



HILLINGDON
LONDON



Audit Committee

Members on the Committee

John Morley (Chairman)
George Cooper
Tony Eginton
Elizabeth Kemp
Mary O'Connor

Date: THURSDAY, 11 MARCH
2010

Time: 5.00 PM

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

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

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This Committee

This Committee will be responsible for ensuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control. This Committee will also consider risk management issues and performance reports.

Terms of Reference

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

Statement of Purpose

The purpose of Audit Committee is to:

- provide independent assurance of the adequacy of the Council's risk management framework and the associated control environment
- provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment
- oversee the financial reporting process.

Audit Activity

The Audit Committee will:

1. Approve but not direct Internal Audit's strategy and plans, ensuring that work is planned with due regard to risk, materiality and coverage. This will not prevent Cabinet directing internal audit to review a particular matter.
2. Review the Head of Internal Audit's Annual Report and Opinion and Summary of Internal Audit Activity (actual and proposed) and the level of assurance this can give over the Council's corporate governance arrangements.
3. Review summaries of Internal Audit reports and the main recommendations arising.
4. Review a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.
5. Consider reports dealing with the management and performance of the providers of internal audit services.
6. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.

7. Monitor management action in response to issues raised by External Audit.
8. Receive and consider specific reports as agreed with the External Auditor.
9. Comment on the scope and depth of External Audit work and ensure that it gives value for money.
10. Liaise with the Audit Commission over the appointment of the Council's External Auditor.
11. Commission work from Internal and External Audit, following a formal request by the Committee to and a joint decision from the Leader of the Council and Cabinet Member for Finance & Business Services.
12. Ensure that there are effective arrangements for ensuring liaison between Internal and External audit.

Regulatory Framework

The Audit Committee will:

1. Maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour. And, where necessary, bring proposals to the Cabinet and/or Council for their development.
2. Review any issue referred to it by the Chief Executive or a Director, or any Council body.
3. Approve and regularly review the authority's risk management arrangements, including regularly reviewing the corporate risk register and seeking assurances that action is being taken on risk related issues.
4. Review and monitor Council policies on 'Raising Concerns at Work' and anti-fraud and anti-corruption strategy and the Council's complaints process.
5. Oversee the production of the authority's Statement of Internal Control and recommend its adoption.
6. Review the Council's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.
7. Consider the Council's compliance with its own and other published standards and controls.

Accounts

The Audit Committee will:

1. Review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from financial statements or from the auditor that need to be brought to the attention of the Council.
2. Consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Agenda

- 1 Apologies for absence and to report the presence of any substitute members
 - 2 Declarations of Interest in matters coming before this meeting
 - 3 Minutes of the previous meeting - 16 December 2009 **(Page 1)**
 - 4 Exclusion of Press and Public
To confirm that all items marked Part I will be considered in public and that any items marked Part II will be considered in private.
 - 5 Deloitte - 2009/10 - Annual Audit Plan **(Page 9)**
 - 6 Deloitte - Annual Grant Audit Letter **(Page 71)**
 - 7 Delivering the Annual Governance Statement (AGS) 2009-10 **(Page 87)**
 - 8 Internal Audit Progress Report **(Page 95)**
 - 9 Internal Audit Strategy **(Page 119)**
 - 10 Internal Audit Operational Plan **(Page 123)**
 - 11 Update on International Financial Reporting Standards (IFRS) **(Page 131)**
 - 12 Treasury Management Strategy Statement and Investment Strategy 2010-11 to 2012-13 **(Page 133)**
 - 13 Budget Setting Process **(Page 163)**
 - 14 Review of Internal Audit Terms of Reference **(Page 167)**
 - 15 Changing Legislation and Current Issues
- PART II**
- 16 Balances and Reserves Policy **(Page 173)**
 - 17 Risk Management Report **(Page 205)**
 - 18 Internal Audit Progress Report **(Page 215)**

Agenda Item 3

Audit Committee

16 December 2009

Minutes



HILLINGDON
LONDON

31.	<p>Independent Member: John Morley (Chairman)</p> <p>Members Present: Councillors George Cooper, Tony Eginton, Liz Kemp and Mary O'Connor.</p> <p>Apologies: None</p> <p>Officers Present: Nancy Le Roux (Senior Finance Manager – Corporate Finance), Christopher Neale (Director of Finance & Resources), Helen Taylor (Head of Internal Audit and Corporate Governance), Steve Wilkins (Risk & Insurance Manager), Paul Whaymand (Head of Accountancy Services) and Khalid Ahmed (Democratic Services Manager).</p> <p>Others Present: Paul Hutt (Deloitte) and Gus Miah (Deloitte)</p> <p>Declarations of Interest:</p> <p>John Morley and Councillor Liz Kemp declared Personal Interests in Agenda Item 5 – External Auditor Report – Annual Audit Letter and Final Reports on the Audit of Accounts for the Year ending 31 March 2009 as they were Members of the Board of Hillingdon Homes.</p> <p>Councillor George Cooper declared Personal Interests in Agenda Item 7 – Internal Audit Progress Report as he was a Governor of St Mary's School, and in Agenda Item 5 – External Auditor Report – Annual Audit Letter and Final Reports on the Audit of Accounts for the Year ending 31 March 2009 as he was a Member of the Pensions Committee.</p> <p>Councillor Tony Eginton declared a Personal Interest In Agenda Item 7 – Internal Audit Progress Report as he was a Governor of Hillside Junior School and Minet Nursery and Infant School.</p> <p>Councillor Mary O'Connor declared a Personal Interest in Agenda Item 7 – Internal Audit Progress Report as she was a Governor of Botwell School and Moorcroft School.</p>
32.	<p>Minutes of the meeting held on 22 September 2009</p> <p>Agreed as an accurate record.</p>

33.	<p>Exclusion of the press and public:</p> <p>It was agreed that Item 13 be considered in private.</p>
34.	<p>External Audit Report – Annual Audit Letter and Final Reports on the Audit of the Accounts for the year ending 31 March 2009</p> <p>Paul Hutt and Gus Miah from Deloitte attended the meeting and introduced the report to Members.</p> <p>The Annual Audit letter summarised the key matters which Deloitte had carried out in respect of the year ending 31 March 2009 and the work undertaken to assess the arrangements to secure value for money in the Council’s use of resources. Members were informed that all outstanding work when Deloitte reported to the Committee in September had now been completed.</p> <p>The main messages from Deloitte contained in the Annual Audit Letter were an unqualified opinion of the accounts, an unqualified value for money conclusion and the Council scored a 2, Performing Adequately, for the Use of Resources assessment.</p> <p>Members noted that particular reference was made to the Council’s financial performance, with the Council having a successful year in managing its finances. The quality of the working papers for the accounts was noted and recognition was given to the significant improvements which had been made to the preparation of the accounts.</p> <p>Particular noting was made to the Council responding positively to recommendations around the internal control systems across the Council and financial reporting arrangements. The Council had put in place action plans to address these areas.</p> <p>Reference was made to the recommendations which had been made in relation to the Pension Fund and how these were fundamental accounting controls. Members were assured that these recommendations would be implemented and would be carried out through the Oracle system in future.</p> <p>The Chairman placed on record his congratulations to officers with regard to the Pension Fund report.</p> <p>Resolved -</p> <ol style="list-style-type: none"> 1. That the information contained in the reports be noted.
35.	<p>Risk Management Report</p>

	<p>Members were reminded that at a meeting of this Committee in June, officers were asked to review the reporting structures for the reporting of risks. The view expressed by Members was that Policy Overview Committees needed to be provided with a specific opportunity to consider and comment on Group risks.</p> <p>Reference was made to Appendix 2 to the report and officers were asked to have a further look at the reporting structure as the appendix indicated all reporting on risks emanated from the Audit Committee which was incorrect. Members were informed that full Council received an annual report from Policy Overview Committees as well as the Statement of Accounts which provided details of risks.</p> <p>Resolved –</p> <ol style="list-style-type: none"> 1. That subject to further clarification on the reporting arrangements detailed in Appendix 2, the future arrangements for reporting risks including the amendment to the Corporate Risk Management Strategy as detailed in the report be confirmed and noted. 	<p>Christopher Neale /Steve Wilkins</p>
<p>36.</p>	<p>Internal Audit Progress Report</p> <p>The report provided Members with details of the summary of Internal Audit activity for the period to 20 November 2009.</p> <p>The Head of Internal Audit and Corporate Governance reported there was no cause for concern at this time with levels of assurance apart from no assurance reports for Hillingdon Grid for Learning (HGfL). Members were informed that there had been a considerable commitment from the directors of Finance & Resources and Education and Children’s Services in ensuring that the issues resulting from the audits at HGfL were being progressed. There had been significant input from Corporate Procurement who were looking at addressing the weaknesses which had been found in the procurement processes.</p> <p>Members agreed that an appropriate representative from HGfL be invited to the next meeting of this Committee to provide reassurance that all outstanding recommendations had been actioned.</p> <p>Areas discussed included:-</p> <ul style="list-style-type: none"> • Business Continuity and Civil Emergency – The Council had a new Civil Protection Manager who had been dealing with the Council’s preparations for the Swine Flu Pandemic. However, all outstanding recommendations were in the process of being implemented. 	<p>Helen Taylor</p>

	<ul style="list-style-type: none"> • St Bernadette’s – The Head Teacher had been on long term sick leave, however the Head of Internal Audit and Corporate Governance was confident that the outstanding recommendations from the 2007/2008 audit would be implemented. Members expressed concern at the number of outstanding recommendations at this school and officers were asked to check if the school’s Board of Governors had been made aware of the audit recommendations. <p>Members expressed their appreciation to the Internal Audit Team for the excellent progress made in their Internal Audit programme which ensured the key elements of the Council’s control system were in place.</p> <p>Resolved</p> <ol style="list-style-type: none"> 1. That the in-year progress against the Internal Audit Plan for 2009-10 and the updated position of those audits that were scheduled in 2007-8 and 2008-9 be noted. 	<p>Helen Taylor</p>
<p>37.</p>	<p>Audit Committee Annual Report to Full Council</p> <p>The report summarised for the Council the work of the Audit Committee during 2008-9 in undertaking its responsibilities in the oversight and challenge in the key areas within its remit.</p> <p>Discussion took place on the report and the following amendments were made:</p> <ul style="list-style-type: none"> • 2. Membership - the final sentence to read “Cllr O’Connor was appointed during the year and met with the Head of Audit and the Chairman of the Audit Committee on appointment to discuss roles and responsibilities” • 8. External Audit – To include reference to Deloitte, the External Auditor attending each Audit Committee meeting • 10. Committee Training and Development – The last sentence to read “The Head of Audit and Corporate Governance and the Chairman met with new members to brief them on roles and responsibilities”. <p>Resolved-</p> <ol style="list-style-type: none"> 1. That this Committee’s annual report to Council be noted. 	
<p>38.</p>	<p>Review of Whistleblowing and Gifts and Hospitality Policies</p> <p>Members were informed that the terms of reference for the Audit Committee included reviewing and monitoring Council</p>	

	<p>policies on raising concerns at work and anti-fraud and corruption strategy. Both the Council's Whistleblowing and Gifts and Hospitality Policies had been reviewed and minor changes had been recommended.</p> <p>Under the Whistleblowing Policy paragraph 7 – How to raise a concern, the final bullet point should include the appropriate telephone number of External Audit.</p> <p>Resolved-</p> <ol style="list-style-type: none"> 1. That approval be given to the suggested amendments to the Council's Whistleblowing and Gifts and Hospitality Policies. 	
<p>39.</p>	<p>International Financial Reporting Standards (IFRS)</p> <p>Members were provided with a progress report which included details of a project plan which had been developed following a workshop by Pricewaterhouse Coopers. The project plan was on track and the key areas of impact under IFRS, together with the Council's progress to date was reported.</p> <p>Members asked that a summary leaflet be provided which would provide a user friendly guide. Gus Miah agreed to forward on information to Members. In addition the Chairman asked that officers provide some training on IFRS before the Committee was required to review the Statement of Accounts under IFRS, which would be in 2011. It was agreed that training would be required late 2010/early 2011.</p> <p>Resolved-</p> <ol style="list-style-type: none"> 1. That the progress Hillingdon has made in relation to the transition to IFRS be noted and officers be asked to organise training on IFRS for Members. 	<p>Nancy Roux Le</p>
<p>40.</p>	<p>Audit Committee Review of its own Effectiveness</p> <p>Members were provided with a report which requested Members considered the outcome of the workshop which took place on 30 November 2009, where a self assessment form was completed which required further action or clarification.</p> <p>Discussion took place on a number of issues raised;-</p> <ul style="list-style-type: none"> • Terms of Reference and duties – officers to investigate with the Head of Democratic Services how this Committee's terms of reference were reviewed with the Head of Democratic Services. Members were informed that it was clear in this Committee's terms of reference what the relationship of this Committee was within the decision making framework of the Council. An 	

	<p>results were available on the One Place website.</p> <ul style="list-style-type: none"> • Protecting the Public Purse <p>Members were informed that this document was available on the Audit Commission website. Officers were asked to bring a report on this to a future meeting of the Committee.</p> <p>Resolved -</p> <ol style="list-style-type: none"> 1. That the information reported be noted. 	<p>Nancy Le Roux</p>
<p>41.</p>	<p>Internal Audit Progress Report</p> <p>The report on this item was included in Part II as it contained information relating to the financial or business affairs of any particular person (including the Authority holding that information) and the public interest in withholding the information outweighed the public interest in disclosing it (exempt information under paragraph 3 of Part 1 of Schedule 12 A to the Local Government (Access to Information) Act 1985 as amended.</p> <p>Consideration was given to a progress report on two Internal Investigations, one relating to Building Control Certificates and another relating to an employee at a care facility.</p> <p>Resolved –</p> <ol style="list-style-type: none"> 1. That the information contained in the report be noted. 	
	<p>Meeting closed at: 6.50pm Next meeting: 11 March 2010 at 5.00pm</p>	

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

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DELOITTE – 2009/10 ANNUAL AUDIT PLAN

Contact Officer: Nancy Leroux
Telephone: 01895 250353

SUMMARY

The attached document sets out the initial plans for the audit of the Statement of Accounts 2009/10 by Deloitte. The format of the plan follows that prescribed by the Audit Commission for external audit work. The plan sets out the approach to the audit and a broad timetable. A separate audit plan has been produced for the pension fund audit, which is also attached.

RECOMMENDATIONS

The committee is asked to note the report.

REASONS FOR OFFICER RECOMMENDATIONS

The Committee needs to be made aware of the plans for the audit of the 2009/10 accounts.

COMMENT ON THE CONTENT OF THE PLAN

Materiality: The expected level of materiality, calculated on the basis of gross expenditure for the full year, will be £6 million. Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.3 million.

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

Financial

- Grant income recognition
- Property valuations
- Valuation of Icelandic Investments
- Pension liability assumptions
- Accounting for local taxes
- Bad debt provisions

Non-Financial

- Contract procurement
- Partnership working

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PART 1 – MEMBERS, PUBLIC & PRESS

In addition to these areas of risk, other areas on which the audit process will monitor are:

- Progress on the transition to international Financial Reporting Standards;
- The aim of the council to move towards a faster close down of the accounts and any arising issues;
- The ongoing impact of the economic downturn and its relationship with the council's savings measures
- The continuing work on the comprehensive area assessment.

COMMENT ON THE CONTENT OF THE PENSION FUND AUDIT PLAN

Materiality: Materiality is calculated on the basis of the net assets of the fund but is restricted to the materiality established for the audit of the Council's financial statements as a whole, which for 2010 is £6 million. Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.3 million.

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

- Contributions
- Benefits
- Financial instruments

TIMETABLE

The main timetable remains unchanged with the deadline for draft accounts being 30 June and the audit opinion due by 30 September 2010.

FEES

The estimated level of fees, notified to the Council in April 2009, remain unchanged. Fees have been frozen at the same rate as those charged for the 2008/9 audit. The fees quoted exclude the fees with regards to work that will be required on the Council's transition to IFRS. This will be agreed separately with management.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

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PART 1 – MEMBERS, PUBLIC & PRESS

London Borough of Hillingdon

Report to the Audit Committee on
the 2009/10 Audit

Planning Report

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This report has been prepared solely on the basis of our initial planning activities for our audit, and as such does not constitute a comprehensive review of any weaknesses in existing systems. It should be read in conjunction with the "Briefing on audit matters" included in Appendix 2.

This report has been prepared for your use as members of the Audit Committee for governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. In the event that a third party asks to see this report, please ask for our consent before releasing it.

Executive summary

We have pleasure in setting out in this document details of our proposed audit for the London Borough of Hillingdon ('the Council') for the year ending 31 March 2010.

Audit scope

Our audit will be carried out in accordance with the Audit Commission's Code of Audit Practice 2008. Our primary audit responsibilities are also summarised in the "Briefing on Audit Matters" paper which is included in Appendix 2. In summary, under the Audit Commission's Code of Audit Practice we have responsibilities in two main areas:

- the financial statements and the Annual Governance Statement; and
- aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

This document deals mainly with the first of these two responsibilities, i.e. the audit of the financial statements and Annual Governance Statement. The second responsibility was dealt with in our fee letter for 2009/10, issued in April 2009.

The Council will need to prepare accounts under International Financial Reporting Standards ("IFRS") for the first time for the year ended 31 March 2011. This plan excludes any work we perform now on the opening IFRS balance sheet for the comparative period. The audit of the Council's Local Government Pension Scheme is dealt with in a separate audit plan and not in this one.

Materiality

Materiality levels are calculated on the basis of gross expenditure. We estimate materiality based on expected gross expenditure for the full year to be £6m. Based on this estimated materiality we would report to the Audit Committee on all unadjusted misstatements greater than £0.3m, unless they are qualitatively material. Please see Appendix 2 Briefing on Audit Matters for detail on the terminology.

Executive summary (continued)

The key audit risks we have identified as part of our overall strategy are:

Key Financial audit risks	1) Grant income recognition - an issue was noted in our 2008/09 audit over the level of certainty connected to the special representation bid for funding for services provided for asylum seekers. The result of this in 2008/09 was de-recognition of the income associated with this bid. Income recognition on this and other grants is considered to be an audit risk.
	2) Property valuations - this represents a risk in view of the size of the Council's property portfolio and sensitivity of the valuation to changes in assumption, including volatility of market prices in the current economic environment.
	3) Bad debt provisions - the challenging economic environment and its impact on debt recovery continues to create uncertainties in the estimation of provisions.
	4) Valuation of Icelandic investments - an impairment of £4.95m was included in the 2008/09 Income and Expenditure account, and subsequently reversed out to the Financial Instrument Account in accordance with statutory regulation. The level of impairment will need to be re-assessed based on current information as at 31 March 2010. In addition, the ongoing accounting treatment of the impairment is subject to a decision by Communities and Local Government ("CLG"), and we understand that the Council is challenging the recent decision indicated.
	5) Pension liability assumptions - this is a risk in view of the size and complexity of this area, as well as the continuing impact of volatility in the current economic environment which impacts on key assumptions in the calculation of the liability.
	6) Accounting for local taxes - this is a risk as the statement of recommended practice ("SORP") has been updated to give guidance on the accounting for Council Tax and National Non Domestic Rates ("NNDR"). The Council's past practice is in line with past industry practice in material respects but differs to the new guidance in the 2009 SORP.

Executive summary (continued)

Key Non-Financial audit risk	<p>7) Contract procurement - the Council is a large organisation with various departments and partnership arrangements and all areas of Council operations should comply with key policies and procedures. We are aware of issues in relation to procurement at Hillingdon Grid for Learning, and consider this to be part of a wider risk across the Council.</p>
	<p>8) Partnership working – public agencies in all areas are expected to work effectively with each other in order to provide residents with effective and efficient services. The Council has developed a Sustainable Community Strategy with the Local Strategic Partnership in order to provide a basis for effective partnership working. This requires additional governance, risk management and performance assessment processes to be in place. Additionally an issue with one partner may affect others in the partnership.</p>

Other issues	<p>Other issues which have not currently been identified as audit risks, but will be monitored through the 2009/10 audit are:</p> <ol style="list-style-type: none">1. International Financial Reporting Standards (“IFRS”);2. Faster close;3. Cost reduction plan; and4. Comprehensive area assessment implementation. <p>These are discussed in more detail in Section 3.</p>
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Prior year uncorrected misstatements and disclosure deficiencies	<p>The 2008/09 audit of the financial statements identified uncorrected misstatements which, if adjusted, would have led to a credit of £0.11m to the income and expenditure account, a charge of £3,78m to the collection fund and an equivalent decrease in net assets. Included within these misstatements was a credit of £2.35m relating to errors of fact with the balance relating to differences in judgement.</p>
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Executive summary (continued)

Timetable	The main deadlines remain unchanged at 30 June for draft accounts and 30 September for the audit opinion. We will continue to have monthly meetings with the financial management of the Council and our interim visit is scheduled for the 3 weeks starting 15 March 2010 with our final audit visit scheduled from 5 July 2010. We will issue our formal report to the Audit Committee on the audit at their meeting in September 2010. We will issue our audit report as soon as practicable following that meeting. The timetable is shown in more detail in Section 6.
Fees	We set out an estimate of our fees in a letter to the Council issued in April 2009. At that time, we estimated that our fee for the audit of the financial statements would be £373,500 (excluding fee for the audit of the pension scheme). Appendix 1 includes an analysis of our fees. We do not propose to change our original estimate.
Independence	Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in the “Independence policies and procedures” section of our Briefing on audit matters document which is included in Appendix 2. We will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2010 in our final report to the audit committee.
Matters for those charged with governance	We have communicated to you separately in our publication entitled “Briefing on audit matters” those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements.
Looking forward	Whilst this report deals mainly with the audit of the accounts, we have also included, for your information, a summary of recent changes to the Use of Resources assessment process. This will impact on the assessment we will carry out under the 2010/11 Audit Plan, but part of the work will be carried out during the year ending 31 March 2010.

1. Scope of work and approach

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISA (UK and Ireland)”) as adopted by the UK Auditing Practices Board (“APB”). Our audit objectives are set out in our “Briefing on audit matters” document.

We have responsibilities in two areas:

- the statement of accounts and the Annual Governance Statement; and
- aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

The audit opinion on the accounts we intend to issue will reflect the financial reporting framework adopted by the Council, being the Statement of Recommended Practice for Local Authorities 2009.

For the 2009/10 financial statements, we will use the latest estimates of gross expenditure as the benchmark for our materiality assessment as this benchmark is deemed to be a critical component of the financial statements for a spending organisation.

We will apply a factor of 0.8% to this benchmark to determine a planning materiality. This percentage takes into account our knowledge of the Council, our assessment of audit risks and the reporting requirements for the Statement of Accounts. Materiality levels are calculated on the basis of gross expenditure. We estimate materiality based on expected gross expenditure for the full year to be £6m. Based on this estimated materiality we would report to the Audit Committee on all unadjusted misstatements greater than £0.3m, unless they are qualitatively material. The concept of materiality and its application to the audit approach are set out in our “Briefing on Audit Matters” document.

The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements. Our audit objectives are set out and explained in more detail in our “Briefing on Audit Matters” document which is included in Appendix 2.

Other areas of work which are not covered by this audit plan

As last year, we have prepared a separate audit plan covering the work we carry out in relation to the Local Government Pension Scheme. As a result, this aspect of our work is not covered within this document. We also carry out work on behalf of the Audit Commission in respect of the certification of grant schemes. This was discussed in our April 2009 fee letter, and is also reported to you separately.

2. Financial performance and standing

We consider the Council's financial standing as part of our audit of the financial statements and this is an area we consider to be key in light of the economic downturn and ongoing pressures on public sector expenditure. We have liaised with the Council throughout the year to discuss issues that have arisen and the Council's approach to addressing these challenges. We have considered these issues when designing our audit risk areas which we communicate in this audit plan.

In setting its 2009/10 budget, the Council committed to 0% increase in council tax for its residents, and to providing £2.6m of new priority growth funding, both while maintaining balances and reserves at a minimum of £12m and absorbing an estimated £9m of additional cost pressures. To bridge the gap £7.5m of savings to be realised in 2009/10 were identified, and a reduction of balances and reserves down to the £12m target level was planned. In addition to these revenue issues, an £88.2m capital budget was put in place, including £14.2m of expenditure re-phased from 2008/09. Of the total capital budget, £44.1m was planned to be met from Council resources.

We have reviewed a summary of the Council's full year forecast as at month 9 compared to budget on a directorate basis. An overspend on normal revenue activities of £0.253m is forecast. Within this, the Adult Social care, Health and Housing directorate forecasts a £0.642m overspend (although the budget for this directorate has been reduced by £1.5m in the year with virements to other areas). We understand the overspend is primarily due to increased demand on Mental Health and Older People Services.

Variances against other items includes £1.6m pressure on asylum funding offset with an additional £1m in year saving identified and £2.3m credit from a review of balance sheet balances.

At month 9 we understand that the Council had spent only 56% of its revised capital budget and was forecasting an under-spend of £4.7m for the 2009/10 year.

Overall, the Council appears to be managing its resources effectively in these difficult times. The minimum target level of balances and reserves was £12m, and the current full year forecast position of £13.453m would be a positive position from which to enter 2010/11. Within this plan for the 2009/10 audit, potential risks identified throughout our budget analysis are covered in Sections 3 and 4. In addition, the impact on service delivery of reducing budgets and details of the efficiency savings plans will be reviewed in detail during the Use of Resources process discussed in Section 8.

3. Key audit risks

Based upon our initial assessment we will concentrate specific audit effort in 2009/10 on the following areas:

Risk 1: Grant income recognition

Risk Accounting for grant income can be complex as the timing of recognition in the accounts will depend on the scheme rules for each grant. In addition, full information on grant entitlement is not necessarily available to officers at the time of closing the accounts and it is therefore common for the accounts to be closed on the basis of estimates which may differ to actual entitlement shown in the claim when it is subsequently prepared.

Our 2008/09 audit also identified an unadjusted misstatement of £2,24m relating to a special representation bid for further funding for services provided to asylum seekers. The Council had recognised this grant income in their accounts as it had received 100% of such bids made for previous accounting periods. However, Deloitte's view is that technical accounting guidance requires a greater level of certainty over the income to be present before it is recognised.

After the accounts were signed the Council found out that it been successful in its bid for 2008/09. However, funding for 2009/10 should only be included in the 2009/10 accounts if it has been granted before the accounts are signed due to the level of uncertainty that exists over the success of the special representation bids.

Deloitte response We will examine guidance given to staff on the accounting for grants and associated operating instructions, and look at how the Council captures and considers information on differences arising on the preparation of claims during the period between closing the accounts and approving the final version of the accounts. We will also look at the Council's process for reconciling year end grant balances as some misstatements in 2008/09 related to differences which appear to have arisen in 2007/08 or earlier and which were carried on the balance sheet at 31 March 2009, rather than being written off to revenue.

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

We will specifically examine the grant income relating to the asylum seekers and will ascertain if the special representation bid for 2009/10 funding has been approved prior to the signing of the accounts. If the special representation bid has not been approved we would not expect the Council to record the income in their accounts and we have communicated, and the Council has agreed, this proposed treatment.

3. Key audit risks (continued)

Risk 2: Property valuations

Risk	<p>The Council has a substantial portfolio of properties which are subject to a rolling revaluation programme. Some of the properties require the application of specialist valuation assumptions. The credit crunch has affected property values, generally, and the Council is not immune to these effects.</p> <p>The 2008/09 financial statements included an impairment of approximately £60 million relating to tangible fixed assets. The Council will need to demonstrate that their tangible fixed assets are valued in accordance with the 2009 Statement of Recommended Practice (“SORP”) at 31 March 2010.</p>
Deloitte response	<p>We will evaluate the Council’s arrangements for updating market values, including the operation of its rolling programme of reviews and the qualifications, relevant experience and independence of specialists utilised to carry out valuations and review the reasonableness of key assumptions, including the effect on asset valuations from the recent economic and financial market events.</p>

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Risk 3: Bad debt provisions

Risk	<p>In our report to you on the findings from our 2008/09 audit we reported unadjusted misstatements related to provisions made against certain categories of debt.</p> <p>The challenging economic environment and its impact on debt recovery continues to create uncertainties in the estimation of provisions.</p>
Deloitte response	<p>We will review the Council’s methodologies and assumptions used to calculate provisions and the evidence collected by officers to support its approach. Where appropriate, we will consider whether provisions appropriately reflect the impact of the current economic conditions by reference to recent collection performance and trends in performance.</p>

3. Key audit risks (continued)

Risk 4: Valuation of Icelandic investments

Risk The 2008/09 financial statements included an impairment of approximately £4.95m million in relation to Icelandic investments.

The value of the impairment at 31 March 2010 will need to be considered based on the latest available information. Changes in the value of the impairment will be required to be accounted for in accordance with technical accounting guidance. In addition, the ongoing accounting treatment of the impairment beyond 31 March 2010 is subject to a decision by CLG. We understand that the Council is challenging the recent decision indicated by CLG, and this will have an impact on the 2010/11 budget process.

Deloitte response

We will review the Council's calculations and assumptions in connection with the impairment on their Icelandic investments.

We will review correspondence between the Council and the CLG on this issue to enable us to document our understanding of the case put forward by the Council.

Risk 5: Pension liability assumptions

Risk The pension liability relating to the pension scheme is substantial so that its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment.

Deloitte response

We will consider the qualifications, relevant expertise and independence of the actuary engaged by the Council and the instructions and sources of information provided to the actuary.

We will include a manager from our specialist pensions group within our engagement team to assist in the review of assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries.

3. Key audit risks (continued)

Risk 6: Accounting for local taxes

Risk	<p>The 2009 SORP provides detailed guidance for the first time on the accounting for local taxes. Whilst Hillingdon's past accounting practice is consistent with industry practice, it differs to the requirements of the new SORP and we therefore anticipate that changes will be needed both to current year and prior year information.</p> <p>The 2009 SORP recognises that the billing authority (i.e. Hillingdon) in the case of Council Tax acts as agent for the major precepting bodies (here, the Greater London Authority) and in the case of NNDR, as agent for central government. Past practice has been for billing authorities to account for the full amount of Council Tax and NNDR debtors on their balance sheet. However, given the billing authorities role as agent in collection, the 2009 SORP now requires that only the Council's share for which it acts as principal is shown on its balance sheet.</p>
Deloitte response	<p>We will check that changes have been made in line with the requirements of the 2009 SORP.</p>

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Risk 7: Contract procurement

Risk	<p>The Council is a large organisation with various departments and partnership arrangements. All areas of Council operations should comply with certain key policies and procedures, including contract procurement. We are aware of issues in relation to procurement at Hillingdon Grid for Learning, and consider this to be part of a wider risk across the Council.</p>
Deloitte response	<p>We understand that Internal Audit have undertaken work on this area for the Council and will therefore review their working papers as part of our audit.</p> <p>We will seek to understand the areas of Council operation which may fall outside of the normal procurement oversight procedures and perform detailed testing on a sample of significant contracts awarded in the year to ensure Council procedures have been followed.</p>

3. Key audit risks (continued)

Risk 8: Partnership working

Risk

Public agencies in all areas are expected to work effectively with each other in order to provide residents with effective and efficient services. The Council has developed a Sustainable Community Strategy with the Local Strategic Partnership in order to provide a basis for effective partnership working. This requires additional governance, risk management and performance assessment processes to be in place. Additionally an issue with one partner may affect others in the partnership.

Deloitte response

We considered the performance of the Local Strategic Partnership in 2008/09, and noted that the partnership had achieved a significant number of their targets, accessing additional performance based funding as a result. We will again consider the performance of the significant partnerships within which the Council participates and governances, risk management and value for money arrangements around them. We will also consider the impact of any issues with key partnerships on the Council.

4. Other issues

Other issues which have not currently been identified as audit risks but will be monitored throughout the 2009/10 audit are as follows:

Other Issue 1: International Financial Reporting Standards

Background

The Council will need to prepare accounts under International Financial Reporting Standards (“IFRS”) for the first time in 2010/11. This will require 2009/10 accounts to be restated under IFRS to provide the comparative figures in the 2010/11 accounts, which in turn requires the balance sheet as at 31 March 2009 to be restated. We understand that the finance department has invested notable resources in addressing the requirement to convert to IFRS, and ultimately Deloitte will need to review the processes undertaken and restated figures.

We will agree a timetable and fee with you as and when the audit requirement is released. This plan excludes any work which we will carry out on the opening IFRS balance sheet as this will form part of our 2010/11 accounts audit plan.

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Other Issue 2: Faster close

Background

Our meetings with the Council’s Chief Executive and Finance Team have indicated that the Council would like to have a faster closedown process both for the Draft Statement of Accounts approval and the final Statement of Accounts signed by the Audit Committee and ourselves.

There is a risk with speeding up the closedown process that errors could be made and not found and rectified. This could then have an impact on the financial reporting score within the Use of Resources assessment.

We will monitor through the 2009/10 audit whether the faster close process appears to have adversely impacted on the quality of the accounts.

4. Other issues (continued)

Other Issue 3: Cost reduction plan

Background

The economic downturn has led to unprecedented pressure on public spending. Income across the Council from various sources is expected to decrease significantly over the coming years. In addition, Hillingdon has committed itself to 0% Council Tax increase for 2010/11, having already frozen Council Tax in 2009/10.

As explained in Section 2, we understand that careful financial management means that the month 9 budget position indicated a positive budget variance of £1.453m was forecast for year end. In order to achieve this, £7.5m of savings were planned at the budget setting stage, with a further £1m of in-year savings taken out of the budget. For 2010/11, even more significant efficiency savings will be required.

We are aware of a comprehensive process of service review and redesign which is underway at the Council. Delivery of efficiency plans and realisation of savings will become more important as 2009/10 ends and 2010/11 begins. However, there is also a risk that cutting costs could also reduce the quality of the services which the Council provides to its residents. We will consider this issue as part of our wide Use of Resources remit and in terms of any specific risks which it creates from an audit perspective (see Section 8).

Other Issue 4: Comprehensive area assessment implementation (“CAA”)

Background

This is the second year of CAA, which will be led by the Audit Commission CAA lead Annette Furley for North West London. The Council did well in the 2008/09 CAA, being awarded ‘Three – Performing Well’, also being awarded ‘Green Flag’ in relation to partnerships working to support unaccompanied asylum seeking children. CAA is a joint inspectorate process into which Deloitte will continue to make contributions.

5. Consideration of fraud

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

ISA (UK and Ireland) 240 – ‘The auditor’s responsibility to consider fraud in an audit of financial statements’ requires us to document an understanding of how those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud in Hillingdon Council and the internal control that management has established to mitigate these risks.

We will make inquiries of management, internal audit and others within the Council as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the Council. In addition we are required to discuss the following with the Audit Committee:

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- Whether the Audit Committee has knowledge of any fraud, alleged or suspected fraud?
- The role that the Audit Committee exercises in oversight of:
 - Hillingdon Council’s assessment of the risks of fraud; and
 - the design and implementation of internal control to prevent and detect fraud?
- The Audit Committee’s assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We will be seeking representations in this area from the Director of Finance & Resources in due course.

5. Consideration of fraud (continued)

Management override of controls

In addition to the procedures above we are required to design and perform audit procedures to respond to the risk of management's override of controls which will include:

- having understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, test the appropriateness of a sample of such entries and adjustments. We will again make use of our computer audit specialists to analyse the whole population of journals and identify those which have unusual features for further testing;
- a review of accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management. We will also perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements. We will focus on bad debt provisions; and
- obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Council and its environment.

We are also required to presume that there are risks of fraud in revenue recognition and conduct our audit testing accordingly (unless the presumption is rebutted). (See Key audit risks in section 2 where we have identified a risk in relation to grant income).

6. Internal control

Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters" included in Appendix 2, for controls considered to be 'relevant to the audit' we are required to evaluate the design of the controls and determine whether they have been implemented ("D & I").

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

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

Liaison with internal audit

We have agreed with the Council's Head of Internal Audit and Corporate Governance, that in the coming year, the external auditors will liaise with the Council's internal audit function on a constructive and complementary basis to maximise our combined effectiveness and eliminate duplication of effort. This co-ordination will enable us to derive full benefit from the Council's internal audit functions, their systems documentation and risk identification during the planning of the external audit.

The audit team, following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function, review the findings of internal audit and adjust the audit approach as is deemed appropriate. This normally takes a number of forms:

- discussion of the work plan for internal audit
- specific reliance is placed in certain areas. As we expect our approach to be largely or fully substantive (see above), we expect this aspect of reliance to be limited
- where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work.
- review of any fraud investigations to determine their potential effect on our work

7. Timetable

		2009		2010										
		Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Management	Preliminary planning meetings.													
	Development of audit plan													
	Use of resources work for indicative scores													
	Submission of report on indicative use of resources work													
	Interim audit													
	Feedback on outcome of interim procedures													
	Draft statement of accounts submitted to audit committee													
	Final use of resources work													
	Audit fieldwork/audit issues meetings													
	Clearance meeting with finance team													
	Preparation of our report on the 2009/10 audit													
	Accounts signed													
	Audit plan													
	Report on the audit of the 2009/10 accounts													
	Feedback on the outcome of interim procedures and indicative Use of Resources work													

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8. Looking forward – the 2010 Use of Resources Assessment

Introduction

The Audit Commission has recently issued its guidance to auditors on the approach to the use of resources assessment work in 2010. Whilst this work will formally be carried out under our 2010/11 audit plan, and not this plan, we have included information here as we anticipate that much of the audit work will take place during the current financial year.

As in 2009, we are required in 2010 to assess the Council's use of its resources in respect its arrangements for each of the following three themes:

- managing finances - focusing on sound and strategic financial management;
- governing the business - focusing on strategic commissioning and good governance; and
- managing resources - focusing on the effective management of natural resources, assets and people

We reach judgements on these themes by considering specified key lines of enquiry (KLOE) within the three themes. Each KLOE will again be scored on a scale of one to four, with four being the best and one representing areas within the assessment category where an authority did not meet the minimum expected standard. We calculate theme scores using rules set out by the Audit Commission which normally involve calculating the average score for KLOEs within a theme. The Audit Commission will calculate an overall use of resources score.

8. Looking forward – the 2010 Use of Resources Assessment (continued)

Scores from 2008/09

In 2008/09 we reported the following scores for the Council:

Overall area	KLOE	Final KLOE score	Final Theme score
Managing finances	1.1 Planning for financial health	3	3
	1.2 Understanding costs and achieving efficiencies	2	
	1.3 Financial reporting	3	
Governing the business	2.1 Commissioning and procurement	2	2
	2.2 Use of information	2	
	2.3 Good governance	2	
	2.4 Risk management and control	2	
Managing resources	3.1 Natural resources	2	2
	3.2 Strategic asset management	3	

8. Looking forward – the 2010 Use of Resources Assessment (continued)

Changes made to the methodology for 2010

The Audit Commission expects that auditors' work on the 2010 use of resources assessment will be proportionate and build on existing evidence. The use of resources framework, including the key lines of enquiry (KLOE), has not changed. However, the Audit Commission expects auditors to take a risk-based approach that builds on the baseline established in 2009, against which auditors will assess progress.

The Audit Commission's use of resources framework for 2010 sets out the assessment strategy in three sets of circumstances which we deal with, in turn, below.

Category	KLOEs	Approach for 2010
Assessed in 2009 and specified for assessment again in 2010	1.1, 1.2, 1.3, 2.2, 2.3, 2.4, 3.2	<p>Auditors have been asked to address two questions:</p> <ul style="list-style-type: none"> • what has changed in 2010? and • what difference have those changes made in practice? <p>Where KLOE scores were level 3 or level 4 in year 1, auditors have been asked to undertake only sufficient work to satisfy themselves that there has not been any deterioration in performance, and that the arrangements are still operating effectively. This should be a light touch exercise to refresh existing evidence.</p>
Assessed in 2009 but not specified for assessment again in 2010	3.1	The score for this KLOE, which deals with the Council's use of natural resources, will be carried forward to 2010 without reassessment.
	3.3	KLOE 3.3, which deals with workforce management, will be subject to full assessment in 2010.

8. Looking forward – the 2010 Use of Resources Assessment (continued)

The timetable for the work has been brought forward. We are asked to submit indicative scores to the Audit Commission by 21 April 2010, with area challenge sessions organised in the period 10-21 May 2010. The final submission deadline is 30 July 2010, with the national quality assurance process during August 2010.

We have already commenced our work in this area, agreeing a timetable with the Council for submission of self-assessments and evidence of KLOE for our assessment prior to the submission of indicative scores. We have also met to discuss the assessment of KLOE 3.3 for the first time. Finally, we have agreed in principal that the Council's self assessments should match the lighter touch approach exacted by this year's assessment, focusing more on those areas scored at level 2 in the prior year, and simply updating processes and outcomes for those areas scoring level 3 in the prior year.

9. Responsibility statement

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

This report should be read in conjunction with the “Briefing on audit matters” included in Appendix 2 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to 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 of Hillingdon Council, 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.

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Deloitte LLP
Chartered Accountants

St Albans

February 2010

Appendix 1: Analysis of professional fees

We summarise below our proposed audit fees as discussed with management, set out by audit element and including details of any scope changes:

£	Accounts	Use of Resources	Whole of Government Accounts	Main Accounts Sub Total	Pension Scheme	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2009/10 base audit fee	302	66	5.5	373.5	40	413.5
2008/09 base audit fee	302	66	5.5	373.5	40	413.5

Note 1 – In addition to the fees for the audit of Hillingdon Council under the Code of Audit Practice, we also carry out work in relation to the certification of grant claims on behalf of the Audit Commission. Our fees are billed on the basis of time spent by different grades of staff using scale fees advised by the Audit Commission. The level of fees charged in a given year is dependent on the grant schemes falling within the audit requirement, the scope of procedures agreed between the Audit Commission and the grant paying body and the quality of working papers provided to us and timeliness with which audit queries are resolved. Our actual fees for 2008/09 were £138,000.

Note 2 - The Audit Commission's has published its work programme and fee scales for 2009/10. The scale fee for the audit excluding the audit of the pension scheme (based on 2008/09 gross expenditure on services) is £354,468. Our total fee estimate (excluding fee for the audit of the pension scheme) is £373,500. This fee was proposed to the Council on 30 April 2009, to be finalised as part of this audit plan. The risks identified within the plan have been considered in the context of the scale fee, and holding the audit fees at the same level as the prior year is considered appropriate.

Note 3 – The 2009/10 audit fee does not include the fees with regards to the work that will be required on the Council's transition to IFRS. This will be discussed separately with management.

Appendix 1: Analysis of professional fees (continued)

Note 4 - In setting the audit fee we have assumed:

- you will inform us of significant developments impacting on our audit
- there are no additional audit risks to those set out in section 2 of this report.
- Internal Audit meets the appropriate professional standards and undertakes the audits set out in their agreed plan with testing covering the whole of the financial year
- management will provide good quality working papers and records to support the financial statements by the agreed start date for the audit.
- management will provide draft financial statements for the agreed start date of the audit which are complete and of a good standard.
- management will provide the draft pension scheme annual report by the agreed start date for the accounts audit to enable the work on that to be carried out contemporaneously with the audit work on the pension scheme information in the statement of accounts
- management will provide requested information within three working days unless indicated that the request is more complex or time consuming
- management will provide prompt responses to draft reports
- management will provide a detailed commentary on status of recommendations together with supporting documentation
- a self assessment will be prepared for the use of resources assessment, including compilation of supporting documentation.

Where these requirements are not met or our assumptions change, we may be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2: Briefing on audit matters

This appendix is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte audit methodology.

Responsibilities of the auditor and Hillingdon Council and scope of our audit

We have been appointed as Hillingdon Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's Statement of Accounts;
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
-

We are also responsible for the certification of grants.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements, but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standard Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful".

Appendix 2: Briefing on audit matters (continued)

Materiality (continued)

We determine planning materiality based on professional judgement in the context of our knowledge of the client, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality to:

- Determine the nature, timing and extent of audit procedures; and
- Evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland) we will communicate to the Audit Committee all uncorrected misstatements (including deficiency disclosures) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and the Governance Committee will agree an appropriate limit for 'clearly trivial'. In our report to the Audit Committee we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Appendix 2: Briefing on audit matters (continued)

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide value for the Council whilst maximising the quality of our work.

For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D&I"). The controls that are determined to be relevant to the audit will include those:

- Where we plan to obtain assurance through the testing of operating effectiveness:
- Relating to identified risks (including the risk of fraud in revenue recognition):
- Where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone:
- To enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Appendix 2: Briefing on audit matters (continued)

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters.

Disclosure	Commentary
210	Terms of audit engagements
240	The auditor's responsibility to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
315	Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement
320	
545	Audit materiality
550	Auditing fair value measurements and disclosures
560	Related parties
570	Subsequent events
580	Going concern
720 (revised)	Management representations Section A - Other information in documents containing audited financial statements Section B – The auditor's statutory reporting responsibility in relation to directors' reports

Appendix 2: Briefing on audit matters (continued)

Independence policies and procedures

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner in specified circumstances, which goes beyond auditing standards, and ensures the objectivity of our judgement is maintained.
- We report annually to the Audit Committee our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key audit partners in accordance with our policies and professional and regulatory requirements.
- In accordance with the Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies. The AIU and QAD do not publish individual inspection reports and we are not permitted to disclose details of their findings. For our audits of local government, our work is regulated by the Audit Commission.

Appendix 2: Briefing on audit matters (continued)

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies. Amongst other things, these policies:

- state that no Deloitte partner or immediate family member is allowed to hold a financial interest in any of our UK audit clients;
- require that professional staff or any immediate family member may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client;
- state that no person in a position to influence the conduct and outcome of the audit or any immediate family member should enter into business relationships with UK audit clients or their affiliates;
- prohibit any professional employee from obtaining gifts from clients unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.



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Member of Deloitte Touche Tohmatsu

London Borough of Hillingdon

Report to the Audit Committee

Audit Plan for the 2009/10 Pension Fund Audit

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Executive summary

We have pleasure in setting out in this document details of our proposed audit scope for the London Borough of Hillingdon Pension Fund for the year ending 31 March 2010.

Audit scope

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

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

The pension fund accounts remain part of the accounts of the Council as a whole. The LGPS Regulations require administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts. Our audit report on the Council accounts will continue to cover the pension fund section of that document. In addition, we are asked by the Commission to issue an audit report for inclusion in the annual pension fund report.

Materiality

We calculate materiality on the basis of the net assets of the fund, but have restricted this to the materiality established for the audit of the Council's financial statements as a whole. We estimate materiality for the year to be £6 million (2009: £6.4 million). We will report to the Pensions Committee on all unadjusted misstatements greater than £0.3 million (2009: £0.1 million) unless they are qualitatively material. Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Council's financial statements.

Executive summary (continued)

Key audit risks

The key audit risks which we have identified as part of our overall audit strategy are:

1. Unlike the position in the private sector, we are not required to issue a separate statement on contributions. Nevertheless, in view of the complexity arising from the participation of different admitted bodies within the fund, together with changes to the fund introduced from April 2008 which mean that members may pay different rates depending on their pensionable pay, we have included the identification, calculation and payment of contributions as areas of specific risk.
2. There are a number of complexities to the calculation of both benefits in retirement and ill health and death benefits introduced by changes to the local government pension fund last year.
3. The pension fund in the past has made some use of investments in unquoted investment vehicles and derivatives which can give rise to complexities in accounting, disclosure and measurement.

Prior year uncorrected misstatements and disclosure deficiencies

There were no significant unadjusted misstatements or uncorrected disclosure deficiencies reported to you in respect of the 2008/9 accounts.

Timetable

The timetable is set out in Section 5. The fieldwork will be carried out at the same time as our work on the Council's financial statements.

We plan to finalise our audit report included within the Pension Fund Annual Report at the same time as that included in the Council's accounts.

Executive summary (continued)

Independence

Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity.

These are set out in the “Independence policies and procedures” section included at Appendix 1.

We will reconfirm our independence and objectivity to the Pensions Committee for the year ending 31 March 2010 in our final report to the Pensions Committee. We have discussed our relationships with the Council in our separate audit plan for the audit of the Council’s financial statements.

Fees

We set out an estimate of our fees in a letter to the Council issued in April 2009. There is no change to our previously advised fee estimate of £40,000.

Matters for those charged with governance

We have attached at Appendix 1 our “Briefing on audit matters” which includes those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements.

Engagement Team

Gus Miah Will continue to lead the audit and will be supported by Helen Perkins and Gouri Kubair.

1. Scope of work and approach

Overall scope and approach

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

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

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

Our audit objectives are set out in our “Briefing on audit matters” document (Appendix 1).

The audit opinion we intend to issue as part of our audit report on the Council’s financial statements will reflect the financial reporting framework adopted by the pension fund. This is the Local Government SORP.

For pension fund statements, we have initially considered the net assets of the fund as the benchmark for our materiality assessment as this benchmark is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. However, we have restricted our estimate of materiality to the amount set for the Council’s financial statements as a whole, which is £6 million. Our separate audit plan for the audit of the Council’s financial statements includes further information on how we derived this estimate. The concept of materiality and its application to the audit approach are set out in our Briefing on audit matters document.

The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

1. Scope of work and approach (continued)

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

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

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

Our audit objectives are set out and explained in more detail in our “Briefing on audit matters” document.

2. Key audit risks

Based upon our initial assessment we will concentrate specific audit effort in 2009/10 on the following areas:

Contributions	
Audit Risk	Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS. However, this remains a material income stream for the pension fund and in view of the complexity introduced by the participation of more than one employer in the fund, together with the introduction of the new benefit structure with its tiered contribution rates; we have identified this as a specific risk.
Deloitte response	We will perform tests of controls in this area in order to take a controls reliance approach for our substantive audit testing. We will perform procedures to ascertain whether employer and employee contributions have been calculated, scheduled and paid in accordance with the schedule.

2. Key audit risks (continued)

Benefits

Audit Risk

Changes were made to the local government pension fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits.

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

In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Some employers may not have retained all the necessary records.

Deloitte response

We will perform tests of controls in this area in order to take a controls reliance approach for our substantive audit testing. We will perform procedures to ascertain whether benefits payable have been calculated correctly in accordance with the fund rules.

2. Key audit risks (continued)

Financial instruments

Audit Risk

The pension fund makes some use of investments in unquoted investment vehicles, like private equity houses. Nationally, a number of such investment vehicles have suffered significant losses over the last two years.

Private equity funds are complex to value and include an element of judgement on the part of the investment manager. Given that these funds form a material balance within the pension fund accounts, we have identified the valuation of these funds as a specific risk.

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

The fund also makes use of derivatives which can be complex in terms of accounting, measurement and disclosure requirements. We will first understand the rationale for the use of the derivatives and then test compliance with the accounting, measurement and disclosure requirements of the Local Government SORP. The use of expert advice may be required for testing these balances.

Deloitte response

3. Consideration of fraud

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

ISA (UK and Ireland) 240 – ‘The auditor’s responsibility to consider fraud in an audit of financial statements’ requires us to document an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in Hillingdon Council and its local government pension fund and the internal control that management has established to mitigate these risks.

We will make inquiries of management, internal audit and others within the Council as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the Council. In addition we are required to discuss the following with the Pensions Committee:

- Whether the Pensions Committee has knowledge of any fraud, alleged or suspected fraud?
- The role that the Pensions Committee exercises in oversight of:
 - Hillingdon Council’s assessment of the risks of fraud in respect of the pension fund; and
 - the design and implementation of internal control to prevent and detect such fraud?
- The Pensions Committee’s assessment of the risk that the pension fund financial statements and annual report may be materially misstated as a result of fraud.

We will be seeking representations in this area from the Senior Finance Manager - Corporate Finance, in due course.

3. Consideration of fraud (continued)

Management override of controls

In addition to the procedures above we are required to design and perform audit procedures to respond to the risk of management's override of controls which will include:

- having understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, test the appropriateness of a sample of such entries and adjustments. We will again make use of our computer audit specialists to analyse the whole population of journals and identify those which have unusual features for further testing;
- a review of accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management. We will also perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements; and
- obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Council and its environment.

4. Internal control

Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters" attached at Appendix 1, for controls considered to be 'relevant to the audit' we are required to evaluate the design of the controls and determine whether they have been implemented ("D & I"). The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered. Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Council or its pension fund administration, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

Liaison with internal audit

We have again agreed with the Council's Head of Internal Audit and Corporate Governance, that in the coming year, the external auditors will liaise with the Council's internal audit function on a constructive and complementary basis to maximise our combined effectiveness and eliminate duplication of effort. This co-ordination will enable us to derive full benefit from the Council's internal audit functions, their systems documentation and risk identification during the planning of the external audit.

Following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function we will review any findings relevant to the pension scheme adjust the audit approach as is deemed appropriate.

5. Timetable

		2009		2010										
		Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Management	Prepare plan based on discussions with management			■										
	Early discussion of Council's approach to risks areas			■	■									
	Performance of detailed planning and controls work					■	■							
	Feedback on outcome of interim procedures							■						
	Audit fieldwork/audit issues meetings									■	■	■		
	Review of pension fund annual report										■	■		
	Preparation of our report on the 2009/10 audit											■		
Pensions Committee	Audit plan				■									
	Report to the Pensions Committee on the 2009/10 accounts audit											■		

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

6. Responsibility statement

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

This report should be read in conjunction with the “Briefing on audit matters” attached at Appendix 1 and sets out those audit matters of governance interest which came to our attention during the audit to date. Our audit was not designed to identify all matters that may be relevant to 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 of Hillingdon Council, 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
March 2010

Appendix 1: Briefing on audit matters

Published for those charged with governance



This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit in separate written reports. These reports should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We have been appointed as auditor to Hillingdon Council by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities. Our responsibility in respect of the Local Government Pension Fund administered by Hillingdon Council is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice and additional guidance issued by the Audit Commission in respect of the audit of Local Government Pension Funds and to express an opinion on whether the information on the pension fund required to be included in the financial statements of Hillingdon Council, presents fairly in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom applicable to the relevant year, the financial transactions of the pension fund and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the fund year. The Audit Commission has determined that auditors should also give an opinion in accordance with guidance issued by the Commission on the financial statements included in the pension fund annual report. This entails the following additional work over and above giving an opinion on the pension fund accounts included in the Council's statement of accounts:

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

Appendix 1: Briefing on audit matters (continued)

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide a timely and constructive letter of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine planning materiality based on professional judgment in the context of our knowledge of the pension fund, including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements.

We determine planning materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

The materiality in relation to the audit of the pension fund's financial statements will not necessarily coincide with the expectations of materiality of an individual member of the fund in relation to his or her expected benefits. Our judgments about materiality are made in the context of the financial statements as a whole and the account balances and classes of transactions reported in those statements, rather than in the context of an individual member's designated assets, contributions or benefits.

Appendix 1: Briefing on audit matters (continued)

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK and Ireland)”) we will communicate to those charged with governance all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of ‘clearly trivial’. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report to those charged with governance we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate. We will consider identified misstatements in qualitative as well as quantitative terms.

Audit methodology

Our audit methodology takes into account the changing requirements of the Audit Commission and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to Council Members and create value for management and the Council whilst minimising a “box ticking” approach.

Our audit methodology is designed to give Council Members the confidence that they deserve.

For controls considered to be ‘relevant to the audit’ we evaluate the design of the controls and determine whether they have been implemented (“D & I”). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Appendix 1: Briefing on audit matters (continued)

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
210	Terms of audit engagements
240	The auditor's responsibility to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
315	Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement
320	Audit materiality
545	Auditing fair value measurements and disclosures
550	Related parties
560	Subsequent events
570	Going concern
580	Management representations
720 (revised)	Section A: Other information in documents containing audited financial statements Section B: The auditor's statutory reporting responsibility in relation to directors' reports

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Appendix 1: Briefing on audit matters (continued)

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key audit partners in accordance with our policies and professional and regulatory requirements.
- In accordance with the Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies. We are not currently permitted to disclose details of their findings.

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any closely-related person) is allowed to hold a financial interest in any of our UK audit clients;
- require that professional staff may not work on assignments if they (or any closely-related person) have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client;
- state that no person in a position to influence the conduct and outcome of the audit (or any closely related persons) should enter into business relationships with UK audit clients or their affiliates;
- prohibit any professional employee from obtaining gifts from clients unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Appendix 1: Briefing on audit matters (continued)

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their clients;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their clients, and gifts and hospitality received from audit clients; and
- non-audit services provided to audit clients.

Our policies and procedures comply with these standards.

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Member of Deloitte Touche Tohmatsu

DELOITTE - ANNUAL GRANT AUDIT LETTER

Contact Officer: Nancy Leroux
Telephone: 01895 250353

SUMMARY

This report provides a summary of the key findings on the grant work undertaken by Deloitte for the year ended 31 March 2009.

RECOMMENDATIONS

The committee is asked to note the report.

INFORMATION

A report by the Audit Commission in September 2009, 'Review of arrangements for Certifying Claims and Returns' recommended that auditors should report annually to those charged with governance in order to highlight the errors, adjustments and qualifications arising in claims and returns.

The key findings of the report were:

1. All grants were submitted and certified by the required deadline.
2. As a result of errors identified during the audit of the grant claims adjustments were made to 5 grant claims prior to certification. The impact of these adjustments on the Council was very minor:
 - NNDR Return
 - Housing and Council Tax Benefits Scheme
 - Pooling of Housing Capital Receipts
 - HRA Subsidy
 - HRA Subsidy Base Data Return
3. Only one of these adjustments exceeded £10,000 which was the NNDR Return and this related to a prior year issue that the Council itself had brought to Deloitte's attention to resolve as part of the audit.
4. Although a qualification letter was issued in respect of the Housing and Council Tax Benefits Scheme, the report notes that the claim was certified with many fewer qualifications than in prior years. The total claim is around £124m and the amount reclaimed by the DWP following the audit is just £32.7k.

The total fees charged for this work was £136,768.

Audit Committee 11 March 2010
PART 1 – MEMBERS, PUBLIC & PRESS

The report also highlights an issue about the re-certification of the HRS subsidy base data return. Subsequent to Deloitte certifying this grant claim and it being submitted to CLG, an officer notified them of an error in relation to the interpretation of relevant regulations. Deloitte reviewed the technical guidance and agreed the revision to the claim.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

London Borough of Hillingdon

Report to the Audit Committee on the 2009
Grant Certifications

Draft Report

23 February 2010

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Executive Summary

We have pleasure in setting out in this document our report to the Audit Committee of the London Borough of Hillingdon on the key findings from our grant work for the year ended 31 March 2009. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

Certification Deadlines

All of the grants we reported on for the year ended 31 March 2009 were certified by the required deadline.

Amended / Qualified Grant Claims

As a result of errors identified through the performance of our procedures, adjustments were made to five grant claims prior to certification; of these adjustments, only one was greater than £10,000.

In addition to the adjustments noted above a qualification letter was issued in respect of one grant claim.

See Section 2 for more details.

Certification Fees

Total fees charged in respect of the work performed on the twelve grants certified by Deloitte were £136,768. Section 3 of this report sets out the fees charged on each of the twelve grants we certified.

Other Issues

After certification of the HOU02 claim, an error relating to the interpretation of the relevant regulations was brought to our attention by the Authority. We have now re-certified the HOU02 claim form in line with the deadline agreed between the Authority and the Department for Communities and Local Government ("DCLG"); we have discussed this issue in more detail in Section 4.

1. Introduction

Purpose of this report

In September 2009 the Audit Commission published a report 'Review of Arrangements for Certifying Claims and Returns'. One of the recommendations that came out of the study was that auditors should report annually on the results of the certification work to those charged with governance, and to Audit Committee, in order to highlight the errors, adjustments and qualifications arising in claims and returns.

This letter is addressed to the Audit Committee of the London Borough of Hillingdon ("the Authority") and is intended to communicate key matters from our 2008/09 grant certification work in response to the recommendation.

Our responsibilities

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

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

The scope of our work

Auditors appointed by the Audit Commission are required to:

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

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

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

Provided at Appendix 1 is details of the claims and the returns certified by Deloitte.

2. Amended/Qualified Grant Claims

As a result of errors identified through the performance of procedures agreed between the Audit Commission and the grant paying body, adjustments were made to five grant claims prior to certification (Appendix 1); of these adjustments only one represented an amount greater than £10,000, the details of which have been included below. In addition a further adjustment was needed to the HOU02 claim to correct an error which was brought to our attention by the Authority post certification. The value of this error was above £10,000; we have discussed this claim in more detail in Section 4.

LA01 National non-domestic rates return (Appendix 1)

Adjustment Details

Our testing of the National non-domestic rates (“NNDR”) return for the year ended 31 March 2009 identified a prior year charitable occupation relief of £81,538 which had been incorrectly entered on the 2008 claim form in Part II section 6. In order to make the 2008 claim form ‘balance’, this value was then manually taken off the Part I line 1 value for ‘gross amount payable’.

From discussion with the Authority we understand that this error was noted by the prior year auditors and Part II section 6 of the 2008 form was corrected. However, the corresponding error in the gross amount payable was not identified and was not corrected. The effect of this was that the net contribution to the pool increased by £81,538 and this amount was over paid to the central pool in 2008/09. Subsequently, this error was identified by the Authority and they have amended their 2009 claim form to account for this.

Deloitte response

We have reviewed the prior year ‘incorrect’ claim and certified claim in order to trace and identify the issue; we have reconciled the prior year claim to underlying records generated by the NNDR system and have traced payment of the £81,538 to supporting documentation; finally we reviewed correspondence from the prior year auditors on the issue. Our testing demonstrated that the £81,538 had been over paid in the prior year; this adjustment was not included on the original 2009 claim form provided to us but was correctly adjusted on the amended 2009 claim return through Part II line 2 ‘net amounts in respect of previous years’.

2. Amended/Qualified Grant Claims (Continued)

In addition to the adjustments noted above a qualification letter was issued in respect of one grant claim, the details of which have been included in the table below.

BEN01 – Housing and Council Tax Benefits Scheme

Qualification Details

Our testing of the Housing and Council Tax Benefits Scheme grant for the year ended 31st March 2009 identified two errors for which it was not possible to agree an amendment with the Authority which would result in a grant claim that was fairly stated. As a result a qualification letter was issued highlighting the following issues to the grant paying body in accordance with the grant certification instructions:

- 1) A modified scheme is one where the Authority can choose to disregard certain income (such as war widows' pensions) when calculating a claimants entitlement to benefit. As part of our testing of modified schemes we identified an error of £224.91 in relation to one claim. We discussed this with Officers but they decided not to adjust the claim. We understand that the reason for this was that there was no impact on the benefit granted by the Authority to the claimant and the Authority did not think they could produce adequate support for the proposed adjusted figure.

There were a total of ten claims with similar circumstances; the other nine claims were investigated by the Authority with a sample re-performed by Deloitte. No further issues were identified.

2. Amended/Qualified Grant Claims (Continued)

BEN01 – Housing and Council Tax Benefits Scheme (continued)

Qualification Details

- 2) Our testing identified a small error in the current year rent allowances eligible overpayment figure, with a corresponding equal and opposite error in the prior year eligible overpayment figure. Investigation of this error identified that it is caused by a problem with the Authority's Northgate system parameters for rent allowance overpayment dates. As it is a system issue, it affects all the claims within the related cells for the period of issue and it has not been possible to accurately determine an adjustment. Northgate are aware of this issue and we understand that it should be resolved before the 2009/10 subsidy claim is completed. While there is no impact on the claim amount overall, we were unable to conclude that the claim was fairly stated in this respect.

We would like to mention that London Borough of Hillingdon's 2008/09 BEN01 claim was certified with many fewer qualifications than in the prior year.

3. Certification Fees

Our work on the London Borough of Hillingdon grants for the year ended 31 March 2009 is now complete and the table below summarises our billings by grant claim:

Certification Instruction	Claim / Return	Audit fee (£)
BEN01	Housing and Council Tax Benefits Scheme	55,000
CFB06	Pooling of housing capital receipts	3,690
EYC02	Sure start, early years and childcare	5,325
HOU1	HRA Subsidy	13,500
HOU02	HRA Subsidy Base Data Return	18,400
LA01	NNDR Return	13,788
PEN05	Teachers' Pension Return	6,000
RG31	Single programme LDA – four claims	11,700
HOU21	Disabled Facilities	9,365
TOTAL AUDIT FEE		<u>136,768</u>

4. Other issues

HOU02 Re-certification

Background

We initially certified the HOU02 'HRA subsidy base data return' grant claim on 8 October 2009 in accordance with the agreed deadline set by the Audit Commission. Subsequent to our certification we were contacted by the Housing Finance Officer ("HFO") from the Authority on 17 December 2009. It was explained that an error had been noted in 2009/10 and 2010/11 returns (certified in 2007/08 and 2008/09 respectively).

The issue identified related to the fact that the Authority, along with other Authorities, had applied the same meaning of 'qualifying disposals' to the CFB06 'pooling of housing capital receipts' and the HOU02 'HRA subsidy base data return' claim forms. As such, the qualifying disposals from the pooling claim (£992,126 in 2008/09) was used on the HOU02 claim form. However, the HFO's recent attendance at a Housing Finance Conference identified that there is a different definition of qualifying disposals for pooling of housing capital receipts and HRA subsidy base data and this is the reason that the adjustment was required.

We understand that DCLG are unable to re-open the 2007/08 claim form (which was certified by the Audit Commission). We understand that the Council have been considering seeking an amendment to that year's subsidy through Special Determination from DCLG.

Deloitte response

DCLG re-opened the 2008/09 claim form and the Authority amended the necessary cell from the original certified £992,126 to £nil.

We reviewed the technical guidance around this issue and agreed with the Authority's assessment of the error regarding the definition of a qualifying disposal. We reviewed the disposals that had previously been included in the £992,126 and confirmed that these were not qualifying disposals under the definition required for the HRA subsidy base data return. As a result of this work we agreed with the Authority's assessment that an adjustment was required to the claim form replacing the £992,126 with £nil. We re-certified the amended HOU02 claim form on the 13 January 2010.

5. Responsibility statement

This letter has been discussed and agreed with the Chief Executive and Director of Finance of the Council. A copy of the letter will be presented at the Audit Committee on 11 March 2010.

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

Deloitte LLP

Chartered Accountants
23 February 2010
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The Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns, issued by the Audit Commission, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as appointed auditors and this report is prepared on the basis of, and the grant certification procedures are carried out, in accordance with that statement.

The matters raised in this report are only those that came to our attention during our grant 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 grant 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.

Appendix 1: Summary of Grant Claims

The following table represents a summary of grant claims or returns certified as part of our testing procedures.

Certification Instruction	Claim / Return	Value of Grant (£)	Auditor Deadline	Date Certified by Auditor	Subject to Amendment?	Subject to Qualification?
BEN01	Housing and Council Tax Benefits Scheme	130,040,109	30/11/2009	30/11/2009	Yes	Yes
CFB06	Pooling of housing capital receipts	906,910.60	30/09/2009	28/09/2009	Yes	No
EYC02	Sure start, early years and childcare	7,088,595	31/10/2009	29/10/2009	No	No
HOU01	HRA Subsidy	10,433,763	31/12/2009	21/12/2009	Yes	No
HOU02	HRA Subsidy Base Data Return (original claim)	N/A	09/10/2009	08/10/2009	Yes	No
	HRA Subsidy Base Data Return (re-certified claim)	N/A	18/01/2010	13/01/2010	No	No
LA01	National non-domestic rates return	286,052,045.82	25/09/2009	24/09/2009	Yes	No
PEN05	Teachers' pensions return	17,455,719.83	30/11/2009	30/11/2009	No	No
RG31	Single programme, Childcare affordability programme phase 1	201,875	31/07/2009	22/07/2009	No	No
RG31	Single programme, Hillingdon LIDO/Hillingdon Sports & Leisure Centre	1,438,626	31/07/2009	22/07/2009	No	No
RG31	Single programme, Workmates – West London Working Personal Advice and Outreach	110,000	31/07/2009	22/07/2009	No	No
RG31	Single programme, London Youth Offer	219,260	31/07/2009	22/07/2009	No	No
HOU21	Disabled Facilities	1,900,000	31/10/2009	26/10/2009	No	No



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Member of Deloitte Touche Tohmatsu

Delivering the Annual Governance Statement (AGS) 2009-10

Contact Officer: Rob Mackenzie-Wilson
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SUMMARY

1. The London Borough of Hillingdon is required to prepare an Annual Governance Statement (AGS) to meet its responsibilities for safeguarding public money and managing business functions in accordance with the Accounts and Audit Regulations 2003. The Council also has a duty under the Local Government Act 1999 to conduct a continuous assessment and improvement of business functions and demonstrate Economy Efficiency and Effectiveness.
2. The council is utilising the existing framework developed over the past two years to evaluate the management of internal controls, risk and control assurances across all services. This will conclude with a formal statement outlining overall performance and measures needed to address identified weaknesses as part of the Statement of Accounts. The Corporate Governance Working Group (CGWG) will provide leadership and support to compile the AGS 2010-11.

REASON FOR REPORT

3. This report sets out the Council's progress for producing the Annual Governance Statement for 2009-10, and presents an action plan for delivery (annex A).

RECOMMENDATION

4. Members are invited to note the AGS 2009-10 Action Plan.

BACKGROUND INFORMATION

AGS Requirements

5. Under regulation 4(2) of the Accounts and Audit Regulations 2003 (amended 2006) the London Borough of Hillingdon is required to review and report annually on the effectiveness of its governance framework and systems of internal control. The purpose is to ensure that the Council can demonstrate appropriate processes and procedures to manage its business activities and show that risk management controls and systems operate effectively.
6. The overall the AGS is the process for self-assessing the council's management of internal controls systems across all services, with the publication a formal statement outlining overall performance and measures

needed to address any identified risks. This framework combines assessment of governance arrangements and risk controls, making it a more holistic approach towards conducting an annual internal review that relates to the organisation as a whole.

Progress on the AGS 2009-10

7. The AGS will combine a broad range of management information and assurances from across the council and external sources. The council is making substantial progress on a number of individual parts that, when brought together, will form the basis for drafting a complete and accurate AGS. The key sources contributing to the AGS include:
 - Performance management & data quality information
 - Risk Management processes
 - Legal and regulatory assurance
 - Financial control assurances
 - Service delivery assurances from directors and Heads of service
 - Council Member assurances
 - Annual Internal Audit report and assurance
 - External inspection reports and assurances
8. The Council has convened meetings of the Corporate Governance Working Group to guide and prepare delivery of the AGS. The group will ensure that key changes to governance arrangements and control systems are reported, review actions against control weaknesses identified in the AGS 2008-09 and highlight cross-council assurance sources.
9. Cross-council assurance statements are a central component of the AGS. In discharging this accountability senior officers are responsible for putting in place proper risk management processes and internal controls to ensure proper stewardship of resources and conduct. Group Directors and Heads of Service are required to submit assurance statements by 1st April 2010.
10. A detailed action plan for preparing and delivering the AGS 2009-10 is attached under annex A.



HILLINGDON
LONDON

London Borough of Hillingdon

2009-10 Annual Governance Statement – Action Plan

Objective/Task	Interpretation / Rationale	Required Action & Evidence	Responsible Officer/Group	Deadline
1. Review the council's processes, procedures and internal controls against the AGS requirements	The AGS introduced new requirements to assessment the governance arrangements of local authorities. Production of a evidence map will enable the Corporate Governance Working Group (CGWG) and supporting officers to identify weak evidence and governance arrangements	1. Review key policies and procedures i.e. <ul style="list-style-type: none"> • Risk management • Performance • Partnerships • Finance • Use of Resources 	CGWG	Feb - Mar 2010
		2. Link to Use of Resources evidence	RMW / VH	Feb - Mar 2010
2. Review of actions arising from internal control issues identified in the 2008-09 AGS. Ensure that improvement action is aligned with AGS delivery objectives and targets	A thorough review and analysis of the internal control issues/weaknesses from AGS 2008-09 will drive internal assessment of the effectiveness of governance arrangements and controls. This will strengthen LBH final annual governance statement.	1. Go through each of the actions aimed at improving internal control issues and determine current status	CGWG	8 Mar 2010
		2. Gather progress update on internal control issues reported in AGS 2009-10 from Heads of Service as part of Assurance Statements	CGWG	8 Mar 2010

Objective/Task	Interpretation / Rationale	Required Action & Evidence	Responsible Officer/Group	Deadline
3. Provide AGS briefing and drafts to CEO & CMT	The AGS is a key corporate document that should be understood and reviewed by all senior officers and members. A formal paper is a valuable tool to communicate with senior officers, members and stakeholders to introduce AGS and provide updates.	1. Present AGS progress update to CMT 2. Present progress update and AGS first draft to CMT	KB/RMW KB/RMW	21 Apr 2010 19 May 2010
4. Provide AGS briefing updates on behalf of CE, DCE and CMT to Leader of the council and cabinet members	The AGS is a key corporate document that should be owned by all senior officers and members. Is essential that senior officers, the Council leader and members are kept informed about AGS delivery to ensure top-level support	1. Inform Leader and members about the requirements for reporting on governance arrangements and progress towards AGS delivery	KB/MB/RMW	Feb - Jun 2010 (Throughout)
5. deliver presentations to Senior Officers, members and wider stakeholders i.e. Audit Committee	The AGS is a key corporate document that should be understood and reviewed by all senior officers and members. A formal paper is a valuable tool to communicate with senior officers, members and stakeholders to introduce AGS and provide updates.	1. Update Operational Managers Group (OMG) on requirements for completing AGS and assurance statements 2. Present AGS progress update to Audit Committee	RMW / KB KB/HT/RMW	22 Feb 2010 11 Mar 2010

Objective/Task	Interpretation / Rationale	Required Action & Evidence	Responsible Officer/Group	Deadline
6. Distribute, collect and review directorate / service Assurance Statements.	The AGS is a key corporate document that sets out the effectiveness of governance arrangements. Statements are required to document governance frameworks and controls across all services. This will include assurance from legal & regulatory, financial controls members, risk management and performance & data quality	<ol style="list-style-type: none"> 1. Commission assurance statements from all Directors and Heads of Service 2. Provide support and advice to service areas, ensuring statements are delivered to deadline and guidance 3. Collect all assurance statements from service areas 	<p>LW / BSU</p> <p>RMW / CGWG</p> <p>LW /BSU</p>	<p>1 Mar 2010</p> <p>Mar 2010</p> <p>1 April 2010</p>
7. Collect and review additional sources of assurance	The AGS requires assurances from third parties for example from external inspections.	1. Internal Audit and CGWG to report on the service operations and any signification control weaknesses	HT / CGWG	Mar - Apr 2010
8. Internal Audit to conduct independent review of all assurance statements contributing to the AGS	Assurance statements need to be reviewed to identify and report any significant governance issues and document how the controls framework is operating	<ol style="list-style-type: none"> 1. IA Conduct a review of all assurance statements forming the AGS and identify control issues required for reporting. Findings of review highlighting key corporate weaknesses or risks to be provided to DCEO Policy Team 2. Confirmation that assurance statements are accurate and reliable 	<p>Internal Audit /HT</p> <p>Internal Audit /HT</p>	<p>6 Apr - 23 Apr 2010 (provisional)</p> <p>23 Apr 2010</p>
9. Annual Internal Audit report	An overall opinion is provided by internal audit on the systems and controls operating throughout the council as overall assurance	1. Internal audit report produced from all audit conclusions in 2009-10	HT	April - May 2010

Objective/Task	Interpretation / Rationale	Required Action & Evidence	Responsible Officer/Group	Deadline
10. First Draft of Annual Governance statement	AGS needs to be presented as a narrative statement, including: <ul style="list-style-type: none"> • Laws & regulations complied with; • High-quality services delivered effectively; • Processes are adhered to; • Financial & performance information • Efficient and effective use of resources • Identified control risks/ weaknesses and proposed remedial actions Use internal working groups and Senior Officers to review content and make amendments.	1. Use the CIPFA /SOLACE AGS framework ('Delivering Good Governance in Local Government') to draft narrative governance statement. Utilise the AGS evidence map, assurance statements and Code of Corporate Governance	RMW /KB	7 May 2010
		2. Present AGS draft to the Corporate Governance Working Group	RMW /KB	14 May 2010
		3. Present AGS first draft to CMT	RMW /KB	W/B 17 May 2010
11. Second draft of Annual Governance Statement	(As above point 10)	1. Integrate comments and amendments from Internal Audit and CGWG and review draft	CGWG	28 May 2010
		2. Present AGS second draft to CMT	RMW /KB	2 Jun 2010
12. Finalise AGS and present to CEO and Leader for approval and sign-off	Following approval from CMT recommendations are made to CEO and Leader to sign AGS	1. Prepare AGS for approval and sign-off	RMW /KB	7 - 18 June 2010

Objective/Task	Interpretation / Rationale	Required Action & Evidence	Responsible Officer/Group	Deadline
13. Present AGS to the Audit Committee for review, comments and approval	Final stage of delivering the Annual Governance Statement	1. Provide AGS paper	RMW	21 June 2010
		2. AGS Presented to Audit Committee along side financial statement of accounts	RMW	28 June 2010
14. External audit of AGS and Annual Statement of Financial Accounts			Audit Commission	July - Sep 2010

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Internal Audit Progress Report

Contact Officer: Helen Taylor
Telephone: 01895 556132

REASON FOR ITEM

This report provides the Audit Committee with a summary of Internal Audit (IA) activity for the period to from 21 November 2009 to 19 February 2010. This fulfils the requirements of CIPFA's Code of Practice for Internal Audit in Local Government to bring to Members' attention periodic reports on progress against planned activity and any implications arising from Internal Audit findings and opinions

The report also satisfies the requirements of the Audit Commission and the Comprehensive Performance Assessment to keep Members adequately informed of the work undertaken by Internal Audit and of any problems or issues arising from audits

OPTIONS AVAILABLE TO THE COMMITTEE

To note in-year progress against the Internal Audit Plan for 2009-10, and the updated position of those audits undertaken in 2007-8 and 2008-9.

1. INFORMATION

1.1. In addition to the Annual Report, the Head of Internal Audit produces interim reports to Officers and Members throughout the year. These are approximately quarterly, summarise progress to date and bring to the attention of members any issues of note. Information has also been included to show the range of consultancy and other issues Internal Audit have been involved in this year but which do not directly result in an audit report.

2. Progress against Plan and Follow up Status

2.1. In general there is no cause for concern at this time with the levels of assurance being reported to the committee. Only one audit in the current report has received limited assurance and plans are in place to address the weaknesses.

2.2. The current status of this year's plan is included in Appendix 1.

2.3. The progress and status of those carried out in 2007-8 and 2008-9 is included in Appendices 2 and 3.

2.4. The following audits have been deleted from the current plan.

Protocol Debtors – The anticipated move to this system for finance will not take place until the very end of the year. The audit has been included in the 2010-11 plan.

Placement Team – This audit was scheduled for the fourth quarter but the team is being fundamentally reviewed as part of the BID process and changes in operational processes were expected to be made. It has been included in the 2010-11 plan.

Facilities Management Contract – The supplier was taken over and Procurement were in negotiations with the new supplier. The audit will be better carried out next year once the contract has settled down. It has been included in the 2010-11 plan.

Fusion Contract (Athletic Stadium) – At the time this was planned it was a small contract for a specific service. However, during February and March 2010 Fusion will assume responsibility for the new pool and the wider Uxbridge leisure centre facilities. To allow this to settle down I have moved this audit to 2010-11 and allowed more time to cover the issues.

Compliance with Tender Strategy – Having undertaken other audits in this area it became obvious that all issues of compliance had been accommodated within those audits and there would be nothing to be gained from a separate audit. In future all contracts reviewed will be tested for compliance with the strategy.

Swakeleys School – Was deleted in favour of Wood End Park at the request of School Improvement Team. Swakeleys has is now in 2010-11 plan.

Hillingdon Homes Contract Arrangements – Now that Housing Management is being brought back into the council there is little to be gained from this audit.

Desktop Technologies – At the time of planning it was anticipated that the platform would be changed. However, the council has retained the Novell platform so there was no need to audit any change.

E-Payments – At the time of planning it was anticipated that a uniform platform for receipt of Electronic payments would be put in place in year. This is now likely to go ahead in the middle of 2010-11.

Pupil Transport – A realistic assessment of resources means that this audit is unlikely to be started in-year. It has been added to the 2010-11 plan.

2.5. During the year the following audits were added to the plan

Hillingdon Grid for Learning ICT Security – was added, completed and reported in quarter 3 because of identified problems in this area.

Wood End Park – Added at the request of the School Improvement Team.

Payroll Transformation – Added to provide assistance with redesigning expenses procedures

2.6. Changes were made to other audits as follows.

Utilities Gas and Electricity – This was planned as two separate audits but at the detailed planning stage it became obvious that it would be better treated as one audit.

On-line Sickness Reporting – For efficiency reasons the relevant issues were covered in the audit of Payment of Sick Pay

School Meals Service Central – At the detailed planning stage the central administration was combined with the other school meals audit to create a more efficient approach.

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

2.8. Summaries of the outcomes of the audits completed in the period are provided below. Management comments are included where no or limited assurance has been given. These audits will be followed up in due course.

2.9. Continued progress has been made in clearing outstanding recommendations.

CRM Application (Onyx One Serve)

Assurance level: Limited

Weaknesses in the current security of the CRM application related to the area of access controls. These were as follows:

- There were weaknesses in the design of password controls, which allowed one character password that did not expire and allowed multiple login attempts;
- There is no formal process for registration of new users on the system, to help ensure all access is approved and permissions designed are appropriate for the individual's job role;
- The administrator account has not been renamed and the password has not been changed from the default setting.

<p>Management Comment – The master database has been created. All other items have a solution agreed with Onyx and this fix is dependent on the virtualisation of applications</p>

servers to enable a security methodology that will meet audit requirements. This work is scheduled for the last week in March 2010.

Overtime Payments:

Assurance Level: Satisfactory

- Overtime was paid in accordance with the National Agreement on Pay and Conditions of Service for Local Government Employees.
- Working time directives were not breached.
- Payments for overtime were not made until the employee had worked 36 hours per week.
- Overtime was monitored by both the corporate accountants and budget holders using quantitative information

The areas for improvement resulting from the audit were:

- No clear corporate definition for overtime after 36 hours.
- No written procedures on overtime at both corporate and directorate levels.
- Overtime was not always planned.
- Qualitative information on overtime was not produced and reviewed.

HR & Payroll Application Review

Assurance level: Satisfactory

We were pleased to note that control procedures regarding the operation and administration of the core and Self-Service elements of the ResourceLink application were in place. These included:

- Standard processes for authorising HR and Payroll amendments and Self-service Annual Leave and Sickness requests.
- Automated data validation checks within the system, supported by exception report checking and quality assurance checks.
- The use of unique employee numbers, online duplicate error and warning reports which are checked by management.
- Automated audit trail facilities which record the date, time and originator of each transaction and details of the data items concerned before and after any changes made.
- Business Support Managers reviewing personnel changes and overall staffing figures held on ResourceLink at the end of each month.
- Logical access controls, including accounts password and lockout settings.

Improvement was needed in the area of formally documenting internal process for user administration within the ResourceLink core system and Self Service modules.

Carefirst Debtors

Assurance level: Satisfactory

We were pleased to note the following areas were reviewed and found to be operating satisfactorily:

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PART 1 – MEMBERS, PUBLIC & PRESS

- Procedures covering roles and responsibilities of the Income Team;
- Reconciliations were completed and reviewed monthly;

The areas of concern resulting from the audit were;

- Clients were not always invoiced promptly because care plans were not being authorised and uploaded in timely manner;
- Access to reconciliation spread sheets is not restricted;
- Long outstanding unidentified payments (income) were not written off;

Highways Planned Maintenance

Assurance level: Satisfactory

It is pleasing to report that:

- There are long serving experienced members of staff, with good local knowledge, working in both the Street Scene Maintenance and Improvement Projects sections of the highways division.
- During 2009/10, the contractor has demonstrated improvement and shown commitment towards prompt finalisation of accounts, once the work is completed.
- Budgetary Control is satisfactory.

There were no major control weaknesses resulting from this audit, but to enhance good working practices, we have made some recommendations relating to the:

- Finalisation and adoption of Policy & Procedural Guideline documents for the Highways Maintenance Service and raising its awareness amongst staff.
- Bringing forward the approval cycle for schemes to be funded from the budget, with an aim to spread the workload equally throughout the year.

Trees Maintenance

Assurance level: Satisfactory

We were pleased to note:

- controls over complaints are in place
- controls over protected trees are all in place and working effectively
- controls over budgetary control are in place and not a concern

No major control weaknesses were noted. A few minor improvements were suggested

Chrysalis Programme

Assurance Level: Satisfactory

We are pleased to report that:

- All applications were filled out on the correct form and all details requested were included.
- All samples met the criteria set to qualify for funding.
- All projects were formally approved and documented in the minutes of Cabinet Member meetings.

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- The majority of projects were within budget, 1 that was over was only over by £251, which is well within the 10% limit.

The main areas of concern resulting from the audit were:

- When awarding tenders, consideration was not always given to the quality of the work.
- There was no evidence of the post inspection of works completed

Student Awards

Assurance level: Satisfactory

We were pleased to note:

- The controls to ensure applications are processed on time are in place
- The deadlines in place are feasible
- The controls in place to make sure applicants are aware data may be shared are adequate

There were no major control weaknesses resulting from this audit, but to enhance good working practices, we have made some recommendations relating to the:

- Security of applications
- Ensuring all evidence is collected

Schools' Private Funds

Assurance level: Satisfactory

A sample of 14 schools was visited and all received either satisfactory or full assurance. In general, the majority of schools managed the Private Fund as rigorously as the main delegated budget.

- The funds had separate accounts from the delegated budget and reconciliations were carried out on a regular basis.
- Income was banked on a regular basis and staff were aware of VAT implications when transferring money between accounts.
- The funds were covered by insurance.
- The accounts were audited annually by an independent source.

The following areas of concern were found in a small minority of the schools visited:-

- Expenditure was not always related to the educational benefit of the pupils.
- Procedures for managing the fund were either non-existent or needed to be updated.
- Receipts were not always issued for income.
- Reconciliations were not checked and signed by a 2nd officer.

One overriding recommendation was made as a result of this audit, which was the guidance developed by Internal Audit be adopted by all schools.

Primary Sickness Scheme:

Assurance Level: Satisfactory

We are pleased to report that all claims were related to staff that were included in the scheme.

All claims were sent to Schools Personnel by the deadline of 21st of each month after the claim in question. This ensures that all claims are paid promptly and do not become invalid.

All sickness forms had either a doctor's certificate, return to work form or a school's staff return record attached.

The areas of concern resulting from the audit were:

- No requirement for the school to actually incur additional costs before receiving benefits
- No formal approval of the scheme.
- Staff within the same category being covered by different premiums.
- No evidence submitted to support claims for hospital appointments.
- Maternity Notification forms were not being completed.

Grounds Maintenance – Parks and Open Spaces

Assurance level: Satisfactory

We were pleased to note:

- Appropriate internal control systems were in place.
- Processes were efficient and effective.
- Payments to contractor were correct.
- Recharges to Hillingdon Homes Ltd. were correct.

The areas of concern resulting from the audit were:-

- Physical checking of contractor grounds maintenance work by the Green Spaces Team is mainly performed on an "ad-hoc" basis.
- Checking of contractor grounds maintenance work by the Green Spaces Team is not appropriately evidenced.
- Green Spaces Team grounds maintenance procedures and processes were not documented.

Web Security

Assurance level: Satisfactory

- The ICM Content Management System includes a large number (seven) of highest-level super-users. No reliable information on when content authoring accounts should be disabled currently reaches the Web Development Manager, who does not have access to lists of leavers or those changing role at the organisation.
- There are currently two web filtering systems in use, due to complications in the implementation of the new system that is replacing the existing one. The project to fully switch over to a single product is ongoing, but needs to be completed as soon as possible.

Neither of the above are failures in technical controls; rather they are organisational deficiencies that can be rectified by management-level decisions.

Ombudsman Complaints

Assurance level: Full

We are pleased to report that all complaints that were received by the Ombudsman were dealt with efficiently and were resolved to the satisfaction of the Ombudsman.

- All information requested by the Ombudsman was received in good time and enabled a decision to be made.
- All recommendations had been adhered to.

The areas of concern resulting from the audit were:

- The complaints being upheld by the Ombudsman after they had gone through the Council's Complaints Procedure.

Payroll Transformation – Internal Audit worked with HR and Payroll staff to redesign the expenses system, ensuring that there were appropriate controls in place.

Schools' Audits

The table below summarised the school audits finalised in the period.

2009-10	Assurance Level
Schools - Primary	
Bishopshalt	Satisfactory
Field End Junior	Satisfactory
Hayes Primary	Satisfactory
Wood End Primary	Satisfactory
Schools - Secondary	
Haydon	Limited
Harlington	Satisfactory
Guru Nanak	Satisfactory
Mellow Lane	Satisfactory
Rosedale College	Satisfactory
Queensmead	Full

2.1. The following schools have achieved or had reconfirmed Financial Management in Schools Standard. (FMSiS);

Holy Trinity
Bourne Primary

3. Follow up audits

3.1. We continue to make progress in following up and clearing action points from previous audits. Only one school has outstanding recommendations from previous years and this is expected to be cleared by the year end as part of FMSiS .

3.2. Tables below show the results of follow ups for general and schools' audits separately. Implementation rates on follow up were relatively high for general audit

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follow up at around 65% for the more important High and Medium level recommendations.

3.3. Details of audits followed up but where issues remain outstanding are as follows:

Payroll – The outstanding recommendations are in the process of being implemented and are expected to be completed by the end of March 2010.

Finders Fee – the outstanding recommendation is expected to be completed by the end of March 2010.

General Ledger – The two outstanding recommendations were in the process of implementations and are expected to be completed by 31 March 2010.

Pensions Administration – The outstanding recommendations is expected to be completed by 31 March 2010.

BACS – The outstanding recommendation concerns back-ups. IT have prioritised systems for back-up and as this is low risk it has not yet been implement.

Business Continuity – The two outstanding recommendations are in the process of being implemented as part of the wider Emergency planning and Business Continuity Strategy.

Website Content Management – The outstanding recommendation has been partially implemented.

S106 – The outstanding recommendations were in the process of being implemented and are expected to be completed by June 2010.

Data Security – Both outstanding recommendations have been partially completed, one is expected to be finalise by 31 March 2010.

IT Helpdesk – One recommendation has been partly implemented and is expected to be completed in June 2010.

AUDIT TITLE	DATE ISSUED	HIGH	MEDIUM	LOW		IMPLEMENTED	IMPLEMENTED	IMPLEMENTED		Not implemented	Not implemented	Not implemented
						HIGH	MEDIUM	LOW		High	Medium	Low
NNDR - 2008/09 Review	May-09	0	6	5		0	6	5		0	0	0
Learning & Development	Sep-09	1	1			1	1			0	0	0

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AUDIT TITLE	DATE ISSUED				-								
		HIGH	MEDIUM	LOW	IMPLEMENTED HIGH	IMPLEMENTED MEDIUM	IMPLEMENTED LOW	Not implemented High	Not Implemented Medium	Not Implemented Low			
Payroll 2008/09	Aug-09		10	3		7	1		0	3	2		
Finders Fee	Oct-09	4	5	5	4	4	5		0	1	0		
Corporate Governance 2008/09	Jun-09		1			1			0	0	0		
General Ledger 2008/09	Jul-09		2	1		1	1		0	1	0		
Pension Administration 2008/09	Jan-09		1	1			1		0	1	0		
BACS (2nd Follow Up)	Mar-08		4	1		3			0	1	1		
Business Continuity Planning	Jul-08		4			2			0	2	0		
Web Content Management	Apr-08	1	2	1		1			1	1	1		
Section 106 contribution Gain	Jul-09	1	2	2		1	1		1	1	1		
General Creditors	Jan-09	0	6	3		6	3		0	0	0		
Data Security	Mar-09		4	3		2			0	2	3		
IT Helpdesk	Mar-09		1	3			3		0	1	0		
Section106 contribution	Jul-09	1	2						1	2			
Physical & Environmental Security	Mar-09		1	3			2			1	1		
Software & Hardware Asset Management	Dec-07		3	2		2	2		0	1	0		
		8	55	33		5	37	24		3	18	9	
		% Implemented by Risk				63%	67%	73%					
		Overall % Implemented										69%	
		Overall % Not Implemented										31%	
												100%	

3.4. Schools' Follow ups –. There are now no schools with recommendations outstanding from 2007-8 and only one from 2008-9 which is currently being followed up as part of FMSiS. Follow up of 2009-10 recommendations will begin in May.

	Audit Recommendations			Status after follow ups in Sept to Nov 09		
	High	Medium	Low	High	Medium	Low
2007/08 audits						
Lady Banks Junior	4			0	0	0
2008/09 audits						
St Bernadette's	18	1	0	0	0	0
Moorecroft	8	1	0	0	0	0

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	Audit Recommendations			Status after follow ups in Sept to Nov 09		
	High	Medium	Low	High	Medium	Low
2007/08 audits						
Totals						

4. Advice Guidance and Consultancy

4.1. As a result of the audit of Schools Private Funds, Internal Audit developed a guidance note on the management of these monies. This will be issued by the Director of Education to all schools.

5. Anti Fraud Work

5.1. We continue to carry out probity checks in a number of areas.

5.2. Additional Fraud Awareness sessions for managers took place in February and more are scheduled for March..

5.3. We have continued to co-ordinate the responses to the National Fraud Initiative.

5.4. Any confidential investigations are separately reported in part 2.

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
CROSS CUTTING CORPORATE ISSUES							
Budgetary control	Draft						
Hillingdon First Card	In Progress						
Taxes Management Act	Finalised	17/12/09	Not Applicable				
NFI	Ongoing						
Anti Fraud Promotion	Ongoing						
Anti Fraud Proactive Detection	Ongoing						
Fraud/Irregularity Investigations	Ongoing						
Corporate Working Parties	Ongoing						
Annual Governance Statement - Audit	Finalised	7/5/09	Not Applicable				
Annual Governance Statement - Input	Ongoing						
Consultancy Advice and Information (Ad hoc)	Ongoing						
Corporate Governance	Finalised	9/7/09	Satisfactory		0	1	3
Oyster Cards - Corporate Usage							
Purchase Cards - Corporate Usage	In Progress						
Local Strategic Partnership	Draft						
Performance Management	In progress						
Mobile Phone use and control							
Flexi Leave - Monitoring, Approval and Control	Planning						
DEPUTY CHIEF EXECUTIVE/FINANCE & RESOURCES							
Chrysalis	Finalised	11/02/10	Satisfactory		2	2	1
HR Payroll changes and trigger dates							
Central Support, Finance & Procurement							
Payroll	In progress						

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
Teachers Payroll - Starters, Leavers, changes	Finalised	7/8/2009			4	3	0
Council Tax - Scanning and Indexing Project							
Corporate Property							
Facilities Management Contract	Deleted						
Estate and Valuation Service	In progress						
Utilities Contracts Gas & Electricity	Draft Issued						
Utilities Contracts Electricity	Combined	Not applicable					
Utilities Contracts Water	In progress						
Legal							
LEXEL - General Management of Legal Services	Deleted.						
Ombudsman Complaints	Finalised	14/01/2010	Full		0	1	1
Freedom of Information /Data Protection	Planning						
Complaints Against Members	Finalised	23/11/09	Full		0	0	2
AXXIA System	In progress						
Debt Recovery Processes	In progress						
Major Construction Projects							
Contracts - Pre Tender	Finalised	30/10/09	Satisfactory		2	3	2
Contracts - Current	In progress						
Contracts - Final Accounts							
Procurement							
Due North System	Finalised	13/10/09	Satisfactory		2	4	
Contract Register and Rationalisation	In progress						
Compliance with Tender Strategy	Deleted						

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
Personnel							
Establishment Control							
Agency & Interim Assignment Approvals							
Employability Status - Permanent and Temporary Eligibility							
Payment of Sick Pay (compliance with policy)	Finalised	5/10/09	Full		0	0	0
Overtime Payments	Finalised	11/01/10	Satisfactory		1	3	
On-line sickness reporting	Delete						
ENVIRONMENT & CONSUMER PROTECTION							
Business Continuity	Q4						
Grounds Maintenance Contracts - Parks and Open spaces	Final	23/2/10	Satisfactory		0	4	0
Trees Maintenance	Finalised	6/1/10	Satisfactory		0	0	3
Highways Reactive Maintenance	In progress						
Highways Planned Maintenance	Finalised	26/01/10	Satisfactory		0	4	0
Parking Management Schemes - Authorisation and Control of	Planning						
Breakspear Crematorium	Planning						
Trading Standards	Finalised	16/11/09	Satisfactory		0	3	2
Domestic Waste Collection & Disposal	Planning						
PLANNING AND COMMUNITY SERVICES							
Planning							
Major Applications	In Progress						
Building Control	Drafting rep.						
Transportation & Spacial Development							

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
Land Charges	Drafting						
Cultural Services							
Leisure							
Fusion Contract (Hillingdon Athletic Stadium)	Deleted						
Adult Education							
Adult Education							
Community Safety							
Community Safety	Finalised	29/10/09	Satisfactory			1	
Lottery Funded Projects (Probity)	In progress						
CHILDREN'S SERVICES							
Nursery Education - Private Provision							
Pupil Transport	Deleted						
School Meals Service - Central LEA Contract	Combined						
School Meals Service - Individual school contracts	In progress						
Student Awards	Finalised	29/1/10	Satisfactory		1	2	1
Diabetes Management in Schools	Finalised	22/6/09	Satisfactory		0	0	0
Asylum Accommodation	In Progress						
Asylum Finance	In Progress						
Placement Team	Deleted		Not Applicable				
Target Youth Support	Q4						
Schools - Primary							
Belmore Primary	Finalised	16/11/09	Satisfactory		2	8	3
Charville Primary	Finalised	16/11/09	Satisfactory		3	4	2
Cherry Lane Primary							
Colham Man Primary	Finalised	1/10/09	Limited		4	7	2

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
Cranford Park Primary	Finalised	5/11/09	Satisfactory		1	3	3
Field End Junior	Finalised	2/12/09	Satisfactory		2	5	2
Harlyn Primary							
Hayes Park Primary	Finalised	11/2/10	Satisfactory		1	2	0
Hillingdon Primary	Draft						
Hillside Junior	Draft						
Pinkwell Primary							
William Byrd Primary							
Wood End Primary	Finalised	11/2/10	Satisfactory		1	7	4
Schools - Secondary							
Abbotsfield	Finalised						
Barnhill Community High	Limited	9/10/09	Limited		7	6	4
Bishop Ramsey	Finalised	15/10/09	Satisfactory		1	3	1
Bishopshalt	Finalised	2/2/10	Satisfactory		3	7	5
The Douay Martyrs	Finalised	23/11/09	Satisfactory		3	3	3
Guru Nanak Secondary	Finalised	4/12/09	Satisfactory		2	5	2
Harlington Community	Finalised	2/2/10	Satisfactory		0	6	3
Haydon	Finalised	2/2/10	Limited		7	4	0
Mellow Lane	Finalised	27/11/09	Satisfactory		2	5	3
Northwood	Finalised	6/7/09	No Assurance		15	11	3
Queensmead	Finalised	17/12/09	Full		0	0	5
Rosedale College	Finalised	11/2/10	Satisfactory		1	2	0
Swakeleys	Deleted						
Uxbridge High	Draft						
Vyners	In progress						
Ruislip High Secondary School							

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
Other School Related							
Primary Sickness Scheme	Finalised	29/01/2010	Satisfactory		3	6	1
FMSiS Certification	In progress						
Hillingdon Grid for Learning	Finalised	2/12/09	No Assurance		4	4	0
Schools Private Funds	Finalised	12/2/09	Satisfactory		1	0	0
ASCHH							
Finance systems							
Protocol Creditors (ASCHH)	Deleted						
Carefirst Creditors (Part year Adult Services)	In Progress						
Carefirst Debtors	Finalised	12/2/10	Satisfactory		1	2	1
Protocol Debtors	Deleted						
Supporting People Grant Certification	Finalised.	5/6/099	Full		0	1	2
Housing							
Council HRA	In progress						
Finders Fee	Finalised	29/10/09	Satisfactory		0	1	0
Private Sector Leasing	In progress						
Temporary Accommodation (formerly B&B)	planning						
Hillingdon Homes Contract Arrangements	Deleted	-	Not Applicable				
Housing Benefit Subsidy	Finalised	28/10/09	Full		0	2	0
Older People's Care							
Homecare In-House Provision	In progress						

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
Learning Disabilities							
Sec 75 Agreement (Funding of LD Services)	Fieldwork						
Mental Health Service							
Mental Health Service	planning						
Contingency							
Payroll Transformation	Finalised	9/12/09	Not Applicable				
Children's Fund Payments to CU	Draft						
Investigation 15	Finalised	1/9/09	Not Applicable				
Investigation 17	ongoing						
Investigation 18	Finalised	30/6/09	Not applicable				
Investigation 19	Finalised	11/12/09	Not applicable				
Investigation 20	Finalised	27/8/09	Not applicable				
Investigation 21	Finalised	16/12/09	Not applicable				
Investigation 22	Finalised	22/10/09	Not applicable				
Investigation 23	ongoing						
Investigation 24	Ongoing						
Investigation 25	Ongoing						
Investigation 26	Ongoing						
Investigation 27	Ongoing						
Purchase Cards Probitry Checks	Finalised	26/8/09	Not Applicable				
Members Allowances/Expenses	Finalised	6/11/09	Full				
Transforming Social Care (project team participation)	In Progress						
Housing Benefit Compliance testing	Q4						

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
ICT Contracted Days							
IT Risk Management	In progress						
Restructuring of ICT	Finalised	30/6/09	Satisfactory			4	1
IT Disaster Recovery	Draft						
CRM Application	Finalised	24/12/09	Limited		0	4	1
Environmental Services Application	Finalised	1/9/09	Limited		1	7	2
HR & Payroll System	Finalised	18/01/10	Satisfactory			2	1
Oracle Financials	In progress					2	1
Desk Top Technologies	Deleted						
Data Matching	Finalised		Not Applicable				
Audit Needs Assessment	Finalised		Not applicable				
Follow up reviews carried out in 08/09							
E-Payments Project	Deleted						
Remote Access	Finalised	29/7/09	Satisfactory		0	3	0
Telephone Systems	Fieldwork	21/10/09	Satisfactory		0	0	3
Hillingdon Grid for Learning - Security	Finalised	2/12/09	No Assurance		2	5	1

Internal Audit Plan 2008-9 Progress

Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
COUNCIL-WIDE ISSUES							
Corporate Governance	Finalised	03/06/09	Satisfactory	Feb 10	0	0	0
Property Databases	Finalised	07/01/09	Satisfactory	Dec 09 revised June 10	1	2	2
Use of shared Oyster cards	Finalised	31/8/09	Limited		5	2	0
FINANCE & RESOURCES							
National Non-Domestic Rates	Finalised	27/05/09	Satisfactory	Feb 10	-	0	0
Council Tax	Finalised	07/11/08	Satisfactory	May 09	-	1	-
Payroll	Finalised	06/08/09	Satisfactory	Feb 10	-	3	2
Creditors - Misc	Finalised	27/01/09	Satisfactory	Jan 10	-	0	0
General Ledger	Finalised	17/06/09	Satisfactory	Feb 10 revised dates March 10	-	1	1
Payroll Expenses Procedures	Finalised	23/12/08	Limited		8	4	2
Pensions Admin	Finalised	07/01/09	Satisfactory	Feb 10 revised date March 2010	0	1	0
Commercial Properties	Finalised	11/09/08	Satisfactory	Sept 09 revised date March 2010	-	2	-
ENVIRONMENT & CONSUMER PROTECTION							
Parking Services	Completed	20/09/08	Satisfactory	Sept 09 revised date Feb 2010	0	1	0
Domestic Refuse Collection & disposal	Finalised	30/07/08	Satisfactory	Sept 09 revised date Feb 2010	0	1	0
Exor System	Finalised	03/10/08	Satisfactory		-	2	-
Business Continuity & Emergency Planning	Finalised	08/06/09	Limited	Revised dates Dec	6	3	1

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Internal Audit Plan 2008-9 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
				09			
PLANNING & COMMUNITY SERVICES							
S106 Planning Gain	Finalised	15/06/09	Satisfactory	Jan 10 revised date June 10	1	1	1
Adult Education	Finalised	16/07/09	Limited		5	6	10
Schools Audits							
St Bernadette's RC	Finalised	18/03/09	Limited	Jan 2010	0	0	0
Moorcroft	Finalised	31/03/09	Satisfactory	Dec 2010	0	0	0
Willows	Finalised	29/04/09	Limited	Part of the FMSiS	8	0	0
IT Audits							
Third Party Service Management (Northgate)	Finalised	19/01/09	Satisfactory		0	4	1
Web Security	Draft issued						
Application Security (SCUBA system)	Finalised	04/03/09	Limited			5	2
IT physical and environmental security	Finalised	25/03/09	Satisfactory	Followed up Feb 2010		1	1
Helpdesk Application	Finalised	05/03/09	Satisfactory	Followed up Feb 2010	0	1	1
Housing & CT (Northgate) application review	Finalised	25/03/09	Satisfactory			4	1
Ocella application review	Draft issued						
IT Data Security and Transfer (from Contingency)	Finalised	26/03/09	Limited			4	3
Email Security and Management	Finalised	27/05/09	Limited			4	3
Oracle Financials Upgrade	Finalised	03/03/09	Satisfactory			3	1

		✓ for Finalised/Satisfactory/Full				
		⇒ for in progress				
		⇩ for Limited				
PLAN 2007-8			Number of outstanding recommendations			Comments
Audit Title	Status	Assurance Level	High	Med	Low	
DEPUTY CHIEF EXECUTIVES						
Learning and Development funding	✓	✓	0	0	0	Followed up Feb 2010
ADULT SOCIAL CARE, HEALTH & HOUSING						
Private Sector Leasing	✓	✓	1	1	1	Following up as part of the audit Feb 2010
Homecare - All clients	✓	✓	1	0	0	Followed up Nov 09 – Target date 10/11
EDUCATION & CHILDREN'S SERVICES						
Children's services						
Direct payment for disabled children	✓	✓	0	2	0	Followed up Nov 09
Schools - Primary						
Lady Bankes Junior*	✓	✓	0	0	0	
Schools - Other						
Music Service	✓	✓	1	1	0	Followed up Nov 09
FINANCE & RESOURCES						
Pensions Assets	✓	✓	0	1	0	Followed up Nov 09 – Revised target date Mar 2010
ICT						

		✓ for Finalised/Satisfactory/Full				
		⇒ for in progress				
		⇩ for Limited				
PLAN 2007-8			Number of outstanding recommendations			Comments
Audit Title	Status	Assurance Level	High	Med	Low	
Asset Management/ Software and Hardware Management	✓	✓	0	1	0	Followed up Feb 2010 revised date Aug 2010
Network Security	✓	✓	0	2	0	Followed up March 09
BACS Payments Application	✓	✓	0	1	0	Second followed up Jan 2010 one rec superseded and one ongoing.
Website Content Management System	✓	✓	0	1	0	Followed up Jan 2010 one rec ongoing
Business Continuity Management	✓	✓	0	2	0	Followed up Jan 2010 two rec ongoing
Procurement/AP	✓	✓	0	4	2	
ENVIRONMENT & CONSUMER PROTECTION						
Exor System (IT) - review of concept	✓	✓	0	2	0	Followed up with Oct 08 audit
Contingency						
Securicor collection	✓		3	0	0	Followed up Nov 2009

Internal Audit Strategy

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REASON FOR ITEM

The code of Practice for Internal Audit in Local Government requires the Head of Internal Audit to produce an Audit Strategy and Annual Plan and to ensure that the Audit Committee receives understands and approves it.

This report sets out the strategy for delivery and development of the Internal Audit Service 2010-11 and the associated Internal Audit plan. It details how the service will be delivered, the assurance that it will provide and how the Head of Audit will contribute to corporate governance arrangements, risk management processes and key internal control systems

The Internal Audit Strategy provides assurance for the Annual Governance Statement by stating how it will contribute to the review of corporate governance and risk management arrangements and how assurance will be provided on the operation of the key internal control systems.

Internal control forms part of the judgement on use of resource in the CAA Key Lines of Enquiry and needs to meet increasingly challenging tests. Failure to set a strategy or provide appropriate assurance on controls could adversely affect the council's CAA score.

OPTIONS AVAILABLE TO THE COMMITTEE

The audit committee should review and approve the audit strategy.

INFORMATION

1. INTERNAL AUDIT STRATEGY 2010-11

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

2. OBJECTIVES AND OUTCOMES

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

2.2. Auditing standards recognise that its remit extends to the whole control environment of the organisation, including the systems of governance, risk management and internal control. A fuller expansion of this definition and the roles and responsibilities of

Hillingdon Internal Audit is contained in the Terms of Reference for the service, which is available on the website.

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

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

3. EVIDENCE FOR THE OPINION

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

3.2. As the services the council delivers or the methods of delivery are changed, the Audit universe is continually revised and re-risked to ensure it keeps pace with emerging challenges. Risk is therefore reconsideration at the beginning of each year and a new Annual Operational Plan is based on a revised universe and risk assessment.

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

3.4. The strategic plan is therefore a rolling plan, which determines the audits for the forthcoming year in an Annual Operational Plan. An element of contingency is budgeted in the plan so that in-year urgent issues can be dealt with as they arise.

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

4. IDENTIFYING AND ADDRESSING SIGNIFICANT LOCAL AND NATIONAL ISSUES

4.1. Internal Audit meets regularly with Directors and Managers within the council to discuss emerging issues and changing priorities both locally and nationally and any relevant issue are incorporated into the audit universe and risked in the normal way. The team also scan professional journals, news media, web-based professional discussion groups and other on-line media to keep up to date with the wider audit and local government environment.

5. HOW THE SERVICE WILL BE PROVIDED

5.1. The in-house team will carry out most audits, the exception being the audit of IT systems. Some IT audit requires very technical skills which are very much in demand in the wider audit sector. It has not been possible in the past to recruit and retain this expertise in-house. However following a review of our needs I have taken the opportunity of contract renewal to reduce the number of IT days bought in to 50, from the previous 125. The in-house team will now carry out some routine checks, such as password controls, as part of the general audit. Bought-in skills will be confined to very technical issues and the Head of IT has been consulted and supports this approach.

5.2. At the time of writing, the contract had been tendered in line with the council's procedures and the appointment of a successful contractor was expected to be achievable before the start of the new financial year.

5.3. At the beginning of 2009-10 the audit of schools was brought in-house. This has allowed delivery of a service which not only provides audit to schools but also adds value by providing advice, guidance and a regular newsletter. We have worked closely with Schools finance, HR and Governors' Services to provide support to schools that reflects a more coherent approach. Certification of FMSiS (Financial Management Standard in Schools) is provided to schools at marginal cost to them and provides the added advantage of reducing the documentation they need to duplicate for audit and FMSiS purposes. This integrated approach to schools audit and advice will continue and be developed further in 2010-11.

5.4. Anti-fraud awareness training and proactive detection will continue to be delivered by the Audit team as will preliminary investigation of suspected or alleged fraud and corruption. We will continue to work closely with the Housing Benefit Fraud Team and Legal Services to take forward prosecutions.

5.5. The team has been fully staffed since January 2010 and the complement is 11.6 FTE, including the Head of Audit.

6. RESOURCES AND SKILLS REQUIRED TO DELIVER THE STRATEGY

6.1. The in-house team has a wide pool of skills and experience and we encourage staff to further their professional training. The Head of Audit and one Audit manager are professionally qualified CIPFA accountants, one Audit Manager is MIIA (Institute of Internal Auditors) qualified, providing a wide range of technical skills at manager level.

During the year the opportunity was taken to reshape the audit team by replacing vacant Senior Auditor posts with high quality graduates, training costs being met from salary savings. These trainees will study for the IIA qualification and will start college in October 2010. I expect one AAT trainee to qualify and join the IIA course too. While the training commitment for the team will be high, especially in the latter half of the financial year, the reshaped team is in keeping with the Council's strategy of nurturing its own talent and succession planning.

The skills in the rest of the team are as follows:

Qualified Accountants	3
Association of Accounting Technicians Studying	2
Graduate Trainee Auditors	2
Qualified by experience	2

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

BACKGROUND PAPERS

Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Internal Audit Operational Plan 2010-11

Contact Officer: Helen Taylor
Telephone: 01895 556132

REASON FOR ITEM

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government requires the Head of Audit to produce a risk based plan, which is fixed for no longer than a year and is designed to implement the Audit Strategy. The Audit Committee should approve but not direct this plan.

OPTIONS AVAILABLE TO THE COMMITTEE

To approve and comment on the operational plan for 2010-11

INFORMATION

1. Development of the Internal Audit Operational Plan 2010-11

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

1.2. In addition to proactive anti-fraud awareness and detection initiatives, Internal Audit is required to investigate specific areas of concern or irregularity as and when they arise. Allowances for all areas of anti-fraud have been included within the plan.

1.3. Work is planned for the year, but changes in service delivery during the year or newly emerging risks means that there will be occasions when audits need to be added or deleted. In this respect the 2010-11 planning year is likely to present a greater challenge than usual for three main reasons;

- The Business Improvement Delivery (BID) process, in challenging the delivery of services, may lead to fundamental changes in the structure of service delivery across the council.
- Housing Management will be brought back into the council.
- The General Election, whether or not there is a change in Administration, is likely to lead to central government policy changes which will impact on local councils.

1.4. At the time of planning it is impossible to predict the likely changes resulting from BID. The only thing that is certain is that there will be change. The Internal Audit of Hillingdon Homes is currently provided by an external provider but there may be elements of reintegration that need to be considered by the council. Ultimately I anticipate incorporating the audit of Hillingdon Homes within the council plan but at this

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stage the effect on the 2010-11 plan is uncertain. Central Government policy changes are more likely if there is a change of Administration but it is not possible to predict the effect this will have on local government in year. For all these reasons I am anticipating that there will be more changes than usual to the plan in-year. These will be brought to the Audit Committee at the regular update meetings.

1.5. To allow flexibility, I have maintained the contingency allowance at approximately 10% of chargeable days. This should allow the service to respond to changes while allowing the delivery of the planned work.

1.6. The appointment of the specialist ICT audit following retender awaits member approval. Although preliminary discussions have been held with the Head of ICT to discuss broad areas of audit, the detail will be discussed with the successful provider. I will therefore bring the detailed ICT audit plan to the June Audit Committee.

1.7. Table 1 identifies the internal resources available for 2010-11, based on all positions being filled on 1 April 2010. Productive days are calculated by deducting annual and other leave and a sickness allowance (set at the corporate target) from the total available days. The total of 2482 is then adjusted for controllable time such as training, planning, reporting and management time to arrive at days directly available for specific audits.

1.8. In addition to the in-house days, 50 days of IT audit will be available from the specialist provider.

Table 1 – Utilisation of Productive days In-house

Productive Days Available	2,482	100%
Less		
Controllable overheads e.g. risk assessment, planning, management time, service development and training.*	748	30%
Chargeable days	1,734	70%

* Four members of staff are being supported with professional training. One member of staff is studying Institute of Leadership and Management.

1.9. Table 2 is the list of identified audits for 2010-11 including the expected number of days for each. Some activity does not necessarily generate a report with recommendations, for example anti-fraud training, which forms part of the anti-fraud strategy or providing information for other regulators in pursuit of their fraud work, e.g. some NFI activity. I have therefore indicated what I anticipate the outcome of each piece of work to be by assigning them a category. The categories are as follows;

- RR – Standard report with recommendations.
- TPA – Third party assurance – e.g. Assurance provided for other regulators or bodies.
- INV – Investigation work. Outcomes will be reported but not necessarily with recommendations.
- PRO – Proactive work or promotion of good practice.

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

Table 2 Identified audits 2010-11

Audit Title	Expected Number of Days	Report Type
CROSS CUTTING CORPORATE ISSUES		
Anti Fraud and Investigation		
Taxes Management Act	10	TPA
National Fraud Initiative (NFI)	25	TPA/INV
Anti Fraud Promotion	40	PRO
Fraud/Irregularity Investigations	80	INV
Planned proactive (see table 3)	70	INV
Other Cross-Cutting		
Annual Governance Statement - Audit	12	RR
Annual Governance Statement - Input	5	ADV
Advice and Information (Ad hoc)	50	ADV
Consultancy Advice - Specific Projects	20	ADV
Carbon Reduction Strategy	25	RR
IT Policy Compliance	5	RR
Records Management	20	RR
Healthy Hillingdon	15	RR
Compliance with driving policy	10	RR
MISCELLANEOUS AUDIT TASKS		
Follow ups	70	RR
Brought forward Audits	40	RR
FINANCE & RESOURCES		
Risk Management	5	RR
Debtors	25	RR
Debtors - ASC Protocol	5	RR
CT/NNDR - Contractor visit	10	RR
CT/NNDR - System	20	RR
LG Pension Scheme - Governance	10	RR
Online Payment Management Project	5	RR
Creditors	15	RR
Creditors - Protocol	15	RR
General Ledger	15	RR
Blue Badges	10	RR
DCEO		
Risk Management	5	RR
Payroll - Starter & Leaver testing	5	RR
Performance Reward Grant (LAA)	5	TPA
Economic Development	10	RR
Grants to Voluntary Organisations	10	RR

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Audit Title	Expected Number of Days	Report Type
Learning & Development	15	RR
Establishment control and authorisation	15	RR
EDUCATION & CHILDREN'S SERVICES		
Risk Management	5	RR
Schools - Primary		
Cowley St Laurence	4	RR
Harefield Infants	4	RR
Cherry Lane Primary	4	RR
Glebe Primary	4	RR
Coteford Infants	4	RR
Botwell House	4	RR
Breakspear Junior	4	RR
Dr Triplets CE	4	RR
Field End Infants	4	RR
St Catherine's RC Primary	4	RR
Oak Farm Infants	4	RR
Highfield Primary	4	RR
Rabbsfarm Primary	4	RR
West Drayton Primary	4	RR
Guru Nanak Sikh Primary	4	RR
Lady Bankes Junior	4	RR
St Andrew's CE Primary	4	RR
Brookside Primary	4	RR
Warrender Primary	4	RR
Harefield Junior	4	RR
Longmead Primary	4	RR
Whiteheath Junior	4	RR
Heathrow Primary	4	RR
Lady Bankes Infants	4	RR
Minet Junior School	4	RR
Oak Farm Junior	4	RR
Newnham Infants	4	RR
Grange Park Junior	4	RR
Sacred Heart RC	4	RR
Belmore Primary	4	RR
Charville Primary	4	RR
Field End Junior	4	RR
Harlyn Primary	4	RR
Hillside Junior	4	RR
Wood End Park Primary	4	RR
Secondary		
Swakeleys	7	RR

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Audit Title	Expected Number of Days	Report Type
Special		
Chantry School	4	RR
Grangewood School	4	RR
Other School Related		
FMSIS Certification	40	TPA
School Liaison/Newsletter/briefings	15	PRO
BS21	30	RR
Pupil Transport	25	RR
Education - Looked After Children	10	RR
Section 52	10	RR
Overpayments	10	RR
CHILDREN'S SERVICES		
Contact Point	10	RR
Child Protection and Reviewing	15	RR
Referral, Assessment	15	RR
Placement	10	RR
Research and Statistics	15	RR
Target Youth Support	15	RR
Children's centre's	15	RR
Extended Schools	15	RR
EMAS	10	RR
Youth Offending Service	15	RR
ADULT SOCIAL CARE HEALTH & HOUSING		
Risk Management	5	RR
Community Transport	15	RR
Equipment and adaptations (All client groups)	15	RR
Financial Assessments	15	RR
Self Directed Support	20	RR
Housing		
Hillingdon Homes Dissolution	15	RR
Supporting People	15	RR
Housing & Council Tax Benefit	20	RR
Private Sector Renewal & Disability Grant	15	TPA
Older People's Care		
Homecare - Contract Provision	15	RR
Residential Block Contracts	15	RR
Residential Spot Contracts	15	RR
Residential to Independent living	10	RR
People with Physical and Sensory Disability		

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Audit Title	Expected Number of Days	Report Type
Children with Disabilities - Transition	10	RR
Stroke Care Grant	5	TPA
Other Adult Services		
Safeguarding Adults	15	RR
ENVIRONMENT AND CONSUMER PROTECTION		
Risk Management	5	RR
Street Cleaning	15	RR
Improvement Projects	20	RR
Parking Cash Collection	15	RR
Parking Permits (Residents, Visitors & Brown Badges)	10	RR
Stray Dog Service	10	RR
Abandoned & Untaxed Vehicles	5	RR
PLANNING AND COMMUNITY SERVICES		
Risk Management	5	RR
Major Construction Projects		
Individual Project Management x 2	20	RR
Property		
Civic Centre Security contract	10	RR
Civic Centre Mechanical and Electrical contract	10	RR
Facilities Management Contract	15	RR
Utilities - Water	5	RR
Arts, Culture, Libraries & Adult Education		
Adult Education	15	RR
Culture and Arts Strategy	10	RR
Sport and Leisure		
Fusion Management Contract	15	RR
Leisure Facilities Management Contract	15	RR
Contingency	182	
TOTAL IN-HOUSE DAYS	<u>1,734</u>	
ICT audit contract	50	
TOTAL ALL DAYS	<u>1,784</u>	

1.10. Table 3 is the activities I expect to undertake as part of pro-active anti-fraud detection with an indication of the risks to be addressed. The compliance nature of these audits means they may not always result in a report with recommendations, unless a universal issue is identified.

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Table 3 Pro-Active Anti-Fraud

DESCRIPTION	DAYS	RISKS/POSSIBLE LOSSES
Payroll		
Increases in pay rate	10	Unauthorised/inappropriate increases in pay
Agency Staff	10	Payments for hours/shifts in excess of approved use. Rates exceeded. Continued employment not challenged.
Consultancy Staff	10	Appointment unauthorised. Delivery not monitored.
Human Resources		
CRB checks and re-checks	5	CRB checks are not performed pre-appointment or no re-checks after 3 years.
Travel and Subsistence		
Subsistence	10	Non-compliance with Claiming Expenses Policy
Pooled car usage	5	Unauthorised/inappropriate use.
Pensions		
Pensioners Abroad - Life Certificates	5	Pension continues after death
Payments/Creditors		
Creditors	5	Collusion involving employees
Council Tax		
Council Tax Student Exemptions	5	Student exemption entitlement not verified / student expiry date not recorded on system
Parking		
Vehicle Drives Away VDA cancellations	5	Unjustified cancellation
Total	70	
Annual Plan Total	70	

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INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Contact: Nancy Leroux
Telephone: 01895 250353

REASON FOR REPORT

As reported previously, from 2010/11, Local Authorities' Statement of Accounts will be required to be prepared under an IFRS-based Code of practice on Local Authority Accounting. As the body charged with governance of the authority's Statement of Accounts, it is relevant that the detail of the project plan to implement the transition is reported to Audit Committee and that Committee are regularly updated with progress reports.

INFORMATION

The transition to IFRS is a challenge to the whole organisation and should not be underestimated. IFRS is not just about financial reporting, it also impacts on resources, budgets and systems and processes.

Timetable

Local authorities will be required to produce their accounts fully on an IFRS basis for the year 2010/11. However, to be ready for full implementation, we will have to produce the accounts for 2009/10 on an IFRS basis to provide comparator figures and additionally restate the closing Balance Sheet for 2008/09 to provide the opening figures for the 2009/10 accounts.

Progress Update

Over the last 3 months, work has continued on the key areas of impact as follows:

- Leases: All leases have been reviewed, and identified for reclassification as required.
- Group Accounts: The organisation's relationships have been examined for materiality and for the potentiality of group accounts. There are no changes to be made in this regard under IFRS.
- Restatement of Balance Sheet: Work to restate the Balance Sheet for 2008/09 under IFRS has now been completed.

Audit Commission Report: Countdown to IFRS

On 19 February 2010, the Audit Commission published a briefing for local authorities following a survey of the auditors of all local authorities in November 2009 on authorities' progress on their transition to IFRS.

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Their main findings were that only one in seven authorities was 'on track', and one in five was having serious difficulties. Authorities were also found to be behind the suggested timeline in CIPFA's LAAP Bulletin 80.

However, as reported regularly to Audit Committee, Hillingdon has a well developed project plan and implementation is on track and no serious difficulties are envisaged. Our external auditor, Deloitte, have confirmed this is the position.

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2010-11 TO 2012-13

Contact Officer: Nancy Leroux
Telephone: 01895 250353

SUMMARY

The Annual Treasury Management Strategy is agreed by Council as part of Budget setting each February. The strategy is now being brought to Audit Committee in order to allow greater scrutiny of the strategy. Whilst responsibility for daily decisions is delegated to the Director of Finance and Resources, any changes to the strategy during the year will be reported to audit committee with an explanation of the need for those changes.

RECOMMENDATIONS

That the contents of the report are noted.

INFORMATION

Treasury Management Strategy

1. The treasury management strategy is reviewed annually and the attached strategy was agreed by Council on 25th February 2009. Under delegated authority, the Director of Finance & Resources has the authority to take all executive decisions in relation to daily treasury management.
2. The strategy for 2010/11 has been written with the assistance of Arlingclose, the Council's Treasury Advisors and the strategy has been developed to increase the range of permitted investment vehicles, to allow a greater diversity of investments, whilst maintaining a high degree of caution. The intention is to maintain a broadly risk averse approach, whilst being able to seek as good a yield as possible within the security restrictions.
3. Throughout each year the specific investment guidelines in relation to additions and removals to the counterparty list and to the time and value limits of investments are kept under continual review and changes are agreed by the Director of Finance & Resources under his delegated authority.

**Treasury Management Strategy Statement,
Annual Investment Strategy and Minimum Revenue Provision Statement
2010/11 to 2012/13**

Contents

1. Background
2. Balance Sheet and Treasury Position
3. Outlook for Interest Rates
4. Borrowing Requirement and Strategy
5. Debt Rescheduling
6. Investment Policy and Strategy – Annual Investment Strategy
7. Balanced Budget Requirement
8. Minimum Revenue Provision Statement
9. Reporting
10. Other Items

Annexes

- A. Current and Projected Portfolio Position
- B. Prudential Indicators
- C. Interest Rate Outlook provided by Arlingclose Ltd
- D. Specified Investments for use by the Council
- E. Non - Specified Investments for use by the Council

1. Background

- 1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires local authorities to determine the Treasury Management Strategy Statement (TMSS). This statement also incorporates the Annual Investment Strategy. Together, these cover the financing and investment strategy for the forthcoming financial year.

In response to the financial crisis in 2008 and the collapse of the Icelandic banks, CIPFA revised the TM Code and Guidance Notes as well as the Prudential Indicators in late November 2009. Communities and Local Government (CLG) is also in the process of revising and updating the Investment Guidance. The required changes have been incorporated into this Strategy on the assumption that the changed code in Appendix 10 is formally adopted.

- 1.2 CIPFA has defined Treasury Management as:

"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

- 1.3 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:

- Credit and Counterparty Risk (Security of Investments)
- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk
- Fraud & Corruption

- 1.4 The strategy also takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position (Appendix A), the Prudential Indicators (Appendix B) and the outlook for interest rates (Appendix C).

- 1.5 The purpose of this Treasury Management Strategy Statement is to approve:
- Treasury Management Strategy for 2010-11 (Borrowing - Section 4, Debt Rescheduling - Section 5, Investments - Section 6)
 - Prudential Indicators – Appendix B (NB - PI No. 6 - The Authorised Limit is a statutory limit)
 - MRP Statement – Section 8
 - Use of Specified and Non-Specified Investments – Appendices D & E

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2. Balance Sheet and Treasury Position

- 2.1 The underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) together with Balances and Reserves are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are set out below:

	31 Mar 10 Estimate £m	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m
CFR	221.7	249.5	279.0	290.0
Balances & Reserves	32.6	30.9	30.7	30.6
Net Balance Sheet Position	189.1	218.6	248.3	259.4

- 2.2 The Council's level of debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.
- 2.3 As the CFR represents the level of borrowing for capital purposes and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements. It is permissible under the Prudential Code to borrow in advance of need up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place the cash will form part of its invested sums until the related capital expenditure is incurred. This being the case net borrowing should not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years other than in the short term due to cash flow requirements. The draft revisions to the CLG's Investment Guidance recommend that the Strategy should state the authority's policies on investing money borrowed in advance of need.
- 2.4 The move to International Financial Reporting Standards (IFRS) has implications for the Capital Financing Requirement components of the Balance Sheet. The Council's Private Finance Initiative (PFI) scheme is already included within the Balance Sheet. Operating leases have been reclassified and will result in the related long term assets and liabilities being brought onto the Balance Sheet. The estimates for the CFR and Long Term Liabilities have been adjusted to take into the addition of Operating leases. This will influence the determination of the Council's Affordable Borrowing Limit and Operational Boundary.
- 2.5 The CLG has recently consulted on proposals to reform the council housing subsidy system. The proposed Self-financing option would require a one-off reallocation of

housing debt. The estimates set out in Prudential Indicators 6 and 7 of this strategy allow for any potential debt transfer which may arise in the future. Until such time as the transfer may occur the Operational and Authorised limits applicable will be those excluding the Self-financing allowance.

- 2.6 The estimate for interest payments in 2010/11 is £6.6 million and for interest receipts is £150k.

3. Outlook for Interest Rates

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix C. Financial markets remain reasonably volatile as the structural changes necessary within economies and the banking system evolve. This volatility provides opportunities for active treasury management. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

4. Borrowing Requirement and Strategy

- 4.1 The Council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR) – see Appendix B. The CFR represents the cumulative capital expenditure of the local authority that has not been financed. To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget each year.
- 4.2 Capital expenditure not financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR (the underlying need to borrow). In turn this will produce an increased requirement to charge MRP in the Revenue Account.
- 4.3 External borrowing may be greater or less than the CFR. However, in accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

- 4.4 The cumulative estimate of the maximum long-term borrowing requirement is estimated by comparing the projected CFR with the profile of the current portfolio of external debt and long term liabilities over the same financial horizon, as follows:

	31/03/2010 Estimate £m	31/03/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m
Capital Financing Requirement	221.7	249.5	279.0	290.0
Less: Existing Profile of Borrowing and Other Long Term Liabilities	176.5	169.9	166.4	160.0
Cumulative Gross External Borrowing Requirement	45.2	79.6	112.6	130.0
Balances & Reserves	32.6	30.9	30.7	30.6
Cumulative Net Borrowing Requirement	12.6	48.7	81.9	99.4

- 4.5 There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances and reserves. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. Borrowing in advance of need in line with the net borrowing requirement will only be considered if the long term costs outweigh the short term benefits. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year. This will be done in order to minimise borrowing costs over the medium to longer term. A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.
- 4.6 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the options it has in borrowing from the PWLB, the market and other sources identified in the Treasury Management Practices Schedules, section 4, up to the available capacity within its CFR and Affordable Borrowing Limit (defined by CIPFA as the Authorised Limit).
- 4.7 The outlook for borrowing rates:
Short-dated gilt yields are forecast to be lower than medium and long-dated gilt yields during the financial year. Despite additional gilt issuance to fund the UK government's support to the banking industry, short-dated gilts are expected to benefit from

expectations of lower interest rates as the economy struggles through a recession. Yields for these maturities will fall as expectations for lower interest rates mount.

- 4.8 The differential between investment earnings and debt costs, despite long term borrowing rates being around historically low levels, remains acute. This is expected to remain a feature during 2010/11. The so-called “cost of carry” associated with long term borrowing compared to temporary investment returns means that the appetite for new long term borrowing brings with it additional short-term costs.
- 4.9 Public Works Loans Board (PWLB) variable rates have fallen below 1%. They are expected to remain low as the Bank Rate is maintained at historically low levels to enable the struggling economy emerge from the recession. Against a backdrop of interest rates remaining lower for longer and a continuation of the cost of carry, then a passive borrowing strategy (i.e. borrow long term funds as they are required) may remain appropriate. Equally, variable rate funds (that avoid the cost of carry) or EIP (equal instalments of principal) that mitigate the impact are both active considerations.
- 4.10 Decisions to borrow at low, variable rates of interest will be taken after considering the absolute level of longer term interest rate equivalents and the extent of variable rate earnings on the Council’s investment balances. When longer term rates move below the cost of variable rate borrowing any strategic exposure to variable interest rates will be reviewed and, if appropriate, reduced.
- 4.11 The PWLB will be the preferred source of borrowing given the transparency and control this facility provides. In addition following a programme of early PWLB debt redemption during 2009/10, the ratio of PWLB to market loans has decreased. To address this reduction any new borrowing should ideally be sourced from the PWLB to improve this ratio.
- 4.12 The Council has £48m LOBO loans (Lender’s Options Borrower’s Option) of which £10m will be in their option state in FY 2010-11. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan(s) by borrowing from the PWLB.
- 4.13 The Council will undertake a financial options appraisal process to establish how it has arrived at its ‘value for money’ judgement, in any event where the lender exercises their option to change the rate or terms of the agreement.

5. Debt Rescheduling

- 5.1 The Council will continue to maintain a flexible policy for debt rescheduling. Market volatility and the steep yield curve may provide opportunities for rescheduling debt from time to time. The rationale for rescheduling would be one or more of the following:
 - Savings in interest costs with minimal risk
 - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
 - Amending the profile of maturing debt to reduce any inherent refinancing risks.

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- 5.2 In September 2009, the PWLB issued a Consultation document, entitled 'PWLB Fixed Rates'. The PWLB is reviewing the frequency of rate setting (currently daily) and could move to a live pricing basis. The deadline for the consultation period was 8 January 2010. The likely outcome of this is a reduction in the extent of the margins between premature repayment and new borrowing rates, particularly for longer maturities.
- 5.3 Any rescheduling activity will be undertaken within the Council's treasury management policy and strategy. The Council will agree in advance with Arlingclose the strategy and framework within which debt will be repaid / rescheduled if opportunities arise. Thereafter the Council's debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be discussed between Arlingclose and the Council's officers.
- 5.4 All rescheduling activity will comply with the accounting requirements of the local authority SORP. This will also comply with regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573 as amended by SI 2008/414).
- 5.5 Borrowing and debt rescheduling activity will be reported in the monthly treasury management outturn report to Cabinet.

6. Investment Policy and Strategy – Annual Investment Strategy

Background

- 6.1 Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

Investment Policy

- 6.2 To comply with the CLG's guidance, the Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

The CLG's Guidance on investments reiterates security and liquidity as the primary objectives of a prudent investment policy. The speculative procedure of borrowing purely in order to invest is unlawful.

- 6.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendix D.
- 6.4 The credit crisis has refocused attention on the treasury management priority of security of capital monies invested. The draft revisions to the CLG's Investment Guidance state that a specified investment is one made with a body or scheme of

“high credit quality”. The Council will continue to maintain a counterparty list based on these criteria. It will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength as outlined in paragraph 6.12. The CLG’s Draft revisions to its Guidance on local government investments recommend that the Investment Strategy should set out the procedures for determining the maximum periods for which funds may prudently be committed. Such decisions will be based on an assessment of the authority’s Balance Sheet position with the limit being set in Prudential Indicator 12 - Upper Limit for total principal sums invested over 364 days.

6.5 The CLG’s Draft revisions to its Guidance on local government investments recommend that the strategy should state the authority’s policies on investing money borrowed in advance of spending needs. This statement should identify any measures to minimise such investments, including any limits on:

- amounts borrowed and
- periods between borrowing and expenditure.

The statement should also comment on the management of risks, including the risk of loss of the borrowed capital and the risk associated with interest rate changes.

Limits on the amount borrowed in advance of need are identified in the Cumulative Maximum External Borrowing Requirement for future financial years set out in the table at paragraph 4.4. This also sets the periods between borrowing and expenditure. The management of risks, including the risk of loss of the borrowed capital, are identical for all forms of investment as set out in this strategy. The risk associated with interest rate changes are based on the Interest Rate forecast at Appendix C and the current cost of carry referred to in section 4 above.

6.6 The Council’s current level of investments is presented at Appendix A.

Investment Strategy

6.7 The global financial market storm in 2008 and 2009 has forced investors of public money to reappraise the question of risk versus yield. Income from investments is a key support in the Council’s budget. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates are likely to remain at very low levels, which will have a significant impact on investment income. The Council’s strategy must however be geared towards this development whilst adhering to the principal objective of security of invested monies.

6.8 The Director of Finance and Resources, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to Cabinet and the Audit Committee twice yearly.

Investments managed in-house:

- 6.9 The Council's shorter term cash flow investments are made with reference to the outlook for the UK Bank Rate and money market rates.
- 6.10 In any period of significant stress in the markets, the default position for all investments to be made with the Debt Management Office will be considered.
- 6.11 Currently the Council has restricted its investment activity to:
- The Debt Management Agency Deposit Facility (The rates of interest from the DMADF are below equivalent money market rates. However, the returns are an acceptable trade-off for the guarantee that the Council's capital is secure)
 - AAA rated Money Market Funds with a Constant Net Asset Value (CNAV)
 - Deposits with other local authorities
 - Business reserve accounts and term deposits. These have been primarily restricted to UK institutions that are rated at least A+ long term, and have access to the UK Government's 2008 Credit Guarantee Scheme (CGS)
 - Bonds issued by Multilateral Development Banks
- 6.12 Conditions in the financial sector have begun to show signs of improvement, albeit with substantial intervention by government authorities. In order to diversify the counterparty list, the use of comparable non-UK Banks for investments is now considered appropriate.

The sovereign states whose banks are to be included are Australia, Canada, Finland, France, Germany, Netherlands, Spain, Switzerland and the US. These countries and the Banks within them (see Appendix D), have been selected after analysis and careful monitoring of:

- Credit Ratings (minimum long-term A+)
- Credit Default Swaps
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms / potential support from a well resourced parent institution
- Share Price

The Council has also taken into account information on corporate developments and market sentiment towards the counterparties. The Council and its treasury advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis. They will respond as necessary to ensure security of the capital sums invested.

Since we remain in a heightened state of sensitivity to risk, vigilance is imperative. This modest expansion of the counterparty list is an incremental step. In order to meet requirements of the revised CIPFA Treasury Management Code, the Council is focusing on a range of indicators (as stated above), not just credit ratings.

Limits for Specified Investments are set out in Appendix D.

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6.13 Non Specified Investments:

To protect against a prolonged period of low interest rates, deposits for one to five years and longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments (see Appendix E). The longer-term investments will be likely to include:

- **Supranational bonds (bonds issued by multilateral development banks):** The joint and individual pan-European government guarantees in place on these bonds provide security of the principal invested. Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.
- **Deposits / Certificates of Deposit with banks or building societies:** Deposits for between one and five years and certificates of deposits may be made following consultation with the treasury adviser. Institutions will need to demonstrate a higher level of credit worthiness.
- **UK government guaranteed bonds and debt instruments issued by banks/building societies:** The UK Government's 2008 Credit Guarantee Scheme permits specific UK institutions to issue short-dated bonds with an explicit government guarantee. The bonds are issued at a margin over the underlying gilt and would be a secure longer-term investment option.

6.14 Investments which constitute capital expenditure

Investments meeting the definition of capital expenditure can be financed from capital or revenue resources. They are also subject to the CLG's Guidance on "non-specified investments". Placing of such investments has accounting, financing and budgetary implications. Whilst it is permissible to fund capital investments by increasing the underlying need to borrow, it should be noted that under the CLG's MRP Guidance, MRP should be applied over a 20 year period.

6.15 The Council has determined that it is not currently prudent to make investments which constitute capital expenditure. These would presently need to be sourced from revenue and therefore the requirement for MRP would make the investment not viable.

6.16 All investment activity will comply with the accounting requirements of the local authority SORP.

7. **Balanced Budget Requirement**

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

8. **2010/11 Minimum Revenue Provision Statement**

- 8.1 The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision (MRP) has been issued by the Secretary of State. Local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.
- 8.2 The major proportion of the MRP for several years from 2009/10 onwards will relate to the more historic debt liability. It will continue to be charged at the rate of 4%, using the CFR as the basis of calculation. Certain expenditure reflected within the debt liability at 31st March 2008 will, under delegated powers, be subject to MRP under option 3. It thus will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using a straight line method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.
- 8.3 Estimated life periods will be determined under delegated powers. Where expenditure is not on the creation of an asset, and is of a type subject to estimated life periods, to which guidance refers, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances. This would be where the recommendations of the guidance would not be appropriate.
- 8.4 Some types of capital expenditure incurred by the Council are not capable of being related to an individual asset. In these cases asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner, which reflects the nature of the main component of expenditure. It will only be divided up in cases where there are two or more major components with substantially different useful economic lives.
- 8.5 What is a Minimum Revenue Provision?
Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred. Therefore such expenditure is spread over several years so as to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision. This was previously determined under Regulation, and will in future be determined under Guidance.
- 8.6 New statutory duty
Statutory Instrument 2008 no. 414 s4 lays down that:
- A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.
 - The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146, (as amended)
 - The share of Housing Revenue Account CFR is not subject to a MRP charge

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8.7 Government Guidance

Along with the above duty, the Government issued guidance in February 2008. This requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval. This should be before the start of the financial year to which the provision will relate.

The Council are legally obliged to "have regard" to the guidance. This is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made. There is an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period. This period should be reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

- Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.
- It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

8.8 Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE(R) annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.

- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

- equal instalment method – equal annual instalments
- annuity method – annual payments gradually increase during the life of the asset

8.9 Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

9. Reporting on the Treasury Outturn

The Investment Manager will report on treasury management activity and performance as follows:

(a) A monthly treasury management report will be sent to Cabinet providing an overview of activity and also the treasury out-turn position.

(b) Audit Committee will be responsible for the scrutiny of treasury management strategy and practices.

10. Other items

Member Training

CIPFA's revised Code requires all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Treasury Management is included in the general finance training for members. Discussions are ongoing with Arlingclose, the Council's treasury management advisors, on devising specific training for Audit Committee.

The CLG's draft revisions to its guidance on local government investments recommend that the Investment Strategy should state what process is adopted for reviewing and addressing the needs of the authority's treasury management staff for training in investment management.

The Council adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Treasury staff also attend regular training sessions, seminars and workshops. These ensure their knowledge is up to date and relevant. Details of training received are maintained as part of the performance and development process.

Investment Consultants

The CLG's Draft revisions to its Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

The Council has a contract in place with Arlingclose Limited to provide a treasury advisory service. A schedule of services has been agreed between both parties. This clearly set out the duties to be carried out as part of the contract. Performance is measured against the schedule of services to ensure the services being provided are in line with the agreement.

ANNEX A

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m	31 Mar 10 Estimate £m	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m
External Borrowing:					
Fixed Rate – PWLB	109.6	109.6	105.1	103.6	99.1
Fixed Rate – Market	38.0	38.0	39.0	40.0	38.0
Variable Rate – PWLB	0	15.0	13.5	12.0	10.5
Variable Rate – Market	10.0	10.0	9.0	8.0	10.0
Existing long-term liabilities	3.9	3.9	3.3	2.8	2.4
Total External Debt	161.5	176.5	169.9	166.4	160.0
Investments:					
Deposits and monies on call, Money Market Funds & Supranational Bonds	38.0	35.6	40.6	28.0	39.7
Total Investments	38.0	35.6	40.6	28.0	39.7
Net Borrowing Position	123.5	140.9	129.3	138.4	120.3

PRUDENTIAL INDICATORS 2010/11 TO 2012/13

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. It should be noted that CIPFA undertook a review of the Code in early 2008, and issued a revised Code in November 2009.

2. Net Borrowing and the Capital Financing Requirement:

This is a key indicator of prudence. This is in order to ensure that over the medium term net borrowing will only be for a capital purpose. The local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Director of Finance and Resources reports the Council had no difficulty meeting this requirement in 2009/10, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits. In particular it considers the impact on Council Tax and, in the case of the HRA, housing rent levels.

No . 1	Capital Expenditure	2009/10 Approved £m	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
	Non-HRA	92.9	69.8	77.1	61.9	36.3
	HRA	12.3	11.5	22.6	14.0	10.5
	Total	105.2	81.3	99.7	75.9	46.8

3.2 It is planned that capital expenditure will be financed as follows:

Capital Financing	2009/10 Approved £m	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
Capital receipts	9.2	4.5	9.0	13.7	8.2
Government Grants	33.0	25.0	34.8	11.0	5.8
Major Repairs Allowance	7.6	8.0	8.2	8.2	8.2
Revenue Contribution	4.6	3.1	2.1	2.1	2.1
Other External Funding	15.8	13.1	12.0	4.8	4.0
Supported borrowing	9.2	3.3	2.1	11.7	6.5

Unsupported borrowing	25.8	24.3	31.5	24.4	12.0
Total	105.2	81.3	99.7	75.9	46.8

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability. It highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

4.2 The ratio is based on costs net of investment income.

No 2	Ratio of Financing Costs to Net Revenue Stream	2009/10 Approved %	2009/10 Estimate %	2010/11 Estimate %	2011/12 Estimate %	2012/13 Estimate %
	Non-HRA	4.90	4.14	5.11	6.24	7.25
	HRA	4.15	4.39	4.40	4.88	4.82
	Total	4.72	4.20	4.95	5.94	6.71

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing. It is an aggregation of the amounts shown for Fixed and Intangible assets, the Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure.

No. 3	Capital Financing Requirement	2009/10 Approved £m	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
	Non-HRA	172.0	157.6	181.2	207.9	218.7
	HRA	64.0	64.1	68.3	71.1	71.3
	Total CFR	236.0	221.7	249.5	279.0	290.0

5.2 The year-on-year change in the CFR is due to the following

Capital Financing Requirement	2009/10 Approved £m	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
Balance B/F	207.0	195.3	221.7	249.5	279.0
Capital expenditure financed from borrowing	35.0	30.6	33.6	36.0	18.5
Revenue provision for debt Redemption.	-5.0	-4.2	-5.8	-6.5	-7.5
Balance C/F	236.0	221.7	249.5	279.0	290.0

6. Actual External Debt:

6.1 This indicator 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.

No. 4	Actual External Debt as at 31/03/2009	£m
	Borrowing	198.0
	Other Long-term Liabilities	4.0
	Total	202.0

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

No. 5	Incremental Impact of Capital Investment Decisions	2009/10 Approved £	2010/11 Estimate £	2011/12 Estimate £	2012/13 Estimate £
	Increase in Band D Council Tax	17.64	2.41	27.75	50.55
	Increase in Average Weekly Housing Rents	-0.03	0.06	0.58	0.58

7.2 The increase in Band D Council tax / average weekly rents reflects the increases in the provision for Capital Financing Charges. It should be noted however for 2010/11 there will in fact be no increase in Council tax as capital expenditure will be financed predominantly from internal resources.

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy. It manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will

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therefore arise as a consequence of all the financial transactions of the Council. It will not just arise from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario. It has sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

No. 6	Authorised Limit for External Debt	2009/10 Approved £m	2009/10 Actual £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
	Borrowing	293	293	299	318	313
	Other Long-term Liabilities	3	3	3	3	2
	Total	196	296	302	321	315
	Council Housing Subsidy self financing	n/a	n/a	70	70	70
	Total	296	296	372	391	385

8.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit. These reflect the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

8.6 The Director of Finance and Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of Council.

No. 7	Operational Boundary for External Debt	2009/10 Approved £m	2009/10 Actual £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
	Borrowing	268	268	269	288	283
	Other Long-term Liabilities	3	3	3	3	2
	Total	271	271	272	291	285
	Council Housing Subsidy self financing	-	-	70	70	70
	Total	271	271	342	361	355

9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

No. 8	Adoption of the CIPFA Code of Practice in Treasury Management
	The Council approved the adoption of the CIPFA Treasury Management Code at the Council meeting on 25 February 2010.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury activities.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments)

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

		2009/10 Approved %	2009/10 Actual %	2010/11 Estimate %	2011/12 Estimate %	2012/13 Estimate %
No 9	Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100
No 10	Upper Limit for Variable Interest Rate Exposure	50	50	50	50	50

10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis. The decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

11. Maturity Structure of Fixed Rate borrowing:

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No. 11	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %
	under 12 months	0	25
	12 months and within 24 months	0	25
	24 months and within 5 years	0	50
	5 years and within 10 years	0	75
	10 years and within 20 years	0	75
	20 years and within 30 years	0	75
	30 years and within 40 years	0	75
	40 years and within 50 years	0	75
	50 years and above	0	75

12. Upper Limit for total principal sums invested over 364 days:

12.1 The purpose of 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.

No. 12	Upper Limit for total principal sums invested over 364 days	2009/10 Approved £m	2009/10 Actual £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
		50	50	47	27	10

Arlingclose Economic and Interest Rate Forecast

Jan-10										
	Sep-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Official Bank Rate										
Upside risk				+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	0.50	0.50	0.50	0.50	1.00	1.50	2.00	2.50	3.00	3.00
Downside risk					-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
1-yr LIBID										
Upside risk				+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	1.25	1.25	1.25	1.50	1.75	2.25	3.00	3.50	4.00	4.00
Downside risk					-0.25	-0.25	-0.50	-0.50	-0.50	-0.50
5-yr gilt										
Upside risk		+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	2.50	2.70	2.80	2.90	3.00	3.25	3.50	3.75	4.00	4.25
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt										
Upside risk			+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25
Central case	3.50	3.75	3.75	4.00	4.00	4.25	4.25	4.50	4.50	4.75
Downside risk			-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt										
Upside risk		+0.25	+0.50	+0.50	+0.50	+0.25	+0.25	+0.25	+0.25	+0.25
Central case	4.00	4.25	4.50	4.75	4.75	5.00	5.00	5.00	5.00	5.00
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt										
Upside risk		+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	4.25	4.25	4.50	4.50	4.50	4.75	4.75	4.75	4.75	4.75
Downside			-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

The recovery in growth is likely to be slow and uneven, more “W” than “V” shaped.

The Bank of England will stick to its lower-for-longer stance on policy rates.

Gilt yields will remain volatile; yields have been compressed by Quantitative Easing and will rise once QE tapers off and if government debt remains at record high levels.

The path of the base rate has been downgraded to reflect the fragile state of the recovering economy and the severe fiscal correction that will be coming post General Election that will dampen aggregate demand and cut household cashflow.

Expectations of central bank exit strategies and their timing will increase volatility in sovereign bond yields and equities.

There are significant threats to the forecast from potential downgrades to sovereign ratings and/or political instability.

Underlying Assumptions:

- The Bank of England’s Quantitative Easing (QE) program which injected £200bn to insure against the downside risks to growth and stimulate the economy officially ends 26th January. We estimate that QE has depressed gilt yields by around 70bps (0.7%).
- The Bank forecasts GDP to grow by 4% in 2011 but concedes growth could be impeded by corporate and consumer balance sheet adjustments, restrictions in bank credit and consumers’ cautious spending behaviour. This is an optimistic forecast in our view; evidence of recovery is scant with weak real economic data and rising unemployment. Q4 2009 grew by just 0.1%.
- Looming bank regulation and liquidity and capital requirements will curb bank lending activity. The Bank retains the option to reduce the rate on commercial banks’ deposits to encourage them to lend. But FSA regulations will force banks to buy more Gilts, which could help slow the rise in yields in 2010/11.
- The employment outlook remains uncertain. Pay freezes, short hours, job cuts and a migration toward part time employment will continue into 2010 keeping the headline unemployment number down.
- Inflation is not an immediate worry for the Bank, which forecasts CPI to rise due to higher commodity prices and VAT reverting to 17.5%. Commodity prices and VAT will push inflation over 3% prompting a letter from the Bank’s Governor to the Chancellor in Q1 2010.

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- The UK fiscal deficit remains acute. Cuts in public spending and tax increases are now inevitable and more likely to be pushed through in 2010 by a new government with a clear majority, however a hung parliament cannot be ruled out and would be potentially disruptive to financial markets.
- The net supply of gilts will rise to unprecedented levels in 2010. Failure to articulate and deliver on an urgent and credible plan to lower government borrowing to sustainable levels over the medium term will be negative for gilts.
- The Federal Reserve Chairman Bernanke's diagnosis of a weak U.S. economy and labour market signal that the Fed's "extended period" of low rates may get even longer. The outlook for the Eurozone is more optimistic but the European Central Bank will only increase rates after a durable upturn in growth.

Specified and Non Specified Investments

Specified Investments identified for use by the Council

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment:

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high” credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland.
- is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Council’s use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV)

* Investments in these instruments will be on advice from the Council’s treasury advisor.

For credit rated counterparties, the minimum criteria will be the short-term / long-term ratings assigned by various agencies. These agencies may include Moody’s Investors Services, Standard & Poor’s and Fitch Ratings.

Long-term minimum: A1 (Moody’s) or A+ (S&P) or A+ (Fitch)

Short-term minimum: P-1 (Moody’s) or A-1 (S&P) or F1 (Fitch).

The Council will also take into account information on corporate developments, market sentiment and financial indicators towards investment counterparties.

The Director of Finance and Resources has delegated powers to amend the counterparty list as required to maintain effective management of the treasury function.

New specified investments will be made within the following limits:

Instrument	Country	Counterparty	Maximum Limit Value £m	Maximum Limit %
Term Deposits	UK	DMADF, DMO	No limit	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	£35m per Local Authority	No limit
Term Deposits/Call Accounts	UK	Barclays	20	15
Term Deposits/Call Accounts	UK	Clydesdale	20	15
Term Deposits/Call Accounts	UK	HSBC	20	15
Term Deposits/Call Accounts	UK	Lloyds Banking Group (inc Bank of Scotland)	20	15
Term Deposits/Call Accounts	UK	Nationwide	20	15
Term Deposits/Call Accounts	UK	Royal Bank of Scotland	20	15
Term Deposits/Call Accounts	UK	Santander UK	20	15
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	15	15
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	15	15
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd	15	15
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	15	15
Term Deposits/Call Accounts	Canada	Bank of Montreal	15	15
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	15	15
Term Deposits/Call Accounts	Canada	Canadian Imperial	15	15

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		Bank of Commerce		
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	15	15
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	15	15
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	15	15
Term Deposits/Call Accounts	France	BNP Paribas	15	15
Term Deposits/Call Accounts	France	Calyon (Credit Agricole Group)	15	15
Term Deposits/Call Accounts	France	Credit Agricole SA	15	15
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	15	15
Term Deposits/Call Accounts	Netherlands	Rabobank	15	15
Term Deposits/Call Accounts	Spain	Banco Bilbao Vizcaya Argentaria	15	15
Term Deposits/Call Accounts	Spain	Banco Santander SA	15	15
Term Deposits/Call Accounts	Switzerland	Credit Suisse	15	15
Term Deposits/Call Accounts	US	JP Morgan	15	15
Gilts	UK	DMO	No limit	No Limit
Bonds	EU	European Investment Bank/Council of Europe	50	40
AAA rated Money Market Funds (MMF)	UK/Ireland/Luxembourg	CNAV MMFs	5	7.5 per institution. Maximum MMF exposure 37.5

The above percentage limits are based on a rolling average balance of 30 days.

In addition to individual institution limits, a group limit of 20% is applicable.

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Non UK Banks are restricted to a maximum exposure of 25% per country and a total overseas aggregate exposure (excluding MMF;s) of 40%.

Maturity periods may be amended to less than one year to address any emerging risk concerns.

ANNEX E

Non-Specified Investments determined for use by the Council

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Maximum maturity	Max % of portfolio	Capital expenditure?
<ul style="list-style-type: none"> ▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies 	✓	5 years	40 in aggregate	No
Gilts and bonds <ul style="list-style-type: none"> ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government, e.g. GEFCO ▪ Sterling denominated bonds by non-UK sovereign governments 	✓ (on advice from treasury advisor)	6 years	40 in aggregate	No

In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

Deposits and certificates of deposit with banks, and building societies, if taken for periods in excess of one year, will have the following minimum credit ratings:

	Long-term	Short-term
Fitch	AA- (AA minus)	F1+
Moody's	Aa3	P-1
S&P	AA- (AA minus)	A-1+

The Council will also take into account information on corporate developments, market sentiment and financial indicators towards investment counterparties.

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BUDGET SETTING PROCESS

Contact Officer: Nancy Leroux
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Reason for Report

At the meeting of Audit Committee in December 2009, Committee requested a briefing note from officers on the budget setting process within the council. The request arose from Committee's review of its Terms of Reference, to assure themselves that the budget setting process was subject to sufficient scrutiny elsewhere within the Council.

INFORMATION

- 1 The budget process is a key aspect of the Council's strategic planning, through which the Council allocates resources for the delivery of its strategic objectives, balances competing priorities and risks, and provides democratic and management control over the use of resources.
- 2 The budget process can sometimes be viewed as simply referring to the production of the General Fund revenue budget, however, the scope is wider than this, and covers the following budgets:
 - General Fund revenue budget
 - Capital programme
 - Housing Revenue Account (HRA)
 - Schools Budget

The budget processes for the Housing Revenue Account and Schools Budgets broadly speaking stand alone and have their own consultation and reporting arrangements. The General Fund revenue budget and capital programme are produced from a single integrated process commonly referred to as the Medium Term Financial Forecast (MTFF) process.

- 3 Under the Council's constitution, all of the Council's budgets are approved by full Council in February of each year, based on the recommendation of the Cabinet. The key overarching decisions that the Council makes in setting each year's budgets are over the level of the Council Tax, housing rents and fees and charges to service users. The schools budget is not reported to full Council, as it is effectively contained within the General Fund revenue budget – instead Cabinet makes a final decision on the distribution of resources ringfenced by the Government between individual schools and the Council.
- 4 The formal consultation on the General Fund revenue budget and capital programme takes places with Policy Overview Committees. Under the Council's constitution the Cabinet is required to publish a draft budget for consultation purposes at its December meeting. The budget proposals are then consulted upon with each of the service area Policy Overview Committees for

the proposals within their remit during January. The comments of the individual Policy Overview Committees are consolidated at a further meeting of the Corporate Services and Partnerships Policy Overview Committee and then reported to Cabinet at its February meeting, alongside the Cabinet's final budget recommendations to Council for the forthcoming year. Cabinet will generally indicate how it has responded to the comments made by the Policy Overview Committees in making its final proposals to full Council.

There is also a statutory requirement on the Council to consult on its budget proposals with representatives of business ratepayers within its area. This responsibility is discharged by inviting a sample of the largest business ratepayers within the borough to comments on the draft budget proposals considered by Cabinet in December.

Schools budgets are subject to a specific consultation process with schools and other stakeholders. Proposals endorsed by the Cabinet Member for Education and Children's Services are presented in a consultation paper issued to schools during the December preceding the new financial year. The Schools Forum considers the results of this consultation exercise and the Council must secure its agreement before it can implement certain proposals, such as breaching the Central Expenditure Limit (the limit set to ensure that centrally retained budgets do not increase faster than budgets delegated to individual schools).

The key element of consultation on the Housing Revenue Account is over proposed rent levels. HRA proposals are developed in conjunction with Hillingdon Homes, and consultation with tenants and tenant representatives takes place through the various tenant forums such as the Housing Consultative Forum.

- 5 Member scrutiny of the budget process is both internal and external in focus. Internal scrutiny of the budget process is conducted by Cabinet through informal mechanisms. The overall strategy for the budget is confirmed by the Leader of the Council based on recommendations from the Chief Executive and the Corporate Management Team. Progress against this strategy is then monitored on a monthly basis by the Leader of the Council in conjunction with the Chief Executive, Deputy Chief Executive and the Corporate Director of Finance and Resources. Cabinet then review the overall position of the development of the budget at an informal joint Awayday of the Cabinet and Corporate Management Team, normally in early November. Cabinet Members then provide guidance over the strategic choices to be included in Medium term Financial Forecast and draft budget reported to December Cabinet.

External scrutiny of the budget process is conducted by service area Policy Overview Committees. In addition to the formal consultation on the draft budget in January of each year, the Policy Overview Committees also review the budget process and strategic financial issues affecting the services within their remit at their July meetings. In addition, the Executive Scrutiny Committee meets after each Cabinet meeting to review the decisions made by Cabinet including those relating to or impacting on the budget process, and 'call-in'

decisions where this is considered appropriate. However, this right to call-in the Cabinet's decisions does not apply to the Cabinet's final budget recommendations to full Council made at the February meeting of Cabinet, on the grounds that any issues arising from these final budget recommendations can be debated in full Council.

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Review of Internal Audit Terms of Reference

Contact Officer: Helen Taylor
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REASON FOR ITEM

The Code of Practice for Internal Audit in Local Government requires a periodic review of the Terms of Reference of Internal Audit. The Terms of Reference were last reviewed in June 2009, when amendments were made to take into account issues arising from the peer review of internal audit. There have been no major changes since then that would merit any further changes.

OPTIONS AVAILABLE TO THE COMMITTEE

The committee can comment on the appropriateness of the Terms of Reference.

INFORMATION

The Terms of Reference is attached to this report. Only minor spelling and grammar changes have been made to the previous TOR.

London Borough of Hillingdon

Internal Audit Charter & Terms of Reference

1..PURPOSE

1.1. This Charter describes the purpose, authority, and principal responsibilities and operating methods of the council's Internal Audit Section.

2.DEFINITION OF INTERNAL AUDIT

2.1. The CIPFA Code of Practice for Internal Audit in Local Government (2003) defines Internal Audit as *'an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.'*

3. PURPOSE

3.1. Internal Audit is an independent appraisal function established within the Council to examine and evaluate activities as a service to the organisation and to contribute advice at an early stage in the implementation of any developments/amendments to processes. The objective of Internal Audit is to assist elected members and officers of the Council in the effective discharge of their responsibilities. To this end, Internal Audit will furnish them with analysis, appraisals, recommendations, advice and information concerning the activities reviewed.

4. AUTHORITY

4.1. The statutory basis for Internal Audit is the Accounts and Audit Regulations 2003, which require that a "relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices." Proper internal Audit Practices are defined in the *Code of Practice for Internal Audit in Local Government in the UK*.

4.2. Internal Audit Section takes due cognisance of the standards promoted by other bodies such as the Institute of Internal Auditors (IIA), Auditing Practices Board (APB) and the CCAB accounting bodies.

5. INDEPENDENCE

5.1. The Head of Internal Audit reports to the Section 151 officer and has unrestricted access to the Chief Executive, the Leader of the Council and to members through the Audit Committee. Internal Audit's authority is derived from policies, procedures, rules and regulations established by the Council. These include Financial Regulations, Conditions of Service, and Code of Conduct.

5.2. The authority for the production and execution of the audit plan and subsequent audit activities rests with the Head of Internal Audit. The annual audit plan will be presented for approval to the Council's Corporate Management Team (CMT) and to the elected members via the Audit Committee. Based on the work carried out the Head of Internal Audit will produce an Annual Audit Opinion on the systems and controls operating in the year.

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5.3 The Head of Internal Audit will also report to the Annual Governance Statement Working Group any audit issues likely to merit inclusion in the statement and contribute to the Audit Committee's Annual Report to the Council.

6. ACCESS

6.1. To meet its objectives, Internal Audit shall have unrestricted access to all Council records (whether manual or computerised systems), cash, stores and other property, and to enter Council property or land. Such access shall be granted on demand and not subject to prior notice. Internal Audit will have the authority to obtain such information and explanations as it feel necessary to fulfil its responsibilities.

7. RESPONSIBILITIES

7.1. Service Directors are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Services.

7.2. Internal Audit responsibilities include but are not limited to:

- a. Examining and evaluating the adequacy of the Council's system of internal control;
- b. Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- c. Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- d. Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- e. Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including the Best Value programme in association with the Chief Executive, and Value for Money Studies;
- f. Co-ordinating with the work of the external auditors for audit planning and assisting the external auditors as required;
- g. Working in partnership with other bodies to secure robust internal control that protects the Council's interests.
- h. Promote anti-fraud and anti-corruption practices and assist management in the investigation of fraud/corruption and other irregularities.
- i. Engage in the process of gathering and assessing the evidence for the assessment of the control environment thereby contributing to the production of the Annual Governance Statement

7.3. In meeting its responsibilities, Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures. In addition, Internal Auditors shall comply with the Code of Ethics and the Code of Practice for Internal Audit in Local Government promulgated by the Chartered Institute of Public Finance and Accountancy and other such professional bodies of which internal auditors are members.

7.4. There will be a regular rotation of staff between audit areas and unless there are clear operational reasons staff will not audit the same area more than twice in succession. Auditors will not be assigned to audit an area where they have;

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- undertaken operational duties within the previous three years.
- declared a relationship or other interest

7.5. In line with the International Standards internal audit may engage in consulting activities including counsel, advice, facilitation, and training. Internal Audit will accept proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organisation's operations but will not assume management responsibility or decision-making. For significant pieces of work a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations will be reached with managers. Such agreements will ensure that there is a clear separation of the role of Internal Audit from the decision making process.

7.6. In order to ensure the proper discharge of its responsibility, Internal Audit will:-

- a. Prepare the strategic and annual plan for approval by the Corporate Management Team, taking into account the risks of service departments.
- b. Conduct audits in accordance with established and best practice, as enshrined in CIPFA's Internal Audit Manual, which has been supplemented by internal procedures.
- c. Promptly consult and report upon its findings to the relevant level of management, including members as necessary, making recommendations for improvements where weaknesses are identified.
- d. Monitor the progress of implementation of recommendations and report this to members. It is for management to accept and implement internal audit findings and recommendations or to accept the risk resulting from taking no action. However, it is for the Chief Internal Auditor to bring to the attention of management and/or members any risk they feel is not being adequately addressed.
- e. Educate the organisation to understand that the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.
- f. Maintain good working relationships with officers at all levels, Members, External Auditors and any other external review agencies.
- g. Make adequate arrangements for the monitoring and review of audit work to deliver a quality audit service.

8 RESOURCES

8.1 Internal Audit resources will be determined by the S151 Officer acting on behalf of the members of the Audit Committee and will reflect the corporate needs of the council.

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Resources will also reflect the need to allow the S151 Officer to discharge his obligations.

8.2. The staffing structure will comprise suitable qualified posts with a mix of professional specialisms to reflect the needs of the organisation. Resources may be bought in for specific specialisms such as IT audit.

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