported monthly to Cabinet.

Bail-In Risk

4.4 Banking reform legislation was incorporated into UK law from January 2015 and exposes the Council to bail-in risk on all unsecured bank deposits. This will not only apply to failed banks but also banks considered to be underperforming. With most large entities either exempt or not exposed, local authorities will be one of the primary bail-in targets with a potential loss of 100% of the deposit. As agreed at Cabinet in November 2014, to increase the range of instruments available and reduce risk, in addition to instant access facilities, the Council can make use of the secured instruments of

Reverse Repurchase Agreements (REPOs) and it is proposed to expand this to Covered Bonds where available with banks. Secured deposits have the security of underlying assets which can be called upon in the event of default.

- 4.5 Money Market Funds (MMFs) remain an important vehicle for instant access deposits. Money Market funds reduce the risk of Bail-In as the funds are diversified with limits on the exposure to any specific bank. The Council also utilises more than one MMF to diversify exposure. 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.
- 4.6 This strategy is also proposing the addition of Pooled Funds, to further reduce risk, to gain access to a diversified pool of investment vehicles, which may otherwise not be possible at an individual council level. Pooled funds provide wide diversification of investment risks, coupled with the services of a professional fund manager. However, the value of pooled funds fluctuate with market prices and so the investment horizon will tend to be longer to ensure that withdrawals are made when the fund is in a positive position. Three pooled funds have been added to the Counterparty list in Appendix B due to the size and low risk of volatility in the funds.
- 4.7 Over the last few years the Council has operated a very risk adverse strategy only investing in UK denominated banks. However with the introduction of bail-in the Council is reintroducing overseas banks to diversify the portfolio and spread risk. Cabinet agreed in November 2014 to add Swedish bank Svenska Handelsbanken to the counterparty list. It is proposed four additional banks are included on the Counterparty list to widen the exposure to risk of individual country deposits. Recommended banks are Oversea Chinese Banking Corporation (OCBC) - Singapore, DBS Bank Ltd - Singapore, National Australia Bank - Australia, Nordea - Finland. All recommended banks are currently rated AA- which is the same as HSBC and higher than other UK banks. Singapore is not subject to bail-in legislation so will help reduce exposure to bail-in risk. Diversifying in Australia and Finland will help reduce impact on investments from issues arising out of the eurozone. The recommended banks are all actively taking deposits within the Council's investment limits which will diversify the Council's instant access and fixed term portfolio.
- 4.8 The Council has added Goldman Sachs International to the counterparty list which is a UK bank currently A rated. To further reduce exposure to bail-in risk and as a result of expanding the available counterparties the Council has reduced the individual counterparty holding limit from 10% to 7.5% to reduce to the total held in any one institution.

Credit Risk

- 4.9 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.
- 4.10 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 fallback 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.

High Credit Quality

- 4.11 The removal of government support from banks is expected to change the methodology on credit ratings and in the short term the majority of banks will result in downgrades from their current rates. This strategy takes into account the expectation of downgrades by reducing the minimum long term credit ratings in 2015/16 from A- to BBB+. This is to ensure the Council has sufficient counterparty capacity to place funds.
- 4.12 The Council has set a minimum long-term credit rating criterion of BBB+ for UK counterparties, A+ for Overseas counterparties and AA+ for non-UK sovereigns.
- 4.13 In order to reduce concentration of investments within the portfolio, funds will be placed with a range of counterparties which meet agreed minimum credit risk requirements. Diversification will be achieved by applying individual limits with each counterparty, capped at 7.5% of the total portfolio. Varying instruments and investment periods will be utilised to meet liquidity requirements and mitigate risks. Appendix B details counterparty Institutions, investment limits and allowable instruments.

Risk Assessment and Credit Ratings

- 4.14 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made;
 - any existing investments that can be recalled or sold at no cost will be; and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 4.15 Where a credit rating agency announces that a credit 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 criteria, then only new 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.

Liquidity Risk

- 4.16 The Council will ensure it has liquid funds available to settle its payment obligations when they fall due and uses cash flow modelling techniques to determine the maximum term for which funds may be prudently committed. It will utilise instant access facilities including call accounts and Money Market Funds (MMF's) for core working capital balances and structure longer term maturities to correspond to large cash outflows with reference to the Council's capital programme.

Return on invested sums

- 4.17 As interest rates are forecast to remain low throughout 2015/16, the investment strategy is aiming to lengthen investment periods, where cashflow and credit conditions permit, in order to lock in higher rates of acceptable risk adjusted returns. Longer term investments will typically be through deposits with local authority entities and use of secured deposits where available.

Council's Bank Account

- 4.18 Following a competitive tender exercise, Lloyds Bank Plc has been appointed with effect from 1 April 2014 as the Council's bank. Lloyds is currently rated above the minimum BBB+ rating. Should the credit ratings fall below BBB+ the Council may continue to deposit surplus cash providing that investments can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB-.

5. OTHER ITEMS

Policy on Use of Financial Derivatives

- 5.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). However, the general power of competence in Section 1 of the Localism Act 2011 removed much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 5.2 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 that the Council is exposed to. 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.
- 5.3 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.

Policy on Apportioning Interest to the Housing Revenue Account (HRA)

- 5.4 With the introduction of HRA self financing in March 2012 the Council allocated specific loans to both the General Fund and the HRA. Interest costs applicable to each loan will be charged directly to the respective revenue account. Interest earned on HRA balances will be calculated and distributed in accordance with DCLG guidelines.

Investment of Money Borrowed in Advance of Need

- 5.5 The Council may borrow in advance of need, where this is expected to provide the best long term value for money. However, as amounts borrowed will be invested until spent, the Council is aware that it would be exposed to the risk of loss of the borrowed sums and the risk investment and borrowing interest rates may change in the intervening period. These risks would be managed as part of the Authority's overall management of its treasury risks. The total amount borrowed would not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Balanced Budget Requirement

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

Investment Consultants

- 5.7 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.

Monitoring and reporting

- 5.8 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.
- 5.9 The Treasury Management Strategy Statement is reported to Cabinet in February prior to agreement at full Council before the start of the financial year. A draft is taken to Audit Committee in December for consideration prior to going to Cabinet. Any amendments to the TMSS during the year are reported to Cabinet for approval.

Training

- 5.10 CIPFA 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 which 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 and access to additional training is provided where required.

Prudential Indicators and Estimates of Capital expenditure

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 3

Authorised Limit for External Debt	2014/15 Approved £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	440	470	495	498	496	481
Other Long term Liabilities	2	2	2	2	2	2
Authorised Limit	442	472	497	500	498	483

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 4

Operational Boundary for External Debt	2014/15 Approved £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	410	440	465	468	466	451
Other Long term Liabilities	2	2	2	2	2	2
Operational Boundary	412	442	467	470	468	453

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.

Upper Limits for Interest Rate Exposure

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 5

Upper Limits for Interest Rate Exposure	31/03/15 Estimate %	2014/15 Approved %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Upper Limit for Fixed Interest Rate	85	100	100	100	100	100	100

Exposure on Debt							
Upper Limit for Fixed Interest Rate Exposure on Investments	(7)	(75)	(75)	(75)	(75)	(75)	(75)
Upper Limit for Variable Interest Rate Exposure on Debt	15	50	50	50	50	50	50
Upper Limit for Variable Interest Rate Exposure on Investments*	(93)	(100)	(100)	(100)	(100)	(100)	(100)

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

Upper limits for principal over 364 days

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	2014/15 Approved £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
	55	30	30	30	30	30

Estimates of Capital Expenditure and other Prudential Indicators

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. Estimates for Capital expenditure shown in Table 7 are estimates of likely capital cash outflows.

Table 7

Capital Expenditure	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	83	110	92	51	45	40	83
HRA	15	23	48	44	21	14	15
Total	98	133	140	95	66	54	98

Capital expenditure is expected to be financed as follows:

Table 8

Capital Financing	2014/15 Approved	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate

	£m	£m	£m	£m	£m	£m	£m
Prudential Borrowing	25	55	49	9	6	3	25
Capital Receipts	8	25	22	19	7	5	8
Community Infrastructure Levy	0	3	4	5	5	5	0
Government Grants	45	22	27	30	29	27	45
Other External Contributions	8	6	1	0	0	0	8
Major Repairs Allowance	9	9	9	9	9	9	9
Revenue Contributions	3	13	28	23	10	5	3
Total Capital Financing	98	133	140	95	66	54	98

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

Table 9

Actual External Debt as at 31/03/2015	£m
General Fund Borrowing	82.9
HRA Borrowing	244.1
Other Long term Liabilities	2.2
Total	329.2

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 £59.2m to finance future capital.

Incremental Impact of Capital Investment Decisions

As an indicator of affordability, Table 10 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.

Table 10

Incremental Impact of Capital Investment Decisions	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Increase in Band D Council Tax	£8.40	-£1.09	£8.05	£37.28	£0.00	£0.00
Increase in Average Weekly Housing Rents	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00

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. There is a zero increase in housing rents as a consequence of the fixed financing costs set within HRA 30 year business plan which commenced in 2012. In terms of council tax, the incremental impact growth reflects the

MTFF plan for priority growth projects in the capital programme. In 2017/18 there is an increase in financing costs due to the expectation of new borrowing in 2016/17 which results in an increase in revenue costs that would result in an increase of £37.28 per Band D Council tax property to fund. From 2018/19 there is sufficient provision within revenue budgets to support the latest capital programme to 2019/20 without further increasing Council tax.

Table 11

Ratio of Financing Costs to Net Revenue Stream	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	5%	5%	5%	7%	7%	7%
HRA	25%	25%	25%	24%	23%	23%

APPENDIX B

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.

The Council defines “high credit quality” for:

- UK Organisations - The minimum credit rating is set at BBB+ or higher
- Overseas Organisations - The minimum credit rating is set at A+ or higher
- Overseas Countries: The minimum credit rating for domiciles of overseas banks is set at AA+
- Secured Deposits: The minimum credit rating for collateral on secured deposits is set at A-.

Specified Investments identified for use by the Council

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Instant access facilities with specified banks & building societies
- Repurchase Agreements and Covered Bonds specified banks & building societies
- Gilts: (bonds issued by the UK government)
- Treasury Bills (T-Bills)
- Local Authority Bonds
- Money Market Funds
- Pooled 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: BBB+(Fitch); Baa1 (Moody’s); BBB+ (S&P). The Council will aim to have a weighted average credit score of A- for the whole portfolio of investments.

Table 12: Limits for Specified investments

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
Instant Access Accounts / Term Deposits / Certificates of Deposit / Secured Deposits	UK Banks and Building Societies <ul style="list-style-type: none"> - Lloyds Banking Group (Including Bank of Scotland) - Barclays Bank Plc - Close Brothers - Goldman Sachs International Bank - HSBC Bank Plc - Leeds Building Society - Nationwide Building Society - Santander UK - Standard Chartered Bank 	7.5% / £10m (except Leeds Building Society £1m)
Instant Access Accounts / Term Deposits / Certificate of Deposits / Secured Deposits	Overseas Banks Australia - National Australia Bank Finland - Nordea Bank Singapore <ul style="list-style-type: none"> - DBS Bank Ltd - Oversea-Chinese Banking Corporation Sweden - Svenska Handelsbanken	7.5% / £10m Overseas Bank Total - 50% in aggregate
Gilts	DMO	No limit
Treasury Bills	DMO	No limit
Local Authority Bonds	Other UK Local Authorities	No limit
Money Market Funds	Money Market Funds	7.5%/£5m per fund. Maximum MMF exposure 50%
Pooled Funds	Pooled Funds <ul style="list-style-type: none"> - Ignis Sterling Short Duration Cash Fund - Insight Sterling Liquidity Plus Fund - [SWIP] Sterling Investment Cah Fund 	7.5%/£5m per fund. Maximum Pooled Fund exposure 15%

Note: The above list and limits would be amended on notification of any potential risk concerns. Cabinet will approve any additions to the above list of counterparties or investment instruments.

Non Specified Investments (duration more than 1 year)- having considered the rational and risk associated with Non-Specified Investments, the following have been determined for the Council's Use:

Table 13

	Maximum maturity	Max % of portfolio
§ Deposits and Bonds with other UK Local Authorities § CDs, Secured Deposits and Secured Bonds with UK	2 Years	40 In

and Foreign banks and UK building societies		Aggregate
§ Money Market Funds		
§ Pooled Funds		
§ Gilts		

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. A maximum exposure limit of 40% has been set for Non Specified investments.

2015/16 MRP STATEMENT

Where the Council finances its capital programme through borrowing it must set aside resources annually through a Minimum Revenue Provision. This is within the revenue budget to repay the debt in later years. The Local Government Act 2003 requires the Council to have regard to Guidance on Minimum Revenue Provision issued by the Department of Communities and Local Government.

The four options available to establish a prudent amount of MRP are:

- Option 1: Regulatory Method
- Option 2: CFR Method (4%)
- Option 3: Asset Life Method (equal instalment or annuity method)
- Option 4: Depreciation Method

This does not preclude other prudent methods to provide for the repayment of debt principal.

MRP in 2015/16: Option 1 and 2 is used for GF supported borrowing prior to 31 March 2008. For capital expenditure incurred after 31 March 2008, MRP will be charged over the useful life of the assets in equal instalments or for major projects on an annuity basis, starting the year after the asset becomes operational. In all cases we will consider the most prudent method of providing for debt repayment. 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.

Capital expenditure incurred during 2015/16 is not subject to an MRP charge until 2016/17.

Proposed 2015/16 Training & Development Plan for Audit Committee Members

Contact Officer: Lloyd White
Telephone: 01895 250636

REASON FOR ITEM

After a request by the Audit Committee at its meeting held on 7 January 2014, a Training Plan and Development Plan is produced annually for Audit Committee Members. This plan aims to support the Audit Committee in discharging its duties effectively.

OPTIONS AVAILABLE TO THE COMMITTEE

1. **The Audit Committee is asked to review the proposed plan detailed in Appendix A and approve it, with amendments suggested as applicable.**

INFORMATION

2. 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.
3. If approved, this training and development programme would form part of the Council's existing Member Training and Development Programme for the 2015/16 municipal year which is co-ordinated by Democratic Services.
4. Potential areas for Members 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?

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

PART I – MEMBERS, PUBLIC & PRESS
Audit Committee 16 December 2014

BACKGROUND PAPERS

None.



Proposed: Training & Development Plan for Audit Committee Members - 2015/16

Subject	Scope	Rationale	Provided by	Provisional Timing
Overview of the Council's Corporate Governance arrangements	Overview of: <ul style="list-style-type: none"> • 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 2015
The role of External Audit	Overview of: <ul style="list-style-type: none"> • External Audit roles and responsibilities; • Statutory powers including the review of: <ul style="list-style-type: none"> - final accounts; - Value for Money; and - Grant claims. 	Introduction from Ernst & Young to give an understanding of External Audit's role as an assurance provider and the services they supply to the Council.	External Auditor (Ernst & Young)	March 2015
The role of Internal Audit (IA)	Overview of: <ul style="list-style-type: none"> • IA roles and responsibilities; • IA Plan; • IA Charter; • IA Strategy; and • IA process from risk identification through to final report stage including the follow-up of recommendations. 	Gain an understanding of IA's role as an assurance and consultancy provider to the Council.	Internal Audit	October 2015

Subject	Scope	Rationale	Provided by	Provisional Timing
Overview of the Council's Financial Reporting arrangements	Overview of: <ul style="list-style-type: none"> • Financial statements; and • Treasury Management (strategy and process). 	An introduction for Members assisting them in their oversight of the Council's financial statements. An introduction for Members assisting them in their oversight of the Council's Treasury Management strategy.	Finance Arlingclose	March 2015 November 2015
Overview of the Council's approach to Anti-Fraud and Anti-Corruption	Overview of: <ul style="list-style-type: none"> • 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 2015
Overview of the Council's approach to Risk Management	Overview of: <ul style="list-style-type: none"> • 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

Agenda Item 10

WORK PROGRAMME 2014/15

Contact Officer: Khalid Ahmed
Telephone: 01895 250833

REASON FOR ITEM

This report is to enable the Committee to review meeting dates and forward plans.

OPTIONS AVAILABLE TO THE COMMITTEE

1. To confirm dates for meetings
2. To make suggestions for future working practices and/or reviews.

INFORMATION

All meetings to start at 5.00pm

Meetings	Room
30 July 2014 at 7.00pm	CR 5
23 September 2014	CR 4
16 December 2014	CR 3
17 March 2015	CR 3A

AUDIT COMMITTEE

2014/15 DRAFT Work Programme

30 July 2014	Consolidated Fraud Investigation Report	Corporate Fraud Investigation Manager
	Annual Internal Audit Report & Opinion Statement 2013/14	Head of Internal Audit
	Annual Review on the Effectiveness of Internal Audit	Head of Internal Audit
	Review of the Effectiveness of the Audit Committee	Head of Internal Audit
	Draft Annual Governance Statement	Head of Policy
	Head of Internal Audit Annual Assurance Statement	Head of Internal Audit
	Internal Audit Progress Report - Quarter 1 2014/15	Head of Internal Audit
	Audit Committee Annual Report to Council	Head of Internal Audit
	Audit Committee Work Programme	Democratic Services Manager

Meeting Date	Item	Officer/member
23 September 2014	Approval of the 2013/14 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2014	Director of Finance/Deloitte
	Deloitte Annual Audit Letter	Director of Finance/Deloitte
	External Audit Report to the Audit Committee on the 2013/14 audit of the Pension Fund Financial Statements	Director of Finance/Deloitte
	Internal Audit Progress Report Quarter 2 2014/15 and plan amendments	Head of Internal Audit
	Risk Management Quarter 1 Report – PART II	Head of Performance and Improvement
	Audit Committee Work Programme	Democratic Services Manager

16 December 2014	* Private Meeting with External Auditors to take place before the meeting	
	Internal Audit Progress Report Quarter 3 2014/15 and plan amendments	Head of Internal Audit
	Treasury Management Strategy and Investment Strategy 2015/16	Director of Finance
	Corporate Fraud Investigation Progress Report	Corporate Fraud Investigation Manager
	Deloitte Annual Audit Plan	Director of Finance/Deloitte
	Risk Management Report Part II	Head of Performance and Improvement
	Proposed 2015/16 Training and Development Plan for Audit Committee Members	Head of Democratic Services
	Audit Committee Work Programme	Democratic Services Manager

17 March 2015	* Private meeting with the Head of Internal Audit to take place before the meeting	
	Internal Audit – Draft Internal Audit Plan	Head of Internal Audit
	Internal Audit Strategy	Head of Internal Audit
	Internal Audit Progress Report Quarter 4 2014/15 and plan amendments	Head of Internal Audit
	Internal Audit – Revised Internal Audit Charter	Head of Internal Audit
	Corporate Fraud Team Work Plan	Corporate Fraud Investigation Manager
	Annual Governance Statement – Interim Report	Head of Policy
	Balances and Reserves Statement	Director of Finance

	Revisions to the Treasury Management Strategy Statement and Investment Strategy 2014/15 to 2016/17	Director of Finance
	Deloitte – 2014/15 Annual Audit Plan	Director of Finance/Deloitte
	Risk Management Report Part II	Head of Performance and Improvement
	Audit Committee Work Programme	Democratic Services Manager

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