



HILLINGDON
LONDON



Audit Committee

Members on the Committee

Date: TUESDAY, 15 DECEMBER
2015

Rajiv P Vyas (Chairman)
Richard Lewis (Vice-Chairman)
Tony Eginton (Labour Lead)
Peter Davis
Susan O'Brien

Time: 5.30 PM* OR AT THE END
OF A TRAINING ITEM,
WHICH EVER IS EARLIER

Venue: COMMITTEE ROOM 4 -
CIVIC CENTRE, HIGH
STREET, UXBRIDGE UB8
1UW

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

Published: Monday, 7 December 2015

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This Agenda is available online at:
<http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=256&Mid=2354&Ver=4>

Putting our residents first

Lloyd White
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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

Prior to the meeting at 5.00pm, there will be a private meeting with the Corporate Director of Finance. This will be followed by a training item on Corporate Fraud.

CHAIRMAN'S ANNOUNCEMENTS

- 1 Apologies for Absence
- 2 Declarations of Interest
- 3 To confirm that all items marked Part I will be considered in Public and that any items marked Part II will be considered in Private
- 4 Minutes of the meeting held on 24 September 2015 (**Pages 1-6**)
- 5 Deloitte - Annual Grant Audit Letter (**Pages 7-20**)
- 6 Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2020/21 (**Pages 21-40**)
- 7 Corporate Fraud Investigation Team Progress Report April-November 2015 (**Pages 41-52**)
- 8 IA Progress Report for 2015/16 Quarter 3 (including the Quarter 4 IA Plan) (**Pages 53-78**)
- 9 Audit Committee - Forward Programme (**Pages 79-82**)

PART II

- 10 Risk Management Report & Quarter 2 Corporate Risk Register (**Pages 83-102**)

Agenda Item 4

Minutes

Audit Committee

Thursday 24 September 2015

Meeting held at Committee Room 3- Civic Centre,
High Street, Uxbridge UB8 1UW



HILLINGDON
LONDON

	<p>Members Present: Rajiv Vyas (Independent Chairman), Councillors Peter Davis, Tony Eginton, Ray Graham and Susan O'Brien.</p> <p>Apologies for Absence: Councillor Richard Lewis (Councillor Susan O'Brien substituting).</p> <p>Officers Present: Garry Coote (Corporate Fraud Investigation Manager), Dan Kennedy (Head of Performance and Improvement), Sian Kunert (Chief Accountant), Muir Laurie (Head of Internal Audit), Nancy Le Roux (Deputy Director of Strategic Finance), Martyn White (Senior Internal Audit Manager) and Khalid Ahmed (Democratic Services Manager).</p> <p>Others Present: Heather Bygrave and Ryan Gawley (External Auditors - Deloitte).</p> <p>Prior to the meeting, the Committee was provided with a training session on Treasury Management and Risk Management.</p>
13.	<p>DECLARATION OF INTEREST</p> <p>Councillor Susan O'Brien declared a Non-Pecuniary Interest in Agenda Item 5 - External Auditor Report on the Pension Fund Annual Report and Accounts because she was a "deferred" member of the Local Government Pension Scheme. She remained in the room during discussion on the item.</p> <p>Councillor Tony Eginton declared a Non-Pecuniary Interest in Agenda Item 5 - External Auditor Report on the Pension Fund Annual Report and Accounts because he was a retired member of the Local Government Pension Scheme. He remained in the room during discussion on the item.</p>
14.	<p>MINUTES OF THE MEETING HELD ON 2 JULY 2015</p> <p>Agreed as an accurate record.</p>
15.	<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 11 - Risk Management Report & Quarter 1 Corporate Risk Register which was considered in private.</p>

<p>16.</p>	<p>APPROVAL OF THE 2014/15 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2015</p> <p>Consideration was given to a report which summarised the findings of the External Auditor on the audit of the 2014/15 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 unmodified 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 £466.7m for the year which from Deloitte testing was appropriate. • Recording of capital spend - This was identified as a significant risk because of the volume of capital spend in the financial year. However, testing had indentified no significant issues. • Management Override of Controls - No weaknesses had been identified. • Valuation of the Pension Liability - The net Pension liability was £485m; however, Deloitte considered the assumptions used to calculate the liability to be within a reasonable range when compared to in-house bench marks. • Revaluation of properties - A number of areas for improvement had been identified in relation to the valuation of the Council's properties. • Accounting for Schools - Deloitte considered that the identification of those schools which should be capitalised, together with the accounting for the prior year restatement and concluded that the Council had accounted for this correctly. <p>The Committee noted that this was the last meeting for Heather Bygrave as the external auditor from Deloitte. Members thanked Heather and Deloitte for all their work as External Auditors to this Council and to the Committee.</p> <p>RESOLVED -</p> <ol style="list-style-type: none"> 1. That the Committee considered and approved the Statement of Accounts for 2014/15. 2. That the Auditors recommendations outlined in the report be noted. 	
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<p>17.</p>	<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 on the financial statements.</p> <p>Reference was made to risk management and internal control systems and the comment relating to the identification of a number of differences between the valuations provided by the investment managers and that provided by Northern Trust. The Committee was informed that controls were being put in place to move this forward.</p> <p>The Committee noted the comments made at the Pensions Committee meeting on 23 September 2015.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1. That the auditor’s findings contained in the report be noted. 2. That the Committee considered and approved the Accounts of the Pension Fund. 	
<p>18.</p>	<p>DELOITTE - DRAFT ANNUAL AUDIT LETTER</p> <p>The report provided a summary of the expected conclusions from Deloitte’s audit work undertaken for the year ended 31 March 2015.</p> <p>Reference was made to the key areas of Deloitte’s work over the year, and their findings in each area and the focus of their work going forward.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1. That the Committee noted the report and that a final version of the Annual Audit Letter would be sent to Members prior to submission to the Audit Commission. 	
<p>19.</p>	<p>CORPORATE FRAUD INVESTIGATION TEAM PROGRESS REPORT APRIL 2015 TO AUGUST 2015</p> <p>The Committee was provided with a report which provided details of the work undertaken by the Council’s Corporate Fraud Investigation Manager. Reference was made to a range</p>	

	<p>of activities which the team had been involved in since April 2015 which included:-</p> <ul style="list-style-type: none"> • Social Housing fraud • Council Tax/Business Rates inspections • Single Person Discount (SPD) • Temporary Accommodation and Housing Needs Reception • Right to Buy investigations • Proceeds of Crime investigations • Housing Waiting List • Enhanced Recruitment Verification • Blue Badge • Procurement fraud • Mobile working • Council Tax Reduction Scheme (CTR) <p>The Corporate Fraud Investigation Manager referred to the project on the Housing Waiting List which involved checking through Council records such as Council Tax information and electoral registration and people on the waiting list who were no longer entitled to Social Housing.</p> <p>Members praised the cross working which was taking place across the Council and the levels of success this was bringing.</p> <p>Discussion took place on the Council's Whistle-Blowing policy and Members were informed that an updated policy would be submitted to the Committee's next meeting.</p> <p>RESOLVED –</p> <p>1. That the Committee considered and noted the Corporate Fraud Investigation Team report.</p>	Action By:
20.	<p>INTERNAL AUDIT - PROGRESS REPORT FOR QUARTER 2 2015/16 (INCLUDING THE 2015/16 QUARTER 3 INTERNAL AUDIT PLAN)</p> <p>The Head of Internal Audit presented the report which provided summary information on all Internal Audit work covered in relation to the 2015/16 Internal Audit Plan, together with assurance levels in respect of the quarter two period.</p> <p>Members were informed that since the last progress report, 7 assurance reviews had been completed to final report stage, 7 consultancy reviews had been finalised and 3 grant claims had been verified.</p>	

	<p>Reference was made to the assurance reviews on Deprivation of Liberty Safeguards and Disabled Facilities Grants and Adaptations and that both of these reviews had been requested by the respective Corporate Directors. The Committee was informed that both had resulted in limited assurance opinions being given and that positive management action had been proposed to address the medium risk recommendations raised.</p> <p>The Head of Internal Audit informed the Committee of the consultancy work which Internal Audit had carried out at Uxbridge Mortuary. Members were informed that a 'mock audit' had been requested by the Deputy Chief Executive and Corporate Director of Residents Services in preparation for an inspection by the Human Tissue Authority. Internal Audit involvement had assisted the Council's compliance with the Human Tissue Authority.</p> <p>The Committee was provided with details of the operational Internal Audit Plan Quarter 3.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1. That the Internal Audit progress report for 2015/16 Quarter 2 be noted and approval be given to the Quarter 3 Internal Audit Plan for 2015/16. 2. That the coverage, performance and results of the Internal Audit activity in Quarter 2 be noted. 	
21	<p>WORK PROGRAMME 2015/16</p> <p>The Chairman asked that the Council new External Auditors, Ernst & Young be invited to meet in private with the Audit Committee before the start of the next meeting.</p> <p>Noted.</p>	
22.	<p>RISK MANAGEMENT REPORT 2015/16</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>The report presented to Members the Corporate Risk Register till the end of June 2015 and also provided a summary of changes in risks on the Corporate Risk Register during the</p>	

	<p>previous 12 months.</p> <p>Officers were asked to send the Council's Risk Management Framework to Members of the Committee.</p> <p>RESOLVED –</p> <p>1. That the Committee reviewed the Corporate Risk Register (as at the end of June 2015), as part of the Committee's role to independently assure the risk management arrangements in the Council.</p>	<p>Action By:</p> <p>Dan Kennedy</p>
	<p>The meeting which commenced at 5.40pm, closed at 6.45pm</p> <p>Next meeting: 15 December 2015 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.

Deloitte - Annual Grant Audit Letter

Contact Officer: Sian Kunert
Telephone: 01895 566578

SUMMARY

This report provides a summary of the key findings on the grant work undertaken by Deloitte for the year ended 31 March 2015.

RECOMMENDATIONS

Committee is asked to note the report.

INFORMATION

The attached report addressed to the Audit Committee on 2015 Grant Certifications has been completed by the Council's former external auditors Deloitte to communicate the key issues arising from their 2014/15 grant certification work.

Deloitte were responsible for certifying the Housing Benefit Subsidy claim under the contract with the Public Sector Audit Appointments (PSAA). From this work, as a result of a number of errors being revealed both in under and over payment of benefits identified during the audit of the Housing Benefit Subsidy claim, a qualification letter was issued. Given the nature of benefits processing and the high volume of transactions there will always be a certain element of error - the total value of the return is over £150m. However, the benefits subsidy system is such that all errors no matter how small result in qualification.

In addition, Deloitte were responsible for certifying two returns relating to the Teachers Pension Contributions and Pooling of Capital receipts, outside of the PSAA certification regime. These returns were certified without qualification.

The total fees charged for grant certification work for 2014/15 was £51,475 (2013/14 £45,279)

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

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London Borough of Hillingdon

Report to the Audit Committee
on the year ended 31 March 2015
Certification work

Final Report

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1. Executive summary

Certification of Claims & Returns 2014/15

We have pleasure in setting out in this document our report to the Audit Committee of the London Borough of Hillingdon (“the Authority”) on our certification work for the year ended 31 March 2015. This report summarises the principal matters that have arisen from our work. It is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention.

This year only the Housing Benefit Subsidy claim required certification as part of our contract with Public Sector Audit Appointments (PSAA) (previously the Audit Commission).

Additionally, we have certified returns relating to Teachers’ Pension Contributions and Pooling of Capital Receipts. These returns fall outside the PSAA certification regime, but we have included information on these returns in this Letter in order to give you a complete picture of our work on grants and returns in 2014/15.

The Housing Benefit Subsidy claim testing revealed errors of both underpayment and overpayment of benefits. The individual errors ranged from £0.24 to £615.60 and error rates ranged from 0% to 0.8%. A qualification letter was submitted to the Department for Work and Pensions setting out the errors found.

Given the nature of the benefits system, with a high volume of low value transactions, there will always be an element of human error. More detail on our testing and the errors noted can be found in Section 4.

With respect to testing on the Teachers’ Pensions Contributions and Pooling of Capital Receipts returns, there have been no amendments and we have not issued a qualification letter.

2. Grant claims and returns certified in 2014/15

The following claims and returns have been certified and delivered to the appropriate authority in relation to 2014/15:

PSAA grant claims and returns

Claim or return	Value of claim/ Return	Date certified	Certification deadline	Adjustments required	Qualification letter issued
Housing Benefit	£150,724,555	05/11/2015	30/11/2015	No	Yes

Non-PSAA grant claims and returns

Claim or return	Value of claim/ Return	Date certified	Certification deadline	Adjustments required	Qualification letter issued
Capital Receipts	£19,580,098	Not Certified*	30/11/2015	No	No
Teachers' Pensions (total contributions deducted)	£10,718,321	02/11/2015	30/11/2015	No	No

*We have completed our procedures around the certification of the pooling of capital receipts return. However, due to an ongoing system wide issue with the certification system, LOGASnet, we have been unable to certify. This issue is affecting all authorities. DCLG are aware and their certification deadline will be updated once the issue with the system is resolved.

3. Adjustments and qualification letters issued

Adjustments

No adjustments were made on any claims or returns we have certified.

Qualification letters issued

A qualification letter was issued this year in relation to the Housing Benefit grant – see Section 4 for details of the issues noted within the Housing Benefit Subsidy claim.

No qualification letters were issued in respect to other grant claims or returns.

4. Commentary on Housing Benefit claim

Certification approach

- Certification instruction BEN01, issued by Public Sector Audit Appointments (PSAA), was followed in accordance with the HBCOUNT 2015 instructions. This is a modular approach consisting of six separate testing elements.
- The system parameters (i.e. this year's benefit rates and allowances) were agreed to those in use at the Authority and a review of the Northgate software controls was performed.
- Electronic workbooks supplied by PSAA were used to test a sample of 20 cases for each of the three benefit types (HRA rent rebates, non-HRA rent rebates and rent allowances) for the Authority.
- This year we selected 60 cases and the initial testing was completed by the Authority's Internal Audit department with a selection re-performed by Deloitte.
- Testing was performed on those areas where errors were identified in the prior year, with a sample of 40 cases selected for each area. This testing is called Cumulative Audit Knowledge and Experience (CAKE) testing.
- Where non-isolated errors were identified in the current year that could give rise to an overpayment of benefit an additional 40 samples were selected for testing.

Non-HRA Rent Rebates

Testing of the initial 20 cases identified two cases that failed testing:

- One case whereby an element of the claim had been incorrectly classified as backdated expenditure; and
- One case whereby LA delay overpayments had been incorrectly classified as eligible overpayments.

Testing of an additional 40 cases for these two error types identified the following:

- Five cases where an element of the claim had been incorrectly classified as backdated expenditure; and
- No further cases whereby LA delay overpayments had been incorrectly classified as eligible overpayments.

CAKE testing was conducted as a result of prior year errors. In one area, further errors were noted in 2014/15:

- Assessment of earned income – testing identified one case where benefit had been overpaid and one where benefit had been underpaid due to miscalculating the claimant's earned income.

As backdated expenditure is an information only classification there is no effect on subsidy claimed.

The misclassification of eligible overpayments leads to an extrapolated error of **£763**.

The miscalculation of earned income leads to an extrapolated error of **£16**.

Rent Rebates

Testing of the initial 20 cases identified one case that failed testing:

- One case where earnings were miscalculated leading to the underpayment of benefit.

There was a prior year qualification in relation to miscalculation of earnings, so CAKE testing was conducted. No further errors were identified.

The miscalculation of earnings identified resulted in an underpayment of **£616**. As no subsidy is payable on benefit that has not been claimed, per HBCOUNT guidance no extrapolation is required.

Rent Allowances

Testing of the initial 20 cases identified two cases that failed testing:

- One case where earned income had been miscalculated; and
- One case where eligible rent had been miscalculated.

Testing of an additional 40 cases for these two error types identified the following:

- Five further cases where earned income had been miscalculated; and
- No further cases where eligible rent had been miscalculated.

The miscalculation of earned income leads to an extrapolated error of **£11,942**.

The miscalculation of eligible rent leads to an extrapolated error of **£1,127**.

5. Commentary on non-PSAA returns

We have performed work certifying the Authority's returns to Teachers' Pensions in respect of contributions to teachers' pensions and the return to the Department for Communities and Local Government in respect of capital receipts subject to pooling arrangements.

Teachers' Pensions

The teachers' pensions return has been certified in line with certification instruction TP05 issued by Teachers' Pensions.

We noted no errors. The return was certified without amendment and without qualification.

Capital Receipts

The capital receipts return has been tested in line with certification instruction CFB06 issued by the Department for Communities and Local Government.

We noted no errors. There is currently an ongoing system wide issue with the certification system, LOGASnet, meaning we have been unable to certify. This issue is affecting all authorities. DCLG are aware and their certification deadline will be updated once the issue with the system is resolved.

We intend to certify the return without amendment and without qualification.

6. Responsibility statement

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

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

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

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



Deloitte LLP

Chartered Accountants

St Albans

3 December 2015

7. Analysis of certification fees

Claim or return	2015 £	2014 £
PSAA claim or return		
Housing Benefit Subsidy	38,300	32,593
Non-PSAA claim or return		
Teachers' Pensions Contributions	8,500	8,100
Pooling of Housing Capital Receipts	4,675	4,586
	51,475	45,279

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Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2020/21

Contact Officer: Nancy Leroux
Telephone: 01895 566074

SUMMARY

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

RECOMMENDATIONS

The contents of the report are reviewed.

INFORMATION

Treasury Management Strategy

- 1 The investment strategy has been developed with the intention of maintaining a broadly risk averse approach, whilst being able to seek an optimum yield within the security and liquidity restrictions. In producing the TMSS, new banking reform legislation has been taken into account which removed government support to failing banks from 2015, as there is a heightened risk to the Council's unsecured investments due to bail-in.
- 2 The main change to the strategy for 2016/17 is the extension of Covered bonds into counterparties where the bond issue is rated AA or above as the bond is supported by collateral. Advice will be obtained from the Councils Treasury Advisor before placing funds in a covered bond.
- 3 In addition the duration limit for non-specified investments has been extended to 3 years from 2 years to enable more opportunity to invest in secure deposits which have a longer term horizon. This will allow the Council to place investments more securely and with improved yield. Investments over 364 days will be monitored within approved prudential indicator limits.
- 4 At this stage, the draft borrowing strategy for 2016/17 maintains 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 (or successor body) will

remain the primary and most likely source of borrowing. The Council does not expect to require new borrowing until 2017/18.

- 5 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 not implemented until approved by Cabinet.
- 6 It should be noted that at this stage the figures contained within the draft 2016/17 strategy are not finalised as work will continue on refining the estimates of the balances and reserves position until the budget is completed early in 2016. As a result many of the figures within the report are subject to change such as the CFR, prudential indicators and projected borrowing. The final strategy will be reviewed by Cabinet on 18 February 2016, prior to being taken to Council for approval on 25 February 2016.

BACKGROUND DOCUMENTS

None

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2016/17 to 2020/21

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 aims to minimise borrowing and make use of internal funds where available. Currently, there is no expectation to take out new debt until 2017/18. As interest rates are expected to remain low in the near future this will keep investment returns low, so 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 2016/17 the Treasury Management Strategy Statement (TMSS) proposes to increase the flexibility in the allowable exposure of secured deposit instruments, to improve the number of bail-in exempt investment opportunities available to the council and so reduce the bail-in risk of the Council's investment portfolio. Secured deposit instruments available to the Council include Covered Bonds and Repurchase Agreements.

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 the Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Statement for the following financial year. The strategy is developed as part of the Council's MTFE 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 regulation is undertaken which define many of the changes in treasury management strategy and risk parameters.
- 1.3 It is expected that interest rates will remain low and will only slowly increase, with the first movement now pushed back into the second half of 2016. The change in interest forecasts have been triggered by a weakness in inflation, subdued global growth and uncertainty around the UK's position in Europe. Returns on investments during 2016/17 are therefore forecast to remain subdued and as a result, internal resources will be used

rather than taking out new debt to support the Capital programme as this will reduce risk in the cost of holding new debt with low returns on investment.

2. BALANCE SHEET AND TREASURY POSITION

- 2.1 The Councils borrowing strategy is led by the estimated Balance sheet position in the medium term and capital programme expectations. 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 been financed from other Council resources such as capital grants, revenue contributions or reserve financing. The CFR will generally be higher than the actual debt held due to timing requirements for cash flow purposes. This is called "internal borrowing".
- 2.2 Estimates of the CFR, based on the projected capital programme over the next five years are shown in table 1. The Council's opening CFR is estimated at £420m for 2016/17, based on the closing 2015/16 figures, outstanding loans £315m and other long term liabilities of £2m, resulting in a gross borrowing requirement of £103m. Existing borrowing is identified into separate loan pools for GF and HRA, debt is currently £79m and HRA £236m.

Table 1

	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
General Fund CFR	213	252	277	307	320	307
HRA CFR	207	214	206	198	190	181
Total CFR	420	466	483	505	510	488
Existing Borrowing *	317	309	292	274	257	222
Gross External Borrowing required to meet CFR	103	157	191	231	253	266
Projected Usable Reserves **	147	154	102	96	104	115
Projected Working Capital	40	40	40	40	40	40
Investments / (New Borrowing Required)	84	37	(49)	(95)	(109)	(111)

* Borrowing profile does not include potential calls on LOBO borrowing. Borrowing includes £191.6m paid to government by the HRA as settlement on the introduction of the self financing regime in March 2012.

** Council controllable reserves only

- 2.3 The increasing General Fund CFR is due to the Council's programme of capital investment funded by Council resources. The Capital programme continues to focus on provision of sufficient schools places to meet rising demand across the borough. In addition there is provision for major investment on the St Andrews Park site in Uxbridge. The reducing HRA CFR is as a result of repayment of debt transferred from central government. The Council is forecast to require borrowing from 2017/18 to meet the costs of the capital programme.

- 2.4 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.
- 2.5 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 2016 will be £315m, a decrease of £12.3m on the previous year as a result of debt maturing naturally. There were no opportunities to repay debt early in 2015/16 and £7.3m is scheduled for repayment in 2016/17. The Council's loan portfolio has average interest rate of 3.01% over 2015/16.
- 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 before 2017/18. Taking new fixed rate borrowing in advance of need would not be cost effective when compared to utilising internal balances, due to the differential between debt costs and investment earnings, despite long term borrowing rates being at low levels. Delaying borrowing until required for cash flow purposes 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 and its successor body
 - 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)
 - Other special purpose companies created to enable local authority bond issues
- 3.4 Although a mix of borrowing options will always be considered, the PWLB (or equivalent) will remain the primary source of long-term and variable rate borrowing whilst rates remain closely linked to government gilts. The Council currently has access to the preferential PWLB "certainty rate", which is 0.2% lower than normal PWLB lending rates. To cover unexpected cash flow shortages, the Council may borrow short term loans, which would mainly be sourced from other local authorities.
- 3.5 Where 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.

Interest Rate Risk

- 3.6 The Council holds a mixture of loans, with £255m of fixed rate loans protected against interest rate rises and variable rate loans of £60m, which take advantage of favourably low rates and although exposed to increases in rates any additional costs would be 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.
- 3.7 Within the loan portfolio, the Council has £48m of Lender's Option Borrower's Option (LOBO) loans of which £14m will be in their call period in 2016/17 and so are reclassified for the period as variable. 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.

Debt Rescheduling

- 3.8 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.
- 3.9 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 2016/17.
- 3.10 The Council may consider the transfer of debt between the HRA and GF. 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.
- 3.11 The Council will limit and monitor large concentrations of fixed rate debt needing to be replaced through the prudential indicator in table 2. The upper and lower percentage limits are intended to control excessive exposure to volatility in interest rates on refinancing of maturing fixed rate debt by setting a structure for borrowing maturity profiles. The first scheduled LOBO call option is included as the maturity date within this indicator.

Table 2

Maturity structure of fixed rate borrowing	% PWLB maturity profile at 31/03/16 %	% Market LOBO 1st call option profile at 31/03/16	Lower Limit for 2016/17 %	Upper Limit for 2016/17 %
under 12 months	2.15	5.21	0	25
12 months and within 24 months	5.87	1.86	0	25
24 months and within 5 years	16.91	10.79	0	50
5 years and within 10 years	10.24	0.00	0	100
10 years and within 20 years	23.83	0.00	0	100
20 years and within 30 years	12.50	0.00	0	100
30 years and within 40 years	8.78	0.00	0	100
40 years and within 50 years	1.86	0.00	0	100
50 years and above	0.00	0.00	0	100
Total	82.14	17.86	0	100

3.12 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. Investments will also be with reference to the Prudential Indicators and from approved investments detailed in Appendix B. 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. The risk of bail-in is effective at the point when banks are considered to be underperforming rather than once they have failed. 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.

- 4.5 There are a number of secure deposits available to the Council to reduce bail-in exposure by reducing the use of unsecure bank deposits. Secure deposits include Covered Bonds (fixed and floating rate notes) and Repurchase Agreements (REPO's). Both of these investment vehicles were introduced in the 2015/16 TMSS. Secure deposits are longer in duration and an element of the councils investments must remain liquid to fund cash flow requirements, resulting in some bail in risk being inherent in the Council's investment portfolio.
- 4.6 Covered Bonds are bail-in exempt and are issued in their own right rather than in the name of the counterparty, with each issue having its own credit rating. The covered bond has security of underlying assets which can be called upon in the event of default of the issuing counterparty. The decision to invest in a covered bond will be based on the individual bond issue rather than an agreed list of specific counterparties as each bond is standalone from the issuing counterparty and should be assessed individually. Duration and exposure limits will be aligned with the credit rating of the bond issue with consideration to other investment factors. The council will only invest in a covered bond which is rated AA or above.
- 4.7 Repurchase Agreements (REPO's) require the use of a tri-party facilitator to negotiate and hold the instrument, where it will be ring-fenced and not subject to the failure of the issuing counterparty, making them bail in exempt instruments; however unlike Covered Bonds REPOs are issued in the name of the counterparty.
- 4.8 Money Market Funds (MMF's) 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 of a clearing agent; however the Council's funds are ring fenced throughout the process.

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, market sentiment and pricing as well as any overriding doubts regarding security.
- 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 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. Covered Bonds will be restricted to bond issues of AA or above.
- 4.12 In order to diversify 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; for unsecured deposits this is capped at 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

- 4.13 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 resulting in it failing to continue 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.
- 4.14 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

- 4.15 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

- 4.16 As interest rates are forecast to remain unchanged until the second half of 2016, 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

- 4.17 The Council's bank account is held with Lloyds Bank Plc and is currently rated above the Council's agreed minimum BBB+ rating at A. Should the credit rating 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-.

4. 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 to which the Council is exposed. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 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 are charged directly to the respective revenue account.
- 5.5 Interest earned on HRA balances will be calculated and distributed in accordance with DCLG guidelines and based on a DMADF risk free rate of return to match the risk free credit exposure applicable to the HRA.

Investment of Money Borrowed in Advance of Need

- 5.6 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 Councils 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

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

Investment Consultants

- 5.8 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

- 5.9 Treasury activity is monitored and reported to senior management on a daily and weekly basis. Monthly updates including compliance with Prudential Indicators are provided to Cabinet as part of the budget monitoring process.
- 5.10 The Treasury Management Strategy Statement is agreed by Cabinet in February prior to agreement at full Council before the start of each financial year. A draft is taken to Audit Committee in December for consideration prior to going to Cabinet. Amendments to the TMSS during the year are only done with Cabinet approval.

Training

- 5.11 The CIPFA Code of Practice requires that 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	2015/16 Approved £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	502	533	539	539	539	518
Other Long term Liabilities	2	2	1	1	1	1
Authorised Limit	504	535	540	540	540	519

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	2015/16 Approved £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	472	503	509	509	509	488
Other Long term Liabilities	2	2	1	1	1	1
Operational Boundary	474	505	510	510	510	489

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	31/03/16 Estimate %	2015/16 Approved %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
Upper Limit for Fixed Interest Rate	81	100	100	100	100	100	100

Exposure on Debt							
Upper Limit for Fixed Interest Rate Exposure on Investments	(0)	(75)	(75)	(75)	(75)	(75)	(75)
Upper Limit for Variable Interest Rate Exposure on Debt	19	50	50	50	50	50	50
Upper Limit for Variable Interest Rate Exposure on Investments*	(100)	(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. Under the Council's strategy only investments where risk is minimised, as set out in the non-specified investments in table 13, would be placed for over 1 year and there is an upper limit of 3 years.

Table 6

Upper Limit for total principal sums invested over 364 days	2015/16 Approved £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
	32	45	35	35	35	35

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 cost of carry revenue interest 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	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
General Fund	97	65	94	72	62	55	23
HRA	26	25	54	57	15	9	11
Total	123	90	148	129	77	64	34

Capital expenditure is expected to be financed as follows:

Table 8

Capital Financing	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Prudential Borrowing	51	33	59	29	35	20	0
Capital Receipts	20	15	34	39	17	18	7
Community Infrastructure Levy	3	2	5	5	5	5	5
Government Grants & External Contributions	27	24	19	13	8	13	15
Revenue Contributions	22	16	31	43	12	8	7
Total Capital Financing	123	90	148	129	77	64	34

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 31/03/2016	£m
General Fund Borrowing	79.1
HRA Borrowing	235.6
Other Long term Liabilities	2.0
Total	316.7

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 £67.7m 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	2015/16 Revised	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Increase in Band D Council Tax	-£9.35	-£18.89	-£4.66	£12.24	£24.13	£25.78
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 the HRA 30 year business

plan which commenced in 2012. In terms of council tax, the incremental impact growth reflects the MTFP plan for priority growth projects in the Capital programme. In 2018/19 there is an increase in financing costs due to the expectation of new borrowing mainly in support of school expansion projects which results in an increase in revenue costs that would that would ultimately fall on the local Council tax payer to fund.

Table 11

Ratio of Financing Costs to Net Revenue Stream	2015/16 Revised	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	4%	4%	3%	4%	5%	7%
HRA	25%	25%	25%	25%	25%	25%

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 AA.

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 and fixed term deposits with specified banks & building societies
- Repurchase Agreements, Covered Bonds (Fixed and Floating Rate Notes))
- 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 above but also information on corporate developments 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. Classification of specified and non-specified investment is made at the point of entering into the investment.

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 / Notice Accounts / Term Deposits / Certificates of Deposit / REPO's	UK Banks and Building Societies <ul style="list-style-type: none"> - Lloyds Banking Group (Including Bank of Scotland) - Barclays Bank Plc - Close Brothers - Coventry Building Society - Goldman Sachs International Bank - HSBC Bank Plc - Leeds Building Society - Nationwide Building Society - Santander UK - Standard Chartered Bank 	Unsecured Deposits Up to 5% / £7.5m (except Leeds Building Society £1m) Secured Deposit - REPO's (In addition to unsecured limits) Up to 10% / £15m
Instant Access Accounts / Notice Accounts / Term Deposits / Certificates of Deposit	Overseas Banks Australia <ul style="list-style-type: none"> - National Australia Bank Singapore <ul style="list-style-type: none"> - DBS Bank Ltd - Oversea-Chinese Banking Corporation Sweden <ul style="list-style-type: none"> - Svenska Handelsbanken - Nordea Bank 	Unsecured Deposits 5% / 7.5m Overseas Bank Total - 50% in aggregate Secured Deposit - REPO's (In addition to unsecured limits) Up to 10% / £15m
Registered Secured Deposits (including Covered Bonds)	Bond issue minimum AA Rated	£15m / 10% (Per issue)
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 - Aberdeen Sterling Investment Cash 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. There is no upper limit for the total of specified investments.

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 § Deposits with UK Banks & Building Societies. § Money Market Funds § Pooled Funds § Gilts § Registered Secured Deposits (including Covered Bonds) AA rated or above	3 Years	40 In Aggregate

In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty. A maximum exposure limit of 40% has been set for non-specified investments.

2016/17 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 2016/17: Options 1 and 2 are used for GF supported borrowing prior to 31 March 2008. For capital expenditure incurred after 31 March 2008, MRP will be generally be charged over the useful life of the assets, beginning in 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 2016/17 is not subject to an MRP charge until 2017/18.

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Corporate Fraud Investigation Team Progress Report April-November 2015

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 to November 2015.

OPTIONS AVAILABLE TO THE COMMITTEE

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

INFORMATION

1. Roles and Responsibilities

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 (CFIT) 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.

Corporate Fraud Investigation Team activities since April 2015 included:

- Social Housing fraud
- Council Tax/Business Rates inspections
- Single Person Discount (SPD)
- Temporary Accommodation and Housing Needs Reception
- Right to Buy investigations
- Proceeds of Crime investigations
- Housing Waiting List
- Enhanced Recruitment Verification
- Blue Badge
- Procurement fraud
- Mobile working
- Council Tax Reduction Scheme (CTR)

2. Corporate Fraud Investigation Team Objectives

The Corporate Fraud Investigation Team aims to maximise income and reduce expenditure for the Council. The team intends to detect and prevent fraud across all Council activities and when appropriate prosecute offenders. The results of the work of the CFIT will ensure Hillingdon is able to achieve the objective of putting residents first.

3. Performance Outcomes April – November 2015

3.1 Social Housing Fraud

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 CFIT investigates suspected cases of social housing fraud which are identified either by direct referral from Housing Officers, data matching exercises or telephone calls to the fraud hotline. Since April 2015 the CFIT has recovered 50 properties which are now available to be re-let to residents in genuine housing need. This compares to 56 re-covered properties for the full year 2014/15.

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. Using this calculation the savings for Hillingdon this year are £900,000. The target set by CFIT for 2015/16 is to recover 52 properties (1 a week). This target will be successfully achieved and has the potential to be exceeded.

In total since the commencement of this project in 2010 the CFIT have recovered 236 properties which using the Audit Commission calculation equates to savings of just over £4.2 million.



To promote this project the Blow the whistle on Housing Cheats poster appears in Hillingdon People, this helps to generate calls to our fraud hotline, all referrals are fully investigated. In the coming months the CFIT is planning to extend this publicity so that posters are displayed in libraries and other public places.

Examples of combating social housing fraud are also 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 the Corporate Fraud Investigation Team will be promoting their work at residents meetings in 2015/16 as part of the forward work programme.

A new initiative for 2015/16 has involved working in partnership with Registered Social Landlords (RSL's). The CFIT are in the process of matching data from two RSL's with a Credit Reference Agency to identify fraudulent sub-letting. The CFIT are working with RSL's to investigate individual cases. In return for delivering this service RSL's have committed to ensuring that all recovered properties will be exclusively made available to Hillingdon Council, thereby helping to reduce housing pressures. As this project develops the CFIT will engage with more RSL's to increase the scope of the initiative.

This model being used for this project is unique to Hillingdon. The CFIT are leading the process in terms of the recovery of properties and all the investigations. Other authorities have used a different approach where RSL's have taken the lead, resulting in underperforming projects. By taking the lead in Hillingdon the CFIT is able to ensure that they drive the project, based on their previous experience, to achieve positive results.

Table 1 shows the number of properties recovered monthly and the notional savings achieved based on the Audit Commission calculation.

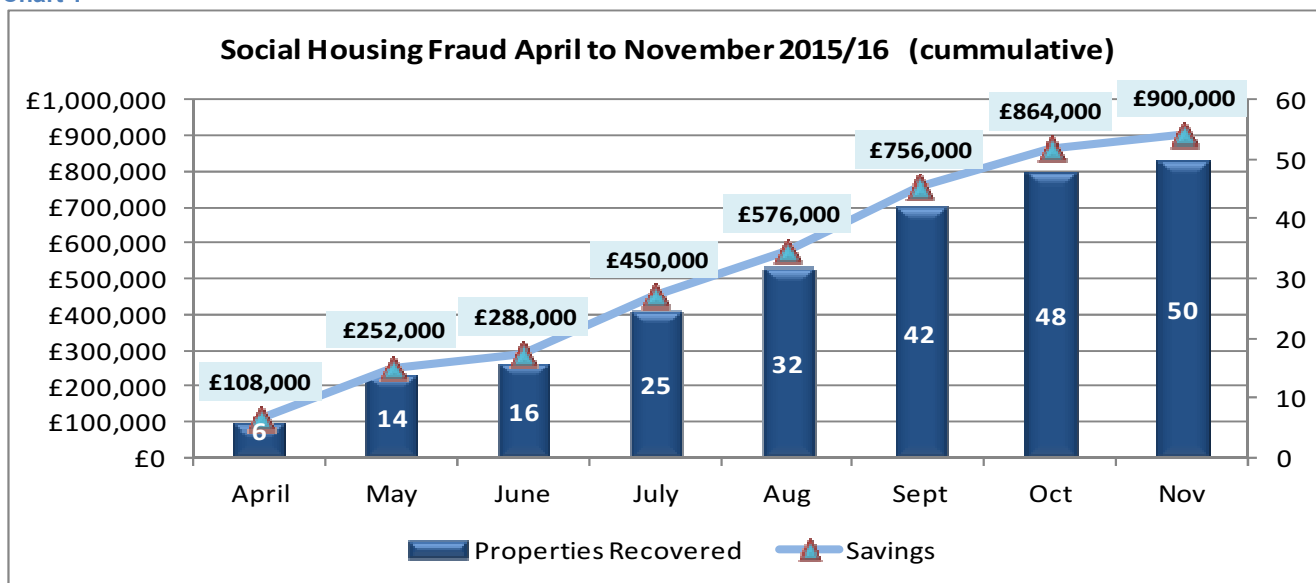
Table 1

Social Housing Fraud – number of properties recovered and savings achieved									
2015/16									
	April	May	June	July	Aug	Sept	Oct	Nov	Total
Number	6	8	2	9	7	10	6	2	50
Savings	£108k	£144k	£36k	£162k	£126k	£180k	£108k	£36k	£900k

*The Audit Commission estimates that every property recovered represents a saving of £18,000

Chart 1 shows the cumulative properties recovered and saving since April 2015.

Chart 1



The CFIT is currently gathering intelligence to pursue prosecution of 2 social housing fraud cases. One case was identified through the CFIT 'Right to Buy' verification visit, it was established that the tenant was sub-letting the property they were trying to buy and had 2 families renting the property from them. The second case was reported by a neighbour as a sub-letting referral, on investigation this information was substantiated.

3.2. Council Tax and Business Rates Inspections

The inspection role for Council Tax and Business Rates within the Corporate Fraud Team is crucial in terms of maximising the Councils revenue income.

This year from April to November 9,205 visits have been carried out, this compares to 12,026 carried out for the whole year 2014/15, projected growth of 14%. 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 discounts and exemptions. Where the visit establishes the wrong amount of Council Tax is being charged the account is changed and the person re-billed. 5,917 Council Tax inspection visits have been made from April to November 2015.

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 from January 2016 to March 2017 there will be approximately 1,300 new build properties being developed in Hillingdon. This represents a significant amount of additional revenue. 3,288 visits have been made between April and November 2015 to check Business Rates and New Build Inspections.

The robust visiting programme continues in 2015/16 working with internal partners such as planning to monitor new developments with the aim of maximising revenue potential.

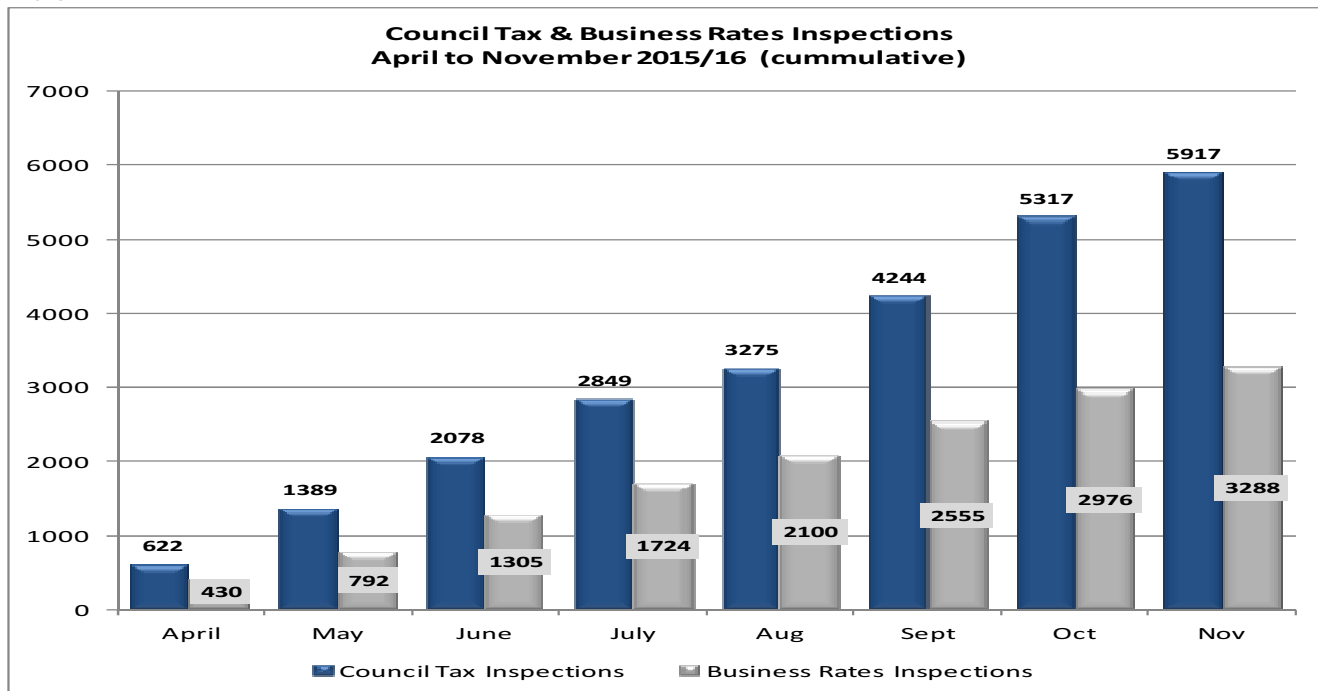
Table 2 and chart 2 show the number of visits carried out each month since April 2015.

Table 2

Council Tax and Business Rates Inspections										
2015/16										Income*
	April	May	June	July	Aug	Sept	Oct	Nov	YTD	
Number of Council Tax Inspections	622	767	689	771	426	969	1073	600	5,917	Increase in CT revenue
Number of Business rates and New Build Inspections	430	362	513	419	376	455	421	312	3,288	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.

Chart 2



3.3 Single Person Discount (SPD)

The CFIT have been working on a project since January 2015 to identify incorrect claims for Single Person Discount. The project is producing very positive results in terms of reducing the number of SPD claims and generating additional income to the Authority. There are currently 30,088 SPD claims in Hillingdon. Since the commencement of this project SPD numbers are the lowest they have been for the last five years.

The CFIT are operating 4 work streams to match internal data sources against SPD claims.

Under the first work stream SPD records are being matched against Hillingdon First cards issued since April 2014. The matching exercise establishes if more than one person is registered for a Hillingdon First card at an address where SPD is being claimed. To date 103 SPD cases have been stopped resulting in an overpayment of £62k which will be recovered as additional revenue.

The second work stream concerns 'notices of the intention to marry' submitted to the Registrar's Office. Couples have to include their current residence on these applications and these details have been matched to SPD claims. Records from April 2014 are being checked and to date 55 cases have been identified resulting in an overpayment of £47k which will be recovered.

The third work stream involves data matching SPD records with the Electoral register. To date 247 cases have been identified resulting in an overpayment of £194k for recovery.

The fourth work stream commenced in November to match SPD claims against residents parking permits. The initial data matching has identified 278 matches which require further investigation. The investigations are likely to find that some of these matches are the result of

poor data quality, however, any confirmed data matches will be processed for further investigation.

If a suspected SPD fraud is identified the CFIT carries out additional background checks on the claimant, such as housing records, benefit records, school records and Equifax online credit reference checks. A member of the CFIT then contacts the claimant either by telephone, letter or personal visit to discuss the claim and the evidence indicating fraudulent activity. In most instances as a result of this contact, claimants choose to resolve matters swiftly and make arrangements to repay the Council any monies they have previously claimed in discount. They are keen to settle the matter and avoid any repercussions.

Since April 2015 the CFIT team have commenced a significant data matching exercise with a credit reference agency called Experian. This exercise matches all our SPD claims with credit reference information to establish if applications for SPD are genuine. The matches have been rated into categories of high, medium and low depending upon the likelihood of an incorrect SPD claim. Officers from the CFIT are investigating all relevant cases. To date 72 SPD cases have been stopped resulting in a saving of £62k. It is planned to review the data matches by the 31st December 2015.

We have also run some additional in house reports to compare information on different systems and this has identified a further 189 cases resulting in savings of £82k.

Since January 2015/16 the CFIT have cancelled 686 SPD claims resulting in overpayments of £459k as shown in table 3.

Table 3

Council Tax - Single Person Discount – since January 2015		
Workstream	Number of claims stopped	Overpaid SPD
Hillingdon First Card data matching	103	£62k
Notices of intention to marry checks	55	£47k
Electoral registration data matching	247	£194k
Experian credit reference agency data matching	72	£62k
In-house data matching reports	209	£94k
Total	686	£459k

Charts 3 and 4 show summaries of the SPD overpayments and the number of households where claims have been cancelled from the intervention of the CFIT.

Chart 3

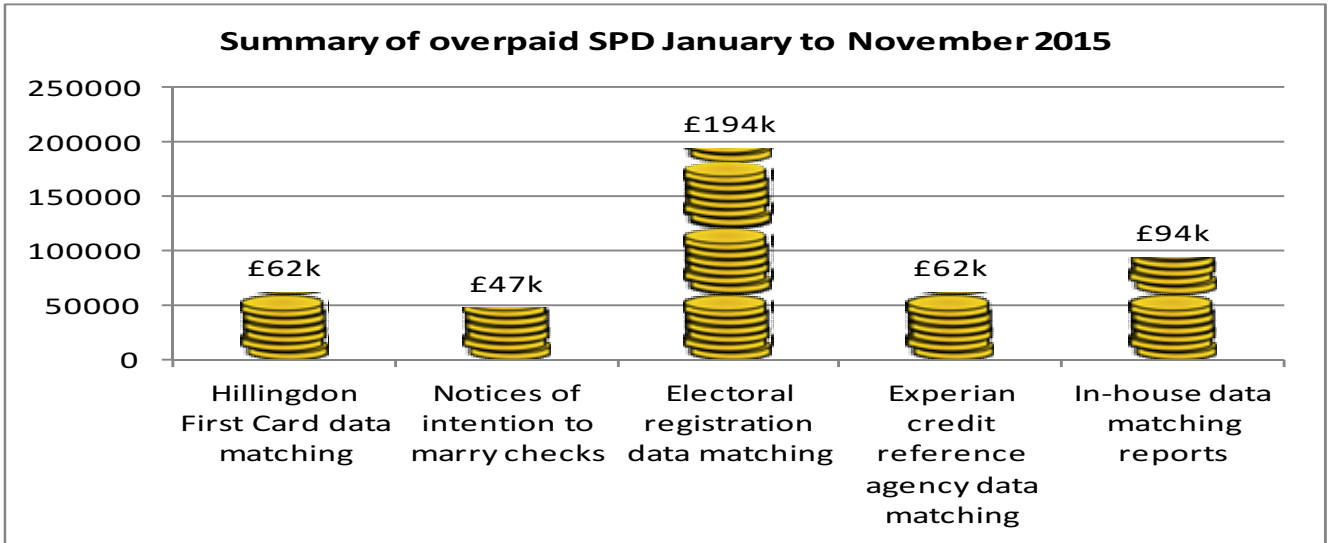
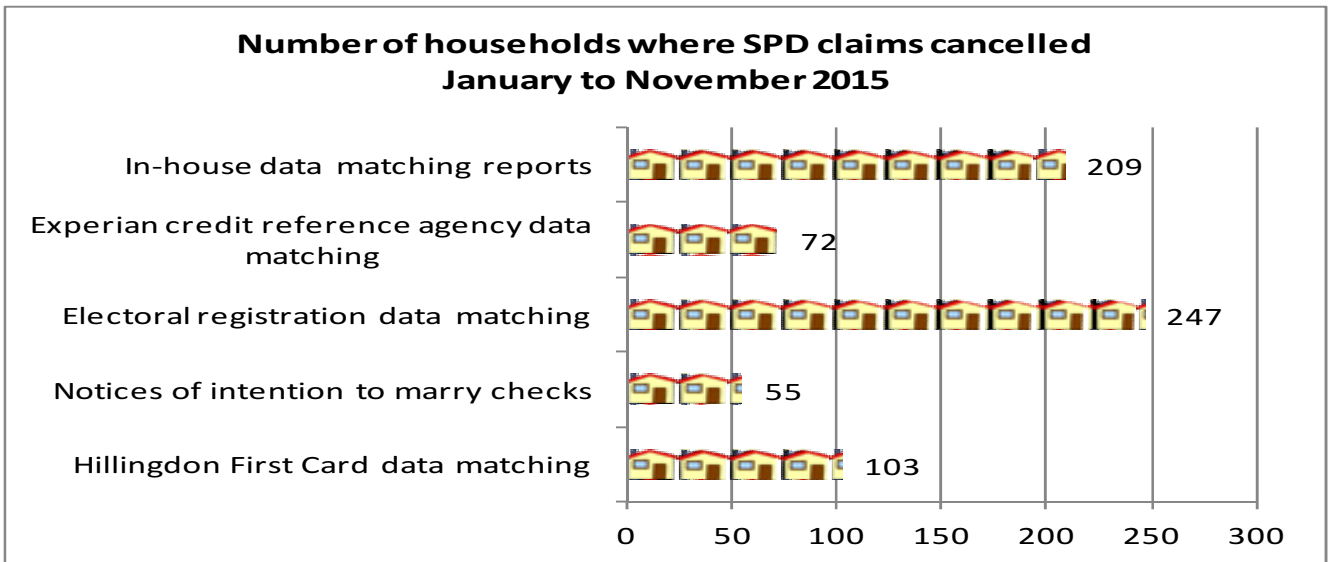


Chart 4



In cases where there is evidence of serious fraud the CFIT will look to pursue the prosecution of the claimant.

Are you receiving single person discount on your council tax?

The spotlight is on you if more than one adult is living at your address.

Don't wait for that knock on your door
Call us today ☎ 0300 123 1384

You can be prosecuted for a false claim

If you suspect someone of falsely claiming single person discount call ☎ 0800 389 8313 or email ✉ fraud@hillingdon.gov.uk. Your report will be treated in the strictest confidence and can be given anonymously.

HILLINGDON
LONDON

www.hillingdon.gov.uk

The poster opposite appears in issues of Hillingdon People and notice boards around the Borough to raise the profile of Single Person Discount abuse.

3.4 Temporary Accommodation & Housing Needs reception.

The aim of this project is to prevent illegal claims for housing from people that do not qualify for housing support from Hillingdon. This means people who are misrepresenting themselves as homeless and therefore do not have a genuine housing need.

The CFIT carries out unannounced visits to Bed & Breakfast/Temporary Accommodation to verify residency. Since April 2015 through the work of the CFIT 6 cases have been cancelled, this represents a saving of approximately £1,722 a week. The average duration of a bed & breakfast placement is 13 weeks. Therefore on these 6 cancellation alone approximately £22,386 will be saved through this activity.

Under a 3 day project carried out in November the CFIT carried out 167 visits to bed and breakfast accommodation. 3 bed and breakfast placements were cancelled and a further 11 cases are under investigation. As part of this project Rent Arrears Officers accompanied the CFIT and £8,700 rent arrears was collected. As a result of the positive impact of this intense exercise the CFIT will carry out further programmes during the year.

The CFIT are working with Housing Officers to identify applicants where there is a suspicion that a fraudulent claim has been made. This could include applicants submitting false wage slips in an attempt to verify economic activity. This would indicate financial independence which is a condition for some claimants to secure a tenancy and increase welfare benefits. Another example is where people falsely claim they are being evicted from an address in Hillingdon when they have never actually been a resident at this address. They are often giving this fraudulent information to attempt to meet the 10 year residency rule. Officers from the CFIT have trained Housing Officers on the identification of possible fraudulent claims. These cases are then referred to the CFIT for investigation.

Since April this year 5 applicants have withdrawn their claim for housing support as a result of contact with the CFIT.

From April 2015 the CFIT has expanded this work to verify the claims of people awaiting permanent accommodation to verify they are still eligible and their circumstances mean that they have a genuine housing need. To date 483 requests for verification have been passed to the CFIT. Of these 473 verification visits have taken place, of which 15 (3%) were found to not be eligible for housing support. A further 16 cases have been referred back to housing for advice.

Table 4

Temporary Accommodation & Housing Needs Reception		
	YTD 2014/15	Savings per week
Temporary Accommodation Cancelled	6	*£1,722
Number of cases withdrawn after CFIT contact	5	
Applications not approved after CFIT verification visit	15	
		Rent arrears payments
Bed & Breakfast 3 day visiting project		£8,700

*Average B&B placement = 13 weeks calculates to £22,386

3.5 Right to Buy

Audit Committee 15 December 2015
PART I – MEMBERS, PUBLIC & PRESS

Right to Buy applications are verified by the Corporate Fraud Investigation Team. Since April 2015 the CFIT have carried out 97 Right to Buy verifications, following CFIT involvement 6 applications have been rejected.

The CFIT found in one of these cases that the tenant was actually living in Birmingham and her son had sublet the property on her behalf to two families, the Right to Buy application has been cancelled and we are pursuing prosecution for tenancy fraud. Two other cases concerned tenants who had applied for mortgages whilst still claiming housing benefit. The final three cases cancelled their applications following contact from the CFIT.

We have also introduced our own additional Right to Buy application form to ensure that the verification process captures all the available information.

Table 5

Right to Buy		
	2015/16	
	YTD	Savings
Number of Right to Buy verifications	97	
Number of applications rejected	6	£542,250 (discount)

3.6 Proceeds of Crime Investigations (POCA)

The role of the Accredited Financial Investigator (AFI) within the Corporate Fraud Team is crucial in the fight against fraud. The aim is not only to prosecute serious offenders but also to look at recovering additional monies where the offender has benefited financially from their crimes and a criminal lifestyle can be demonstrated.

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 confiscation order agreed and paid.

Since April 2015 the CFIT have been working on 11 investigations of which 7 are currently before the courts. Confiscation orders have been obtained in a number of cases and Hillingdon will receive 37.5% of the amount awarded under the Home Office Incentivisation scheme. Since 1st April 2015, offenders have paid £111,536 towards their confiscation orders. Hillingdon received £38,076 in incentivisation monies on the 30th September 2015, with the remaining £3,750 due on the 31st December 2015.

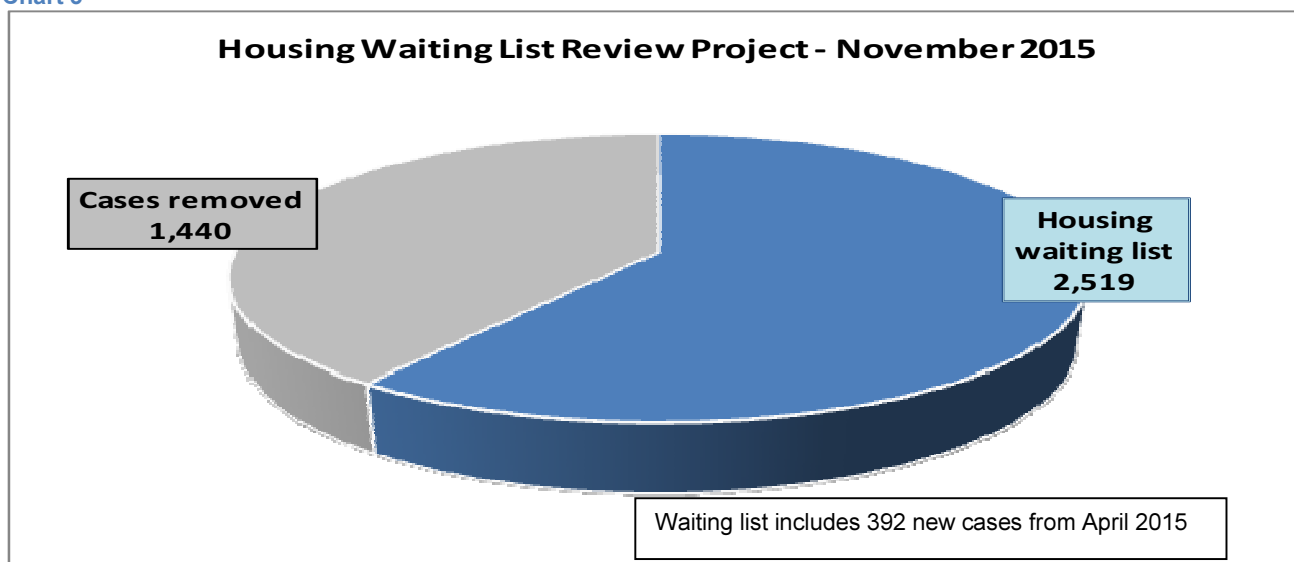
Since the 1st June 2015 a Planning Enforcement Officer has been working with the CFIT Financial Investigator on a part-time basis to ensure effective identification of cases where planning regulations have been breached. All breaches of Planning Notices since April 2013 are being considered by this project. A number of cases are currently being reviewed in order to assess their suitability for confiscation proceedings under the Proceeds of Crime Act 2002. Legal proceedings have been instituted against one landlord in respect of a breach of a planning enforcement notice. The notice related to the unlawful conversion of a private dwelling house into two self contained flats. It is estimated that the landlord has obtained in the region of £80,000 rental income through renting out the flats whilst in breach of an enforcement notice. Should a conviction be obtained, confiscation proceedings will be instituted against the landlord in respect of this rental income.

The CFIT have also completed the Council’s first money laundering investigation and case papers are currently with Legal Services. This involved working closely with the Council’s Trading Standards Service regarding the investigation of a seller of counterfeit tobacco products. The investigation showed that the seller used the proceeds of his sale of counterfeit goods to finance the purchase of a property. Should a conviction be obtained, confiscation proceedings will be instituted.

3.7 Housing Waiting List

A project was set up by the CFIT in April 2015 to review the current Housing Register Waiting List, at that time there were 3,567 applications on the waiting list. The purpose of the project was to identify through checking council records, such as Council Tax information and electoral registration, people on the waiting list who were no longer entitled to Social Housing. Their circumstances had either changed or they provided false information on their application. Removing these people from the waiting list means that the Council will have an accurate data relating to current social housing needs for effective forward planning.

Chart 5



Since the project commenced on 27th April 2015, the CFIT reviewed all cases. Cases where a change was readily identifiable were targeted for investigation and if they were no longer eligible they were removed. This has meant that 1,440 applications have been removed from the waiting list. In the process of this exercise the CFIT has also identified 20 cases where the household has been incorrectly claiming Single Person Discount for Council Tax which totals £12.7k. This review project will be ongoing in 2015/16 to carry out enhanced checks on the remaining cases on the waiting list. Currently there are 2,519 applications on the housing waiting list; this includes new people added to the list since the project began.

3.8 Enhanced Recruitment Verification

HR are presenting a report for approval by the Corporate Management Team in December to commence a pilot project where from April 2016 the CFIT will carry out enhanced checks to verify identity, qualification, education documents and employment history. This will 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 prevent damage to the Councils reputation, reduce unnecessary recruitment costs and ensure the appointment of suitably qualified staff.

3.9 Blue Badge

In July we carried out an exercise with the Police to check the correct use of Blue Badges in Hayes Town Centre. Two cases were identified where the Blue Badge was being used by someone other than the Blue Badge Holder. Both of these cases have been prosecuted. One was a case of a mother misusing a badge which had been issued for her son. Her son was at school at the time she was using the badge. She was ordered to pay £300 in total for this offense. The other case concerned a son using his mothers badge and was ordered to pay £996 in total. These cases will be publicised in Hillingdon People. These prosecutions were a result of good collaborative work with the police.

On the day of the checks Residents thanked Officers for undertaking this exercise which they thought should be repeated. Further exercises are planned throughout the year.

3.10 Procurement Fraud

In January 2015 the CFIT secured £112,500 funding, through a bid process, from the Government to investigate procurement fraud in partnership with the Police. In 2015/16 a project will be developed with the Police to establish methods to detect and investigate procurement fraud effectively to maximise results.

To date we have matched all our Procurement Supplier information with the Police suspicious activity reports, often referred to as SARs. This data holds records on people and companies where there would appear to be some suspicion on their creditability. This data match did not identify any cases that need to be investigated.

We continue to work with the Police to see if there are any other matches we could undertake.

3.11 Mobile working

Mobile technology has been introduced to support CFIT operations. Under the new system verification visit requests are sent directly to CFIT Housing Inspection Officer's mailbox which they access through laptops. Information obtained during the visit is completed directly onto Hillingdon's operating system ensuring that information used by housing staff is accurate and up to date. The CFIT Housing Inspection Officers work across a 24/7 schedule and so accessing new visit requests whilst they are out in the field increases productivity with improved response rates. This produces cost efficiency in their time and reduces mileage costs by removing the need to return to the civic centre to collect work and update records.

3.12 Council Tax reduction scheme (CTR)

The CFIT is currently reviewing CTR claims against the national fraud initiative data matches. All cases where anomalies are identified will be investigated and appropriate action taken. Results from this exercise will be reported in future CFIT performance report.

3.13 Trading Standards

Following a BID review the responsibility for Trading Standards has been transferred to the CFIT from November 2015. This will enhance the opportunities for joint working and achieve efficiency of skills and resources.

Agenda Item 8

IA Progress Report for 2015/16 Quarter 3 (including the Quarter 4 IA Plan)

Contact Officer: Muir Laurie
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REASON FOR ITEM

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in relation to the 2015/16 Quarterly 3 IA Plan and assurance in this respect during. 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 enables the Audit Committee to hold the Head of IA to account on delivery of the 2015/16 Quarter 3 IA Plan and facilitates in holding management to account for managing risk and control weaknesses identified during the course of IA activity.

The attached report also presents the Audit Committee with the Quarter 4 IA Plan which has been produced in consultation with senior managers. The Plan sets out the programme of IA coverage which is due to commence in the 1st January to 31st March 2016 period.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the IA Progress Report for 2015/16 Quarter 3 (17th September to 4th December 2015) and consider the Quarter 4 IA Plan for 2015/16 and, subject to any further minor amendments, approve it.

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.

The PSIAS, which came into force on the 1st April 2013, 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 (AGS).

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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Progress Report to Audit Committee for 2015/16 Quarter 3 (including the 2015/16 Quarter 4 IA Plan)

4th December 2015



Contents

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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 that the Council undertakes an adequate and effective IA of its accounting records and of its system of internal control in accordance with the proper practices.
- 1.1.2 The UK Public Sector IA Standards (PSIAS) defines the nature of IA and sets out basic principles for carrying out IA within the public sector. The PSIAS help the Council to establish a framework for providing IA services, which adds value to the organisation, leading to improved organisational processes and operations.

1.2 The Purpose of the Internal Audit Progress Report

- 1.2.1 This progress report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all 2015/16 IA assurance, consultancy and grant claim verification work covered during the period 16th September to 4th December 2015. In addition, it provides an opportunity for the Head of Internal Audit (HIA) to highlight any significant issues arising from IA work in Quarter 3. It also highlights to CMT, the Audit Committee and other IA stakeholders the revisions to the Quarter 3 IA plan since its approval in September 2015 (refer to **Appendix B**).
- 1.2.2 A key feature of the Quarter 3 IA progress report is the inclusion of the Quarter 4 IA plan (refer to **Appendix C**). This has been produced in consultation with senior managers over the last few weeks and sets out the planned programme of IA coverage due to commence in the 1st January to 31st March 2016 period.

2. Executive Summary

- 2.1 Since the Quarter 2 IA Progress Report on 16th September 2015, **5 assurance reviews** have been completed to final report stage, **7 consultancy reviews** have concluded and **2 grant claims** have been certified.
- 2.2 IA work on the 2015/16 Quarter 3 IA plan commenced on 1st October and work is now well underway on all Quarter 3 planned work including **5** additional requests for work (refer to **Appendix B**). Reasonable progress has been made on the IA plan this quarter, although IA capacity during this period has been significantly reduced whilst we recruit for vacant posts within the IA Team. The reduction in IA resource coupled with an increased request for IA advice has made Quarter 3 a very challenging period for the service.
- 2.3 Nevertheless, key assurance reviews finalised this quarter have included **Corporate Procurement, Schools - ICT and Asset Management Arrangements**, and **Domiciliary Care**, with all three reviews resulting in a **LIMITED** assurance opinion being given. Positive management action has been proposed to address all of the **HIGH** and **MEDIUM** risk recommendations raised within each respective review. These recommendations will be followed-up by IA in due course.
- 2.4 Hillingdon schools remained a key focus of IA work during this quarter, with a **thematic assurance review of ICT and Asset Management Arrangements** in schools having been conducted. The IA thematic review process continues to receive positive feedback in our Client Feedback Questionnaires. Nevertheless, CMT and the Audit Committee should be aware that on 22nd October 2015, Schools Forum took a funding decision regarding the future of IA coverage of schools. Their decision has resulted in **IA future coverage of schools being reduced to the statutory minimum**.

- 2.5 As a result, we will not be continuing with the thematic reviews of Schools and therefore two planned reviews have been cancelled including Schools Safeguarding and Safer Recruitment. We believe that Schools Forum's decision will be detrimental to the effectiveness of risk management and control in schools and will impact upon the robustness of the control environment across all schools in the Borough. However, greater reliance will have to be placed on the existing governance structures within each school to ensure the effective and efficient management of their risks.
- 2.6 The consultancy work on financial controls in Children and Young People's Service (CYPS) continues to be a significant piece of work for us this quarter. IA also continues to undertake a variety of valuable advisory work across the Council. Further details of all IA work carried out in this period are included section 3 of this report.

3. Analysis of Internal Audit Activity in 2015/16 Quarter 3

3.1 Assurance Work in Quarter 3

- 3.1.1 All IA assurance reviews carried out in the financial year to date are individually listed at **Appendix A**. This list details the assurance levels achieved (in accordance with the assurance level definitions outlined at **Appendix D**) and provides an analysis of recommendations made (in accordance with the recommendation risk categories outlined at **Appendix D**). During this quarter **5** 2015/16 IA assurance reviews have been completed to final report stage, with **3** draft reports in progress and the remaining **10** reviews at planning or testing stage (refer to **Appendix A** for details).
- 3.1.2 Our assurance reviews finalised this quarter have included Corporate Procurement, Schools - ICT and Asset Management Arrangements, and Domiciliary Care. For **Corporate Procurement** we raised **1 HIGH**, **5 MEDIUM** and **4 LOW** risk recommendations. Whilst, in general, procurement is conducted in line with internal regulations and legislation, there are weaknesses which are impacting on the control environment. There are several historical non-compliant 'contracts' where formal contracts are not in place and/or spend sometimes significantly exceeds original approval levels authorised. Further, key documents contradict each other and there is a mixed approach to training and record keeping. As a result, there is the potential for a combination of these weaknesses to have a significant impact on the objectives of corporate procurement.
- 3.1.3 For **Domiciliary Care** we raised **1 HIGH** and **5 MEDIUM** risk recommendations. We identified several areas of contractual non compliance by providers which is having a significant impact upon the intended delivery of homecare within the Borough. A particular area of concern is the level of non compliance by the main providers to fully utilise and interface an electronic call monitoring system (ECMS), with 2 of the 4 current providers not delivering against this requirement. Further, we found that neither of the two spot providers sampled, each delivering over 200 hours of homecare a week, were utilising an ECMS.
- 3.1.4 As part of this review we undertook substantial data analytic work including variance analysis of care visit times. This identified that several homecare providers were charging the Council on planned homecare hours instead of actual hours of care delivered. Further, our analysis work identified further concerns in relation to instances of large variances indicated unsuitable care packages being commissioned; care visit times being coded to incorrect unrecognised Care Package Line Item (CPLI) codes; suspensions to care packages not being ended in a timely manner; and cases in which double up care being provided where they had not been commissioned.
- 3.1.5 We also finalised included the schools thematic audit on **ICT and Asset Management**, with **4 HIGH**, **5 MEDIUM** and **7 LOW** risk recommendations and **4 NOTABLE PRACTICE** observations. We visited **7** schools and identified the main control weakness related to compliance with the Data Protection Act (DPA), with one School found not to be registered with the Information Commissioners Officer (ICO), a **direct contravention of the DPA**.

- 3.1.6 Further we also found examples at two schools where we were unable to confirm that personal information held on disposed ICT Assets had been appropriately and sufficiently destroyed prior to sale or disposal. Finally, we found that two schools had computers with unrestricted internet access.
- 3.1.7 Following the funding decision taken by the Schools Forum regarding the future of School's IA, we will no longer be following up on the implementation of School recommendations. As accountability for the internal control environment rests with School Management and their Governing Body, improvement action should be appropriately monitored within existing School governance and Committee structures.

3.2 Consultancy Work in Quarter 3

- 3.2.1 IA continues to undertake a variety of consultancy work across the Council. The consultancy coverage includes IA staff attending working and project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach continues to help increase IA's knowledge of corporate developments that feed into the risk based deployment of IA resource on assurance work.
- 3.2.2 Also, participation in working/ project groups continues to help individual IA staff develop, whilst at the same time increasing the value IA provides to the Council. Due to the nature of consultancy work, we do not provide an assurance opinion or formal recommendations for management action. However, as part of our advisory reports and memos we do provide specific observations and suggestions for senior management to consider.
- 3.2.3 Attached at **Appendix A** is a list of all consultancy work carried out in 2015/16 to date. Following the Quarter 2 progress update to the Audit Committee on 16th September 2015, **7** further consultancy reviews have been completed and **6** other reviews are in progress.
- 3.2.4 Following requests by the Deputy Chief Executive and Corporate Director of Residents Services, we have conducted consultancy work through assisting with stock checks at the Council's Stores and providing security advice on Harlington Road Depot (HRD). We also carried out a consultancy review of Stores Management at HRD which highlighted a number of areas where improvements could be made. Following on from this management decided to merge the Street Lighting Store (SLS) with the General Store (GS). **IA was asked to assist staff at HRD to undertake a full stock check** of the SLS and oversee the stock move to a more secure location above the GS. The stock check and move was carried out by the Stores Procurement Officer and the Office Manager at HRD in October with various staff assisting.
- 3.2.5 Our main role was to monitor the stock check in order to independently verify it and we are satisfied that the stock check and movement of stores was carried out correctly. This review has been positively received by management and our improvement suggestions are being actively considered to strengthen controls and efficiencies in this area. IA intends to carry out a full assurance audit on Stores at HRD in the near future to ensure improvements to the control environment have been made.
- 3.2.6 We were asked by the Deputy Chief Executive and Corporate Director of Residents Services to look into an incident at HRD and make an assessment of the overall security arrangements at the HRD site. In our opinion, there is a lack of ownership over site security at HRD, including overall responsibility for Council vehicle and other assets. There is no central co-ordinated approach to site or asset security exposing the Council to an increased likelihood of significant loss or damage to assets.
- 3.2.7 Other consultancy reviews finalised included Library Imprest Accounts and 24+ Advanced Learning Loans Mock Audit - Hillingdon Adult & Community Learning. These reviews were requested by the Corporate Director of Finance and Deputy Director Corporate Finance & Head of Operational Finance respectively, with both proving to be valuable pieces of work. We have also led two internal disciplinary investigations during this quarter.

3.3 Grant Claim Verification Work in Quarter 3

- 3.3.1 During this quarter IA has also assisted the Council in certifying **2** grant claims. As detailed at **Appendix A**, IA continues to carry out verification work on the **Troubled Families Grant**. Phase 2 was introduced this quarter and involved checking 17 families (100% sample) identified as 'turned around' against the expanded criteria for Phase 2.
- 3.3.2 The Local Authority **Bus Subsidy Grant** for 2014/15 covers both commercial and non-commercial bus routes and is administered centrally by the Department for Transport. The Grant is the partial refund on fuel duty received from the government by operators of local bus services in England. During the quarter IA completed testing to confirm compliance with the conditions of the grant.

3.4 Follow-up of Previous Internal Audit Recommendations in Quarter 3

- 3.4.1 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. Follow-up work within this quarter has been undertaken on all outstanding IA recommendations, in part by using the IA software module 'TeamCentral'. We also escalate outstanding recommendations to Corporate Directors where it is necessary to do so.
- 3.4.2 For the year **2014/15** (excluding Schools) there was **19 HIGH** and **70 MEDIUM** risk recommendations raised by IA. **69** of these **89** recommendations have reached their target date, of which **65** have been confirmed by management as implemented, leaving only **4 MEDIUM** risk recommendation currently outstanding as at 30th November 2015. IA has confirmed that work is actively ongoing by management to address these risks.
- 3.4.3 For the year **2015/16** so far, there has been **1 HIGH** and **49 MEDIUM** risk recommendations raised by IA. A total of **22** of these **50** recommendations have reached their target date, of which **20** have been confirmed by management as implemented, leaving only **2 MEDIUM** risk recommendation currently outstanding (work is actively ongoing by management to address this risk). Overall this is a **very positive achievement by the Council** in relation to managing these **HIGH** and **MEDIUM** risks.

3.5 Other Internal Audit Work in Quarter 3

- 3.5.1 In 2015/16 we have introduced a **quarterly approach to our risk based IA planning**. As a result, as well as providing a high-level estimation of where we expect to utilise our resources over the year, we now produce quarterly detailed operational IA plans in liaison with management. Over the last month we have produced the detailed operational IA plan for Quarter 4 (refer to **Appendix C**) in consultation with management. The quarterly planning cycle is helping ensure that IA resources are directed in a flexible and targeted manner to maximise the benefit to our stakeholders.
- 3.5.2 The **Quality Assurance & Improvement Programme (QAIP)** is designed to provide assurance that IA work continues to be fully compliant with the UK PSIAS and also helps enable the ongoing performance monitoring and improvement of IA activity. The QAIP has been reviewed and updated, with improvement initiatives formally assigned to members of the IA team. An update on progress of the QAIP will be provided to CMT and Audit Committee in March 2016.
- 3.5.3 Following requests by the Interim Director of Children and Young Peoples Service (CYPS) and the Head of Business Improvement & HR, the IA team are providing support to assist with project work in these respective teams. Since June 2015, one of the Assistant IA Managers has been working on secondment with the CYPS senior management team.
- 3.5.4 The results of our Quarter 3 work that is still in progress will be reported in the Quarter 4 progress report due to be presented to CMT and the Audit Committee in March 2016.

4. Analysis of Internal Audit Performance in 2015/16 Quarter 3

4.1 The IA **Key Performance Indicators** (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and its stakeholders in helping measure how successful IA has been in achieving its strategic and operational objectives. For the 2015/16 year, IA reports quarterly to CMT and the Audit Committee on the 9 KPIs listed in the table below.

4.2 We believe that the 2015/16 IA KPIs are meaningful and will provide sufficient challenge to the IA service. They measure the quality, efficiency and effectiveness of the IA service and thus assist us in providing an added value assurance and consulting service to our range of stakeholders. Actual cumulative IA performance against its KPIs in the 1st April to 4th December 2015 period is highlighted in the table below:

KPI Ref.	Performance Measure	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%	98%	GREEN
KPI 3	HIGH risk IA recommendations where management action is taken within agreed timescale	90%	100%	GREEN
KPI 4	MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	77%	GREEN
KPI 5	Percentage of annual (Q1 to Q4) IA Plan delivered to draft report stage by 31 st March	90%	85%	AMBER
KPI 6	Percentage of annual (Q1 to Q4) IA Plan delivered to final report stage by 31 st March	80%	75%	AMBER
KPI 7	Percentage of draft reports issued as a final report within 15 working days	75%	58%	RED
KPI 8	Client Satisfaction Rating (from CFQs)	85%	85%	GREEN
KPI 9	IA work fully compliant with the UK PSIAS and IIA Code of Ethics	100%		

Key for above:

- CFQs = Client Feedback Questionnaires.
- PSIAS = Public Sector Internal Audit Standards.
- IIA = Chartered Institute of Internal Auditors (UK).

Key for future reporting on actual KPI performance:

- **RED** = currently this performance target is not being met (significantly [**>5%**] short of target performance).

- **AMBER** = currently not meeting this performance target (just short [**<5%**] of target performance).
 - **GREEN** = currently meeting or exceeding this performance target.
- 4.3 IA KPIs 5 and 6 are not on track to be achieved as at 4th December 2015 due to a shortage of IA resource/capacity during quarters 2 and 3. This is mainly as a result of a vacancy within the IA service as well as one other member of the IA team being on secondment to the CYPS Group. In addition, the summer is historically a quieter period for finalising IA reviews due to reduced officer availability. This is all against a backdrop of IA receiving a significant number of requests for additional work during quarters 2 and 3. Nevertheless, the HIA remains confident that IA will reduce the backlog of audit reviews during quarter 4 and that both of these KPIs will be fully achieved by year end.
- 4.4 As at 4th December 2015, **15** 2015/16 IA assurance reports have been issued as final reports. The delays in finalising a number of quarter two and quarter three IA reports also explains why actual performance against IA KPIs 5 and 6 (as highlighted on previous page) are not quite in line with the target set.
- 4.5 Performance against KPI 8 is currently being reported as **RED**. This is due to five 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 4 of the 15 assurance reviews finalised to date, we experienced significant delays in receiving management responses. However, other than these four anomalies we are happy to report that the time taken to finalise final reports from draft stage is on average only 15 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.
- 4.6 We are currently **exceeding several of our KPI targets** including KPI 8 Client Satisfaction Rating. In particular, we continue to receive positive feedback in relation to a number of high risk, topical reviews, a couple examples of which are highlighted below:
- Personalised Budgets (CYPS and ASCS):
- *"The Personalised budgets audit and subsequent report I believe has provided really beneficial feedback and recommendations that will assist Social Care in developing and implementing even more robust processes to make the delivery of true personal budgets more streamlined and robust. It is also good to see that there are noticeable practices already in place that can shared with other service areas".*
- Reablement Service:
- *"I found that the auditor was confident and a competent person who was very polite and courteous at all times, it was a pleasure working with her".*
- 4.7 KPI 9 refers to the IA process complying with the **PSIAS** and the **IIA Code of Ethics**. We have a duty to complete reviews within these statutory guidelines, which is encompassed in our IA and management review processes. We will report our progress against this KPI to the Audit Committee as part of our annual **Effectiveness of IA** review in June 2016.

5. Forward Look

- 5.1 IIA Standard 1312-1 states that an IA service must undergo an external assessment at least once every 5 years by a qualified, independent assessor or assessment team from outside the organisation. In response to this requirement, most London authorities have signed up to a partnership arrangement whereby each HIA carries out an external review of another London authority. We are waiting to hear which London Council's HIA will be carrying out the assessment of our IA service and when that will take place. However, **LBH's HIA is scheduled to carry out an external assessment of Hackney's IA service** in January/ February 2016. The reviews are expected to take place over 5 days and will be conducted by each Council within existing IA resources.

- 5.2 A key member of the IA team is due to leave the Council later this month to relocate in the West Midlands. As a result, we are in the process of **recruiting a Trainee Internal Auditor** to fill the resulting vacancy in the team. The Trainee Internal Auditor recruitment will also provide other members of the IA team with an opportunity to take on more responsibility, in line with the recently updated IA Strategy 2015-20.
- 5.3 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 Quarter 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

4th December 2015

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16**

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

2015/16 IA Assurance Reviews - Quarters 1, 2 and 3:

IA Ref.	IA Review Area	Status as at 4 th December 2015	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
~ QUARTER 1 ~								
15-A6	Review of the Effectiveness of Internal Audit	Final report issued on 9 th June 2015	REASONABLE	0	3	6	0	N/A
15-A7	Review of the Effectiveness of the Audit Committee	Final report issued on 24 th June 2015	REASONABLE	0	2	3	0	Yes
15-A13	Music Service	Final report issued on 24 th June 2015	LIMITED	0	8	5	1	Yes
15-A2	Schools - Pupil Premium Funding <i>8 Schools visited: Cherry Lane Primary School, Field End Junior School, Frithwood Primary School, Highfield Primary School, Minet Infant School, St. Marys Catholic Primary School, Harlyn Primary School and Yeading Junior School.</i>	Final report issued on 26 th June 2015	REASONABLE	5	1	0	3	Yes
~ QUARTER 2 ~								
15-A4	Schools - Use of Supply Teachers <i>6 Schools visited: Abbotsfield School, Botwell House Catholic Primary School, Grange Park Junior School, Hillside Junior School, Rabbsfarm Primary School and Ruislip Gardens Primary School.</i>	Final report issued on 20 th July 2015	REASONABLE	3	0	5	3	Yes

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Assurance Reviews - Quarters 1, 2 and 3:**

IA Ref.	IA Review Area	Status as at 4 th December 2015	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
15-CR1	Deprivation of Liberty Safeguards	Final report issued on 28 th July 2015	LIMITED	0	6	2	0	Yes
15-A24	DFG and Adaptations	Final report issued on 1 st Sep 2015	LIMITED	0	8	4	1	Yes
15-A5	Absence Management	Final report issued on 1 st Sep 2015	REASONABLE	0	3	4	0	Yes
15-A11	Imprest Accounts	Final report issued on 9 th Sep 2015	REASONABLE	0	1	3	1	Yes
15-A14	Purchasing Cards	Final report issued on 16 th Sep 2015	REASONABLE	0	3	4	0	Yes
~ QUARTER 3 ~								
15-A3a	Personalised Budgets (ASC & CYPS)	Final report issued on 6 th Nov 2015	REASONABLE	0	5	8	2	Yes
15-A12	Corporate Procurement & Commissioning	Final report issued on 13 th Nov 2015	LIMITED	1	5	4	0	Yes
15-A22	Reablement Service	Final report issued on 25 th Nov 2015	REASONABLE	0	3	2	0	Yes
15-A25	Schools - ICT and Asset Management Arrangements <i>7 Schools visited: Bourne Primary School, Colham Manor Primary School, Dr Triplets CofE Primary School, Glebe Primary School, Harefield Junior School, Harlington School, and West Drayton Primary School.</i>	Final report issued on 25 th Nov 2015	LIMITED	4	5	7	4	Not yet due
15-A23	Domiciliary Care	Final report issued on 4 th Dec 2015	LIMITED	1	5	0	0	Not yet due
15-A36	Section 117 of the Mental Health Act 1983 - Aftercare and accommodation	Draft report in progress						
15-A16	Records Management & Document Retention Policy	Draft report in progress						

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Assurance Reviews - Quarters 1, 2 and 3:**

IA Ref.	IA Review Area	Status as at 4 th December 2015	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
~ QUARTER 3 ~ (cont'd)								
15-A10	Officers' Scheme of Delegations	Draft report in progress						
15-A9	Value Added Tax	Testing in progress						
15-A26	Housing - Planned Maintenance	Audit deferred to Q4						
15-A27	Housing - Repairs	Testing in progress						
15-A28	Capital Programme (formally Corporate Construction)	Testing in progress						
15-A29	Financial Assessments (Children's and Adults)	Testing in progress						
15-A30	Right to Buy (RtB)	Testing in progress						
15-A31	Schools - Asset Management	Audit Cancelled						
15-A32	Special Educations Needs and Disability (SEND) - Local Offer	Testing in progress						
15-A34	Performance Management	Testing in progress						
15-A35	Schools Safeguarding, including Safer Recruitment	Audit Cancelled						
15-A37	Occupational Therapy Equipment	Testing in progress						
15-CR2	Child Sexual Exploitation	Testing in progress						
15-CR3	Housing Needs - Allocations & Assessment	Testing in progress						
Total Number of IA Recommendations Raised in 2015/16				14	58	57	15	
Total % of IA Recommendations Raised in 2015/16				11%	45%	44%	-	

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Consultancy Reviews - Quarters 1, 2 and 3:**

IA Ref.	IA Review Area	Status as at 4 th December 2015
~ QUARTER 1 ~		
15-C4a	Data Protection Policy Review	Final consultancy memo issued 28 th April 2015
15-C4b	Information Governance Policy Review	Final consultancy memo issued 11 th May 2015
15-C8	Procurement Tender Evaluation Records	Final consultancy memo issued 29 th May 2015
15-C3	Education Funding Agency (EFA) Mock Audit - Hillingdon Adult & Community Learning	Final consultancy memo issued 5 th June 2015
15-C10	Mortuary	Final consultancy memo issued 25 th June 2015
~ QUARTER 2 ~		
15-C5	First Aid Quality Assurance Review	Final consultancy memo issued 28 th July 2015
15-C6	Stores Management	Final consultancy memo issued 30 th July 2015
15-C11	Corporate Construction	Verbal advice provided (IAA Review due in Q3)
15-C12	Housing - Planned Maintenance	Verbal advice provided (IAA Review due in Q4)
15-C13	Housing Repairs	Verbal advice provided (IAA Review due in Q3)
15-C14	Textiles Recycling Processes	Final consultancy memo issued 16 th Sep 2015
~ QUARTER 3 ~		
15-C9	Whistleblowing Investigation	Final consultancy memo issued 5 th Oct 2015
15-C7	24+ Advanced Learning Loans Mock Audit - Hillingdon Adult & Community Learning	Final consultancy memo issued 13 th Oct 2015
15-C19	Stores Stock Check	Final consultancy memo issued 15 th Oct 2015
15-Inv A	Investigation A	Concluded 22 nd Oct 2015
15-C17	Libraries Imprest Accounts	Final consultancy memo issued 26 th Oct 2015
15-C21	Security at Harlington Road Depot	Final consultancy memo issued 24 th Nov 2015
15-C2a	Review of Children & Young People's Services Prepaid Cards	Final consultancy memo issued 25 th Nov 2015
15-C2b	Review of Children & Young People's Services financial control operations (this review will incorporate the planned review of Looked After Children - Asylum & Indigenous)	Testing is ongoing

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (cont'd)****2015/16 IA Consultancy Reviews - Quarters 1, 2 and 3:**

IA Ref.	IA Review Area	Status as at 4 th December 2015
~ QUARTER 3 ~ (cont'd)		
15-C15	Troubled Families Project Group (attendance)	Consultancy support is ongoing
15-C16	National Fraud Initiative - Single Person Discount	Consultancy support is ongoing
15-C18	Local Authority's Arrangements for Supporting School Improvement (LAASSI)	Testing is ongoing
15-Inv B	Investigation B	In progress
15-C20	Policy Review	Review deferred to Q4

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 (Cont'd)****2015/16 IA Grant Claim Verification Reviews - Quarters 1, 2 and 3:**

IA Ref.	IA Review Area	Status as at 4 th December 2015
15-GC1	Troubled Families Grant - Quarter 1	Memo issued 29 th May 2015
15-GC3	Housing Benefits Subsidy Grant	IA testing completed on 3 rd September 2015
15-GC4	Troubled Families Grant - Quarter 2	IA testing completed on 18 th September 2015
15-GC2	Bus Subsidy Grant	IA testing completed on 22 nd September 2015
15-GC5	Troubled Families Grant - Quarter 3	IA testing in progress

APPENDIX B**REVISIONS TO THE 2015/16 INTERNAL AUDIT PLAN ~ QUARTER 3****IA reviews ADDED to the 2015/16 Operational IA Plan for Quarter 3:**

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
15-A37	Occupational Therapy Equipment	Assurance	Tony Zaman, Corporate Director of Social Care	Following the appointment of a new contract Manager, areas of high to medium risk have been highlighted regarding the controls surrounding the purchase, use and disposal of occupational therapy equipment.
15-C19	Stores Stock Check	Consultancy	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	Following on from the IA consultancy review on Stores Management, a decision to merge the Street Lighting Store (SLS) with the General Store (GS) was taken. IA was asked to assist staff at HRD to undertake a full stock check of the SLS and then oversee the stock move to a more secure location above the GS.
15-C21	Security at Harlington Road Depot	Consultancy	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	We were asked by the Deputy Chief Executive and Corporate Director of Residents Services to look into an incident at HRD and make an assessment of the overall security arrangements at the HRD site.
15-InvA	Investigation A	Investigation	Pauline Moore, Head of Business Improvement and HR	We were asked by the Head of Business Improvement and HR to undertake an internal disciplinary investigation.
15-InvB	Investigation B	Investigation	Pauline Moore, Head of Business Improvement and HR	We were asked by the Head of Business Improvement and HR to undertake an internal disciplinary investigation.

APPENDIX C**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 4****IA work scheduled to commence in the 1st January to 31st March 2016 period:**

IA Ref.	Planned Audit Area	Risk Assessment	Audit Type	Review Sponsor	Rationale
15-A26	Housing Planned Maintenance	HIGH	Assurance	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	This audit was deferred from 2014/15 due to significant and radical changes to the operating model, structures and processes within the service. These processes are currently being embedded and it would now be a prudent time for an IA review to ensure that a robust control framework has been established and that risks are being appropriately mitigated. This audit was deferred from 2015/16 Q3 to Q4 following a request from the service.
15-A33	ICT Resilience	HIGH	Assurance	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	Following discussions with the new Deputy Director Digital Strategy & Communications, we agreed an assurance review of the Council's single point of failure and whether the control environment is sufficiently robust in the event of an IT related incident.
15-A38	SEND and Passenger Services Transport	HIGH	Assurance	Tony Zaman, Corporate Director of Social Care	This review will seek to provide assurance that the needs of vulnerable service users are being appropriately, effectively and efficiently managed and safeguarded. This review will also seek to provide assurance that the service is providing value for money and being delivered in an economical fashion.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 4****IA work scheduled to commence in the 1st January to 31st March 2016 period:**

IA Ref.	Planned Audit Area	Risk Assessment	Audit Type	Review Sponsor	Rationale
15-A39	Waste Services	HIGH	Assurance	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	This review will seek to provide assurance that the Council are fully compliant with Section 89 of the Environmental Protection Act 1990 to ensure that, any relevant highway or land for which they are responsible is kept clear of litter and refuse. Due to the nature of the service we will seek to provide assurance that H&S risks are being appropriately identified, managed and mitigated to an appropriate level.
15-A40	Fleet Management	HIGH	Assurance	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	This review will seek to provide assurance over the Fleet Management Service (FMS) which is responsible for providing a fit for purpose, safe, reliable and cost effective vehicle fleet. This enables LBH to deliver key front line operational services to residents. The FMS primarily support waste services, highways and passenger services.
15-A41	Safeguarding Adults	MEDIUM	Assurance	Tony Zaman, Corporate Director of Social Care	The Council's safeguarding process is fundamental to high-quality health and social care and has significant reputational risks to manage. This review will help to ensure that the safeguarding process is operating effectively and has sufficient controls in place to protect people's health, wellbeing and human rights, and enabling them to live free from harm, abuse and neglect.
15-A42	Hospital discharge	MEDIUM	Assurance	Tony Zaman, Corporate Director of Social Care	This review will seek to provide assurance over the Councils involvement within the hospital discharge process. This process includes communication, data exchange and liaison between three separate organisations.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 4****IA work scheduled to commence in the 1st January to 31st March 2016 period:**

IA Ref.	Planned Audit Area	Risk Assessment	Audit Type	Review Sponsor	Rationale
15-A43	PerTemps Contract Management	MEDIUM	Assurance	Fran Beasley, Chief Executive & Corporate Director of Administration	This review will provide assurance over the management of the PerTemps contract, a contract for the supply of permanent and temporary staff for "Blue Collar services" which span a number of different service lines. This audit will review the management and compliance of this contract, in addition to providing an opinion on the value for money provided through this arrangement.
15-A44	Child Contact Centre	MEDIUM	Assurance	Tony Zaman, Corporate Director of Social Care	Child contact centres and services are neutral places where children of separated families can enjoy contact with their non-resident parents and sometimes other family members, in a comfortable and safe environment. This review will seek to provide assurance over the arrangements in place, in addition to providing an opinion on the value for money provided by the Centre.
15-A45	High Level Mileage	MEDIUM	Follow-up	Fran Beasley, Chief Executive & Corporate Director of Administration / Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	This IA review will follow-up on the recommendations raised within the 2014/15 Limited Assurance review. We will seek to provide assurance that management action has been implemented and is now embedded within the control environment.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 4****IA work scheduled to commence in the 1st January to 31st March 2016 period:**

IA Ref.	Planned Audit Area	Risk Assessment	Audit Type	Review Sponsor	Rationale
15-A46	Planning Applications - Community Infrastructure Levy	MEDIUM	Follow-up	Jean Palmer, Deputy Chief Executive & Corporate Director of Residents Services	This review will follow-up on the recommendations raised within the 2014/15 Limited Assurance review. We will seek to provide assurance that management action has been implemented and is now embedded within the control environment.
15-A47	Children's Centres	MEDIUM	Follow-up	Tony Zaman, Corporate Director of Social Care	This review will follow-up on the suggested improvement actions raised within the 2014/15 consultancy review. We will seek to provide assurance that identified concerns are now appropriately controlled and operating as intended. The scope will be extended to include contact arrangements, payments and the general running of the children's centre.
15-C20	Policy Review	MEDIUM	Consultancy	Fran Beasley, Chief Executive & Corporate Director of Administration	Following a request from the Audit Committee, IA was asked to perform a consultancy review to identify the number of policies across the Council as well as the date of last review to ensure they continue to be of value and provide sufficient governance, guidance and instruction to officers.
15-C22	Passenger Assistance	MEDIUM	Consultancy	Tony Zaman, Corporate Director of Social Care	Some concerns have been raised regarding the level and consistency of pre-employment checks and training provided by an external contractor within this area. This consultancy review will seek to undertake basic compliance testing to ascertain the extent of the situation. A full assurance review of the service is also planned for the quarter (ref 15-A38).

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 4****IA work scheduled to commence in the 1st January to 31st March 2016 period:**

IA Ref.	Planned Audit Area	Risk Assessment	Audit Type	Review Sponsor	Rationale
15-C23	Domiciliary Care Process Mapping	MEDIUM	Consultancy	Tony Zaman, Corporate Director of Social Care	Following the Limited Assurance review of Domiciliary Care, we have been requested to undertake a full process mapping exercise of the system to capture and analyse any control gaps as well as confirm accountability throughout the process.
15-C24	Autism Guidance	MEDIUM	Consultancy	Tony Zaman, Corporate Director of Social Care	The Department for Health (DfH) released statutory guidance for Local Authorities and NHS organisations to support implementation of the Adult Autism Strategy in March 2015. This consultancy review will seek to provide advice and guidance over how the Council has implemented the changes by the DfH.
15-EQA	Review of the Effectiveness of IA at the LB of Hackney	N/A	External Quality Assessment	N/A	IIA Standard 1312-1 states that an IA service must undergo an external assessment at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. In response to this requirement, we are part of a reciprocal arrangement through the London Audit Group and are scheduled to carry out an external assessment of Hackney's IA service.

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

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

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

APPENDIX D (cont'd)**INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

RISK	DEFINITION
<p style="text-align: center;">HIGH</p> <p style="text-align: center;">●</p>	<p>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.</p>
<p style="text-align: center;">MEDIUM</p> <p style="text-align: center;">●</p>	<p>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.</p>
<p style="text-align: center;">LOW</p> <p style="text-align: center;">●</p>	<p>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.</p>
<p style="text-align: center;">NOTABLE PRACTICE</p> <p style="text-align: center;">●</p>	<p>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.</p>

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Agenda Item 9

Audit Committee Forward Programme 2015/16 and 2016/17

Contact Officer: Khalid Ahmed
Telephone: 01895 250833

REASON FOR ITEM

This report is to enable the Audit Committee to review planned meeting dates and the forward programme.

OPTIONS AVAILABLE TO THE COMMITTEE

1. To confirm dates for Audit Committee meetings; and
2. To make suggestions for future agenda items, working practices and/or reviews.

INFORMATION

All meetings to start at 5.00pm

Meetings	Room
15 December 2015	CR4
15 March 2016	CR3
30 June 2016	CR3
22 September 2016	CR3
15 December 2016	TBC

AUDIT COMMITTEE

Forward Programme 2015/16 and 2016/17

Meeting Date	Item	Lead Officer
15 March 2016	*Private meeting with external auditors take place before the meeting	
	Annual External Audit Plan 2015/16 (Ernst & Young)	Corporate Director of Finance /Ernst & Young
	Annual Governance Statement 2015/16 – Interim Report	Head of Policy
	Balances and Reserves Statement	Corporate Director of Finance
	Revisions to the Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2020/21	Corporate Director of Finance
	Internal Audit Charter 2016/17	Head of Internal Audit
	Internal Audit Progress Report 2015/16 Quarter 4	Head of Internal Audit
	Annual Internal Audit Plan 2016/17 & Operational Internal Audit Plan Quarter 1	Head of Internal Audit
	Corporate Fraud Team Progress Report	Corporate Fraud Investigations Manager
	Risk Management Report & Q3 Corporate Risk Register - Part II	Head of Internal Audit
	Audit Committee Forward Programme	Democratic Services Manager

Meeting Date	Item	Lead Officer
30 June 2016	*Private meeting with Head of Internal Audit to take place before the meeting	
	Draft Annual Governance Statement 2016/17	Head of Policy

	Annual Review on the Effectiveness of Internal Audit 2016/17	Head of Internal Audit
	Annual Review of the Effectiveness of the Audit Committee 2016/17	Head of Internal Audit
	Annual Internal Audit Report & Head of Internal Audit Opinion Statement 2015/16	Head of Internal Audit
	Internal Audit 2016/17 Quarter 1 Progress Report & Quarter 2 Operational Internal Audit Plan	Head of Internal Audit
	Corporate Fraud Team Progress Report	Corporate Fraud Investigations Manager
	Risk Management Report & Q4 Corporate Risk Register - Part II	Head of Internal Audit
	Audit Committee Forward Programme	Democratic Services Manager

Meeting Date	Item	Lead Officer
22 September 2016	*Private meeting with the Corporate Fraud Investigations Manager to take place before the meeting	
	- Draft Annual Audit Letter	Ernst & Young
	Approval of the 2015/16 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2016	Corporate Director of Finance /Deloitte
	External Audit Report on the Pension Fund Annual Report and Accounts	Ernst & Young
	Internal Audit Progress Report 2016/17 Quarter 2 & Operational Internal Audit Plan Quarter 3	Head of Internal Audit
	Corporate Fraud Team Progress Report	Corporate Fraud Investigations Manager
	Risk Management Report & Q1 Corporate Risk Register - Part II	Head of Internal Audit

	Audit Committee Forward Programme	Democratic Services Manager
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Meeting Date	Item	Lead Officer
15 December 2016	*Private meeting with the Corporate Director of Finance to take place before the meeting	
	External Audit Annual Grant Audit Letter 2015/16	Ernst & Young
	Draft Treasury Management Strategy 2017/18 to 2021/22	Corporate Director of Finance
	Internal Audit Progress Report 2016/17 Quarter 3 & Operational Internal Audit Plan Quarter 4	Head of Internal Audit
	Corporate Fraud Team Progress Report	Corporate Fraud Investigations Manager
	Risk Management Report & Q2 Corporate Risk Register - Part II	Head of Internal Audit
	Audit Committee Forward Programme	Democratic Services Manager

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