



HILLINGDON
LONDON



Audit Committee

Members on the Committee

John Morley (Chairman)
George Cooper
Phoday Jarjussey, Labour Lead
Richard Lewis
Raymond Graham

Date: TUESDAY, 21 SEPTEMBER
2010

Time: 5.00 PM

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

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

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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 on Interest in matters coming before this meeting
- 3 Minutes of previous meeting - 28 June 2010 (**Pages 1-9**)
- 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 External Audit Annual Governance Report (**Pages 11-48**)
- 6 External Auditor Report on the Pension Fund Annual Report on the Pension Annual Report and Accounts (**Pages 49-68**)
- 7 Update on Revised Anti-Fraud and Corruption Strategy (**Page 69-70**)
- 8 Internal Audit Progress Report (**Pages 71-104**)
- 9 International Financial Reporting Standards (IFRS) (**Pages 105-106**)
- 10 Audit Committee - Review of its own effectiveness (**Page 107-114**)
- 11 Revised Treasury Management Practices (**Pages 115-162**)
- 12 Audit Committee Work Programme (**Pages 163-166**)

PART II

- 13 Risk Management (**Pages 167-178**)

Agenda Item 3

Audit Committee

28 June 2010

Minutes



HILLINGDON
LONDON

	<p>Independent Member: John Morley (Chairman)</p> <p>Members Present: Councillors George Cooper, Phoday Jarjussey, Richard Lewis and Raymond Graham.</p> <p>Apologies: None</p> <p>Officers Present: Kevin Byrne (Head of Policy), Gill Crosbie (Audit Manager), Stephen Cross (E Communications Manager), David Holdstock (Head of Communications), Harry Lawson (Corporate Accounting Manager), Nancy Le Roux (Senior Finance Manager – Corporate Finance), Christopher Neale (Director of Finance & Resources), Helen Taylor (Head of Internal Audit and Corporate Governance), Paul Whaymand (Head of Accountancy Services), and Khalid Ahmed (Democratic Services Manager).</p> <p>Others Present: Paul Hutt (Deloitte) and Gus Miah (Deloitte)</p>
2.	<p>Declarations of Interest:</p> <p>John Morley and Councillor Raymond Graham declared Personal Interests in Agenda Item 5 – Approval of the 2009/10 Statement of Accounts as they were Members of the Board of Hillingdon Homes. They both remained in the room and took part in discussions on the item.</p> <p>Councillor George Cooper declared a Personal Interest in Agenda Item 5 – Approval of the 2009/10 Statement of Accounts as he was a Member of the Pensions Committee and a Trustee of Hillingdon & Ealing Citizens Advice Bureau. He remained in the room and took part in discussions on the item.</p> <p>Councillor Richard Lewis declared a Personal Interest in Agenda Item 5 – Approval of the 2009/10 Statement of Accounts as he was a Member of the Pensions Committee and the Chairman of the Corporate Services & Partnerships Policy Overview Committee. He remained in the room and took part in discussions on the item.</p>

	<p>of £535,000 and Members were informed that this cost would be reduced with the Comprehensive Area Assessment and Use of Resources work having been abolished</p> <ul style="list-style-type: none"> • Under summary of Treasury Management Policy, Members noted the sentence which referred to the speculative procedure of borrowing purely in order to invest being unlawful • Fund Balances and Reserves – Reference was made to two new earmarked reserves relating to Schools Earmarked Reserves and Grant Funded Reserves and Members were informed that the Schools Earmarked Reserves included reserves from Building Schools for the Future and Grant Funded Reserves were grant payments received in advance that had previously been held in creditors • Events after the Balance Sheet Date – Members noted that Hillingdon Homes would be transferring back to the Council on 1 October 2010. The Chairman informed Members that he had contacted the Borough Solicitor regarding his membership of the Board of Hillingdon Homes and he had been advised that he would only have a conflict of interest as Chairman of the Audit Committee if there was to be any disagreement between the parties involved • Section 65 – Agreement for Learning Disability Services – reference was made to the agreement the Council had with the Primary Care Trust (PCT) which provided support to 660 clients at a gross cost of £34m which included approximately 105 PCT clients for which the Council received £10.4m • Equal Pay – Back Pay Provision. The Head of Accountancy Services reported that most of the Council’s staff that had been affected by this had negotiated a settlement. • Pensions Schemes Basis of Estimation – Financial Assumptions. The Chairman noted that the expected return on equities had increased from 7.0% to 7.8%. Members were informed that this was partly offset by a decrease in the discount rate used to measure future liabilities. <p>The Chairman referred to the Annual Governance Statement and the Members agreed that it would be good practice if the Chief Executive or the Deputy Chief Executive attended the Committee next year to introduce the statement.</p> <p>Members noted that in relation to Member Training, two Risk Management training sessions had taken place for Members.</p>	<p>Action By:</p>
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	<p>Resolved –</p> <ol style="list-style-type: none"> 1. That approval be given to the unaudited Statement of Accounts for the financial year ended 31 March 2010 and the Chairman be asked to sign and date the Statement of Accounts to formally complete the Committee's approval of the accounts. 2. That the Annual Report for the Pension Fund for the financial year ended 31 March 2010 be noted. 	<p>Action By:</p> <p>Nancy Le Roux</p>
<p>7.</p>	<p>Indicative Stage Use of Resources</p> <p>Members were informed that the report prepared by Deloitte detailed the assessment of the Council's performance under the Use of Resources assessment, which formed part of the now abolished Comprehensive Area Assessment.</p> <p>The significant improvements made by the Council in terms of the Key Lines of Enquiry (KLOEs) resulted in the Council's overall score improving from a score of 2 last year, to a score of 3 for this year.</p> <p>Members noted this substantial improvement in the KLOE scores, particularly the sustained performance in financial management, with the value for money KLOE increasing to a score of 3.</p> <p>Gus Miah and Paul Hutt from Deloitte attended the meeting and presented the report to Members. The assessment comprised three themes:</p> <ul style="list-style-type: none"> • Managing finances, focusing on the sound and strategic financial management of the local authority; • Governing the business, focusing on the strategic commissioning and good governance of the local authority; and • Managing resources, focusing on how the local authority manages its natural resources, assets and people <p>Members were informed that most of the recommendations for improvement related to procurement. Particular mention was made of the recommendation relating to the 'Annual Questionnaire for Councillors' which recommended this should include a question on how Members had used their Personal Development Toolkit. This was to enable the Council to monitor the use and effectiveness of these Toolkits.</p> <p>The Director of Finance and Resources reported that this recommendation would be taken forward as part of the improvement plan for the BID process</p>	

	<p>Resolved –</p> <p>1. That the information contained in the report be noted.</p>	Action By:
8.	<p>Head of Audit Annual Assurance Statement</p> <p>The Head of Internal Audit and Corporate Governance reported that based on the work undertaken during the year, Internal Audit could provide satisfactory assurance that the systems of internal control within the Council were operating adequately and effectively. Overall there were 9 limited assurance opinions including 4 schools, and 4 audits had received no assurance.</p> <p>Reference was made to the audit outcome for Asylum Finance and the area of concern relating to only two officers having the required skills and knowledge to carry out the necessary tasks. The Head of Accountancy Services reported that the tasks relating to Asylum Finance were technical and detailed, however the Head of Finance in Education and Children’s Services had knowledge of the processes around this task.</p> <p>The Head of Internal Audit and Corporate Governance referred to the follow up audits. Members noted that although 82% of recommendations had been implemented at follow up, 18% had not been implemented.</p> <p>In relation to the use of shared Oyster Cards, the Head of Internal Audit and Corporate Governance was asked to provide an update on this if the action points had not been implemented before this Committee’s next meeting.</p> <p>The Director of Finance and Resources commented on the limited assurance level which had been given for IT Disaster Recovery. A generator was to be installed in the Civic Centre which would alleviate the problem of the Council’s IT network crashing during power cuts.</p> <p>Resolved-</p> <p>1. That the audit opinion and the evidence on which it is based as detailed in the report be noted.</p>	Helen Taylor
9.	<p>Annual Review of the Effectiveness of the Systems of Internal Audit</p> <p>The Accounts and Audit Regulations 2003 (as amended 2006) required a review of the systems of Internal Audit.</p> <p>Resolved-</p>	

	1. That the actions and summary of outcomes detailed in the report be noted.	Action By:
10.	<p>Fraud Awareness Survey 2010</p> <p>The report provided Members with details of a Fraud Awareness Survey which had been carried out to measure the success of a survey which had taken place in 2007.</p> <p>Members noted that the survey had indicated that those staff that were confident that action would be taken if fraud was detected had risen from 59% to 78%. Officers were congratulated for achieving this increased confidence in the Council dealing with fraud.</p> <p>Resolved-</p> <p>1. That the contents in the report and the general improvements made in raising awareness since 2007 be noted.</p>	Helen Taylor
11.	<p>Consolidated Fraud Report</p> <p>Reference was made to the point in the report which stated that there was a good culture of managers approaching Internal Audit when they thought they had a problem area.</p> <p>Resolved –</p> <p>1. That the contents of the report and the level of compliance with the Audit Commission checklist for those charged with Governance be noted.</p>	
12.	<p>Review Progress on Implementing Actions Arising from Committee Self Assessment</p> <p>The report was deferred to the next meeting of the Committee.</p>	
13.	<p>Update on International Financial Reporting Standards (IFRS)</p> <p>The report was deferred to the next meeting of the Committee.</p>	
14.	<p>Work Programme 2010/11</p> <p>The report was deferred to the next meeting of the Committee.</p>	
15.	<p>Report to Council on the Work of the Audit Committee</p> <p>Details of the work carried out by the Committee during 2009-10 were contained in the report.</p>	

	<p>Minor amendments were suggested and in particular it was suggested that an amendment be made to paragraph 2 – Membership – to indicate that Councillor Eginton had resigned from the Committee on 11 March 2010.</p> <p>Resolved –</p> <p>1. That, with the amendments suggested, the report be noted and Council be asked to approve the report at their meeting in September.</p>	<p>Action By:</p> <p>Khalid Ahmed</p>
16.	<p>Changing Legislation and Current Issues</p> <p>The Head of Internal Audit and Corporate Governance would email Members with details of the changing legislation and current issues detailed in the agenda.</p>	<p>Helen Taylor</p>
17	<p>Key Financial Audit Risk Relating to the Valuation of Icelandic Investments</p> <p>This tem was moved into Part I of the agenda.</p> <p>The report provided Members with details of the Council's current position in relation to the valuation of Icelandic investments.</p> <p>Resolved –</p> <p>1. That the report be noted.</p>	
18.	<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.</p> <p>Resolved –</p> <p>1. That the information contained in the report be noted.</p>	
	<p>Meeting closed at: 7.10pm Next meeting: 21 September 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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EXTERNAL AUDIT ANNUAL GOVERNANCE REPORT

Contact Officer: Paul Whaymand
Telephone: 01895 556578

SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2009/10 Statement of Accounts and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the Value for Money audit). Regulations require that the auditor's report is communicated to those charged with governance before the accounts are formally signed off on 23 September 2010.

The report is currently in draft pending the conclusion of the audit. It is expected the audit will be complete by the time the committee meets and a verbal update on progress will be given at the meeting.

Since the approval of the accounts on 28 June 2010 a small number of amendments have been identified by the Corporate Accountancy team and Audit that have been discussed and agreed and the financial statements have been amended to reflect these.

The auditor has indicated that he expects to issue an unqualified opinion on the Financial statements on 23 September 2010. An unqualified opinion is also expected on the Value for Money audit.

RECOMMENDATIONS

The Committee notes -

The audit adjustments are set out in the attached report from page 21 and in Appendix 1.

The internal control recommendations as set out in the attached report from page 12.

The progress made and actions being taken to continue to improve the quality and accuracy of the information contained within the accounts and to address the matters raised in the report.

REASONS FOR OFFICER RECOMMENDATIONS

It is a requirement that the findings of the audit set out in the report are communicated to those charged with governance prior to Deloitte giving their formal opinion on the financial statements.

INFORMATION

International Standard on Auditing Report 260 (ISA 260)

The draft Statement of Accounts was approved by the committee on 28 June 2010. The Council's auditor, Deloitte, is responsible for undertaking an audit of these accounts. The outcome of the audit is set out in the attached report.

The ISA 260 requires that auditors should communicate to elected members matters of governance that arise from the audit of the financial statements. These cover:

- Financial performance and position
- Accounting policies and financial reporting
- Materiality and identified misstatements
- Accounting and internal control systems
- Value for Money (VFM) conclusion

In addition, the Auditor requires a "Management Representation Letter" to be signed by management and the Committee. The contents of this letter are set out at Appendix 3. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

COMMENT ON CONTENTS OF THE REPORT

Financial Performance and standing

The report details the Audit view on the general financial performance of the Council and concludes that, despite considerably challenging circumstances, the Council has had another successful year in managing its finances. Deloitte recognise the significant achievement of the council in increasing balances by £2.48 million, in ending the year £5 million under budget and in delivering £7.45 million in savings.

Whilst the deficit for the year shown in the Income / Expenditure account was £125.7 million, this is largely attributable to impairments of school assets that were revalued as part of the 5 year asset valuations programme. This impairment is an accounting requirement which has no impact on council tax payers and is charged to the revenue account simply due to the fact that the Revaluation

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Reserve is only three years old and hence does not contain previous valuation gains on these assets against which such impairments would normally be charged.

Accounting policies and financial reporting

As part of the audit, the qualitative aspects of the financial reporting process are also reviewed. Three presentational amendments or additions were suggested and agreed to the council's accounting policies. In relation to financial reporting, there are no outstanding issues.

Audit Adjustments

There were no recorded audit adjustments identified, two unadjusted misstatement and one disclosure deficiency.

Errors of fact

Pension liability £600k:- Pension asset values, for the purposes of annual FRS17 charges, are estimated using known asset values as at 31 December when closing the accounts due to the fact that valuations from fund managers are not available to the actuary in time to prepare FRS17 reports. Asset values transpired to be 0.2% lower than the estimated figure hence the actual value was overstated.

Differences in Judgment

Asylum Seekers Grant £769k:- In addition to the Special Representation Bid the council recognised an additional amount over and above this to cover 100% of costs. Whilst previous settlement experience provides a level of assurance for the recognition of income for management accounting purposes, such assurance is not sufficient under SSAP21 for recognition in the financial statements.

Housing Benefit Provision £807k:- The Housing Benefit Grant Claim showed a difference to the accounts of £4.9m, of which £4.1m was accounted for by timing differences. The remaining £807k was treated as a bad debt provision but following technical review should have been recognised as income. However management have taken a prudent approach and have made provision for potential Local Authority Error and Administrative Delay Overpayments as errors amounting to 0.25% of the claim would result in the loss of approximately £370k plus performance payments taking the total loss to £800k.

Disclosure Deficiencies

Net asset of Hillingdon Homes £1,494k:- The SORP requires disclosure of net assets for related companies. However due to the required accounting treatment

under UK GAAP for indemnity given by the authority to Hillingdon Homes in respect of FRS17 losses, such disclosure would be inconsistent with the accounts of Hillingdon Homes and may confuse the reading of the accounts and so was not made.

Accounting and internal control systems

A number of recommendations have been made in respect of the accounting and internal control environment. All of these recommendations have been agreed by management and actions developed to implement the recommendations. Only one of the recommendations has been identified as high priority.

Progress made since 2008/09 and Actions taken

This is the second year that the accounts have been prepared by a fully staffed and stable Corporate Accountancy team. The experience gained from last year coupled with even earlier closing has enabled greater scrutiny of accounting entries, statements figures, working papers and general integrity of accounting treatments which has contributed to a smooth and successful audit.

The General Ledger was closed a full 18 days earlier than last year; the most challenging timetable ever imposed, for which all departments succeeded in achieving all revenue and capital entries required for closedown in the time available. Similarly audit has been completed three weeks earlier than previous years.

An area of concern identified in the 2008/09 accounts was around validity and classification of some debtor and creditor balances. A full balance sheet review was undertaken following audit resulting in the release of approximately £2.5m to revenue, often from historic balances, with a similar amount taken to Earmarked Reserves. Following this, a series of accounting workshops 'Back to Basics' were delivered to all finance staff that served as a 'refresher' on a number of accounting themes including roles, responsibilities, importance of correct accounting treatment, working paper requirements and ongoing balance sheet management. As a consequence there was a noticeable improvement shown during closing, particularly within debtors, creditors and provisions in comparison to previous years.

The audit protocol established with Deloitte's last year was used again but with improved use of the 'e-room' to track and ensure appropriate officer response to audit queries. The audit was conducted efficiently, to timetable and with minimum obtrusion into officer time and yet, in many areas more rigorously and probing than in previous years.

The outcome of the audit, with only four non-material adjustments, two of which were beyond the control of officers, is very positive and reflects the considerable

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effort over the last 2 years to improve the Councils performance in financial accounting. Continued efforts will be made to drive through further improvements in accounting standards across the council, not least as this facilitates greater financial control and better budget monitoring which will be ever more important as resources get more and more constrained.

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

BACKGROUND DOCUMENTS

None

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London Borough of Hillingdon

Report to the Audit Committee on the 2010 Audit

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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 ("the Council") for the year ended 31 March 2010 for discussion at the meeting scheduled for 21 Sept 2010. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2010.

This summary is not intended to be exhaustive but highlights the most significant matters which we would like to bring to your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Description

Key findings on audit risks and other matters

We issued our audit plan for the year ended 31 March 2010 on the 12 March 2010. This plan identified the following key financial audit risk areas and documented our approach to testing these areas:

- grant income recognition;
- pension liability;
- property valuations;
- bad debt provisions;
- valuation of Icelandic investments; and
- accounting for local taxes

Our audit plan also identified the following two risks to our value for money conclusion:

- contract procurement; and
- partnership working.

A detailed description of each of these audit risks and a summary of the results of our procedures in respect of these risks are documented in Section 1.

Value for money conclusion

Under the Code of Audit Practice, auditors are required to give a 'yes/no' conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. This conclusion is given within our audit report on the Council's Statement of Accounts.

We expect to issue an unqualified VFM conclusion in the 31 March 2010 Statement of Accounts.

Other issues

We identified the following other issues within our audit plan and during the course of our audit:

- International Financial Reporting Standards;
- Faster close;
- Cost reduction plan;
- Audit Commission announcement; and
- Comprehensive Area Assessment.

A detailed description of each of these audit risks and a summary of the results of our procedures in respect of these risks are documented in Section 3.

Executive summary (continued)

Audit status

We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan. The matters outstanding at the date of this report include:

- post balance sheet events review;
- finalisation of audit review procedures; and
- receipt of the signed management representation letter (draft included in Appendix 3)

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.

On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion.

Accounting policies and financial reporting

As part of our audit, we consider the quality and acceptability of the Council's accounting policies and financial reporting. We have nothing to report in these areas.

Accounting and internal control systems

We have set out in Section 4 our internal control recommendations. Our significant control recommendations relate to the following:

- signed contracts with suppliers;
- systems training;
- property valuation under IFRS;
- authorisation of journals;
- infrastructure depreciation policy;
- finance lease depreciation policy; and
- IT related recommendations:
 - server room access; and
 - change control process.

1. Key audit risks

The results of our audit work on key audit risks are set out below:

Grant income recognition

Background

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.

In our 2008/9 report to the Audit Committee dated 22 September 2009 we discussed a specific issue in relation to the Unaccompanied Children's Asylum grant. The Council had recognised income of £2,239k claimed through a special representation bid. We identified this amount as an unadjusted misstatement in our 2008/9 report because there was insufficient certainty as to whether the amount would be received to enable recognition of the income in accordance with the SORP. We agreed with the Council that that funding for future years should only be recognised as income in the accounts if it has been granted before the accounts are signed.

Deloitte response

We have reviewed the design and implementation of controls in place at the Council to mitigate the risk of incorrect grant recognition. We have performed additional detailed testing of grant expenditure for a sample of grants to confirm the expenditure is valid and in accordance with the terms of the grant. We have confirmed receipt of grants to relevant documentary evidence such as remittance advice and grant letter and we have reviewed the accounting treatment of a sample of grants with reference to the requirements of the SORP. The results of our testing were satisfactory with the exception of the Unaccompanied Children's Asylum grant discussed below.

We have reviewed the Special Representation Bid in respect of the Unaccompanied Children's Asylum grant and noted that the Council has received approval of this claim and could therefore recognise the income in the financial accounts up to this amount in accordance with the SORP. However, the Council has then recognised an additional £769k income (and related debtor) in excess of this in order to cover 100% of their costs. This has been posted by the directorate finance team based on the historic success of claiming for the full amount of their costs. We understand that corporate finance had not been informed that the amount posted was in excess of the amount approved in the Special Representation Bid. The overstatement of income and debtors of £769k has not been corrected as it is not considered to be material. This adjustment has been included in Appendix 1 as an uncorrected misstatement. In addition, we noted that £2,658k of income in relation to the grant had been misclassified to Adult Social Care. This was corrected by management.

We have also identified one other matter from our testing of grant benefit debtors. We noted a difference of £807k between the housing benefit debtor recorded in the Statement of Accounts and the debtor recorded on the housing and council tax benefit grant claim form (BEN01). This has not been corrected by management as it is not considered to be material. For more details on this adjustment please refer to Appendix 1.

1. Key audit risks (continued)

Pension liability

Background

The liability relating to the pension scheme is substantial and 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 involved 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. Our review has revealed that the assumptions used by the Council in the calculation of the pension liability are within an acceptable range and therefore we do not consider the liability to be materially misstated.

If all of the assumptions were set equal to the Deloitte Illustrative Benchmark assumptions, the deficit of £414,519k would decrease to become a deficit of approximately £344,519k. However, this is not intended to imply that the deficit calculated by the actuary is inappropriate. The key assumptions are all within the acceptable range we have seen adopted by other employers for accounting purposes as at 31 March 2010.

Based on our procedures we identified that the asset value included in the pension liability at year end is misstated. The Council's actuary quantified the value of this as an overstatement of approximately £600k to the asset value at 31 March 2010. We have confirmed that this is a reasonable assessment of the difference. The asset value included in the accounts presented for audit is estimated using known values at 31 December 2009 and estimated asset returns up to 31 March 2010. The value included in the accounts is based on an estimate because the Council's actuary is not able to obtain asset values from the fund managers in time to value the pension liability at year end. The return from 31 December 2009 to 31 March 2010 was estimated by the Actuary as 6.6%, however the actual asset return over that period has since been confirmed as 6.4%. This has been raised as an uncorrected identified misstatement at Appendix 1.

1. Key audit risks (continued)

Property valuation

Background

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 and the Council is not immune to these effects.

In 2009/10 the Statement of Accounts presented for audit showed that overall year-end operational and non-operational asset values have decreased by £111,107k to £1,365,320k. Of this £111,107k movement, a downward movement of £182,234k related to impairments, mainly on schools assets which were subject to a full revaluation in 2009/10. The previous valuation was 5 years ago and, from discussion with the Council, we understand that insufficient depreciation on these assets was built into this valuation. Therefore because these assets are relatively old and the fact that the valuation methodology considers current value, a significant reduction in value was recognised to the buildings in 2009/10. The balancing upward movement of £71,127k related to a combination of additions and upward revaluation less depreciation and disposals.

Deloitte response

We have evaluated 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 the Council's internal valuation specialists utilised to carry out valuations. We have reviewed the reasonableness of key assumptions, including the effect on asset valuations from the recent economic and financial market events and we have discussed the assumptions used with our internal valuation specialists from Drivers Jonas Deloitte. The results of our testing were satisfactory.

Bad debt provisions

Background

In our report to you on the findings from our 2008/9 audit we commented that evidence was limited to support provisions made against certain categories of debt and that available evidence suggested that individual provisions may be either under or over stated.

We also discussed how in calculating certain bad debt provisions, adjustments had been made to historical collection experience to reflect the anticipated impact of current economic conditions on future collection rates.

Deloitte response

We have reviewed the Council's methodologies and assumptions used to calculate provisions and the evidence collected by officers to support its approach. Where applicable we have assessed management's consideration of whether provisions appropriately reflect the impact of the current economic conditions by reference to recent collection performance. The results of our testing were satisfactory and we do not consider bad debt provisions to be materially misstated.

1. Key audit risks (continued)

Valuation of Icelandic investments

Background

The 2008/9 financial statements included an impairment of approximately £5m in relation to Icelandic investments.

Changes in the value of the impairment are required to be accounted for in accordance with relevant technical accounting guidance.

In 2009/10 £5.3 million has been returned to the Council from Heritable Bank. In applying the latest guidance, the Council has calculated that the impairment held against its Icelandic deposits should be reduced by £0.8 million notional interest for the year, and £0.5 million following revised estimates of the future amounts which will be received from each bank. The remaining carrying amount of the investments in the balance sheet at 31 March 2010 is £11.1m (2008/9: £15.0m).

Deloitte response

We have worked closely with the Council to assess the accounting treatment of this event. We have taken into account the latest CIPFA guidance on how to account for the impairment. In terms of the accounting treatment, we are satisfied that the Council has calculated the amount in accordance with the guidance in all material respects. We have re-performed the calculations undertaken and are satisfied that the impairment has been reflected appropriately in the Statement of Accounts.

The ongoing accounting treatment of the impairment beyond 31 March 2010 is subject to a decision by CLG. We understand that the Council challenged the recent decision made by CLG to refuse capitalisation of potential losses and we have reviewed the communication with CLG. We understand that the ongoing treatment will impact on the budget setting process in future years. We will continue to monitor discussions with CLG and the impact this may have in the future.

Accounting for local taxes

Background

The 2009 SORP provides detailed guidance for the first time on the accounting for local taxes. Whilst the Council's past accounting practice is consistent with industry practice, it differs from the requirements of the new SORP and therefore changes were needed both to current year and prior year information.

The 2009 SORP recognises that the billing authority (i.e. the Council) 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 Council's 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. In practice, this means for the Council that only its share of Council Tax arrears will be shown on the balance sheet.

Deloitte response

We have obtained and reviewed the Council's working papers used to assess the impact of this change and the associated accounting entries and have re-performed the calculations. We have performed detailed sample testing of the balances included in the accounts to supporting documentary evidence. The results of our testing were satisfactory and we have concluded that the accounting entries in the 31 March 2010 Statement of Accounts, in respect of accounting for local taxes, are in accordance with the requirements of SORP 2009.

2. Value for money conclusion

Under the Code of Audit Practice, auditors are required to give a 'yes/no' conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. This conclusion is given within our audit report on the Council's Statement of Accounts.

We expect to issue an unqualified VFM conclusion in the 31 March 2010 Statement of Accounts. We issued our audit plan for the year ended 31 March 2010 on the 12 March 2010. We have set out below the key audit risk areas that relate to our VFM conclusion which we identified in our audit plan together with a summary of our findings.

Contract procurement

Background

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. We are aware of issues in relation to procurement at Hillingdon Grid for Learning not having been in accordance with Council policy, and consider this to be part of a wider risk across the Council.

If goods and services are not being procured in accordance with Council policy there is a risk that the Council is not achieving value for money on its contracts.

Deloitte response

We have reviewed a sample of single tender contracts awarded in the year with a focus on contracts awarded by Hillingdon Grid for Learning (HGfL). We have checked that the contracts have been awarded in accordance with Council policy and no issues were noted. We have discussed with Internal Audit the recommendations made in December 2009 in relation to HGfL procurement and understand that these have now been implemented.

We also reviewed the Council's list of all contracts awarded in the year and checked on a sample basis whether the list of single tender contracts provided to us was complete. Our testing indicated that not all new contracts had been recorded within the procurement system in the year. We understand that contracts not included on the procurement system are likely to be for smaller immaterial amounts. We also understand that a new procurement strategy has been implemented in the year that should reduce the risk of incomplete recording on the procurement system.

In addition to our findings above, through our testing of property, plant and equipment we identified that there is not a formal signed contract in place with the construction company working on the Hillingdon House Farm project. This project is valued at approximately £30m. We have set out further details and raised a recommendation in relation to this in Section 4.

2. Value for money conclusion (continued)

Partnership working

Background

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.

We considered the performance of the Local Strategic Partnership in 2008/9, and noted that the partnership had achieved a significant number of their targets, accessing additional performance based funding as a result.

Deloitte response

We have reviewed the performance of the significant partnerships within which the Council participates. We have seen no evidence of significant legal claims or penalties in connection with any partnerships and the Council has demonstrated that it aligns priorities and achieves value for money from its partnerships arrangements, for example by the fact that the Council is on course to achieve 90% of the performance Local Area Agreement 2007 stretch reward target.

3. Other issues

We identified the following other issues within our audit plan and during the course of our audit:

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.

The Council has appointed external support to assist in this transition. We understand that the Council is currently on track to meet the CIPFA timetable for IFRS convergence. An impact assessment has been completed and the opening balance sheet as at 1 April 2009 has been restated. A skeleton set of IFRS compliant accounts has been drafted and the Council plans to restate the 2009/10 accounts before the end of the calendar year.

Deloitte response

We have liaised regularly with the Council around this issue and have discussed the approach taken towards IFRS convergence. We have discussed the anticipated significant issues around valuation, componentisation, impairment, leases, employee benefits and government and non-government grants.

We understand that the Council is on track in meeting its project plan and the Audit Committee has been kept updated and has questioned officers on progress.

Faster close

Background

Our meetings with the Council's Chief Executive and finance team 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. There is a risk with speeding up the closedown process that errors could be made and not found and rectified.

The accounts were approved by the Audit Committee one day earlier in 2009/10 than in the previous year. However, we understand that the internal accounts preparation process was completed earlier than in 2008/9 and that this was achieved through extensive training given to directorate teams during the year.

We did not note any impact on the quality of the accounts or supporting work papers which were of a similar high standard to last year and we have received rapid responses to audit queries.

Deloitte response

We have worked with the finance team to support work towards achieving the faster close this year. We have worked closely with the finance team to develop a timetable to sign the final accounts in line with its plan.

Looking forward, with the transition to IFRS in 2010/11, we will meet with the finance team in advance of next years audit to ensure that all aspects of the transition are managed efficiently.

3. Other issues (continued)

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 no increase in Council Tax in 2010/11, having already frozen Council Tax in 2009/10.

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 now that 2009/10 has ended and 2010/11 begins.

The outturn in 2009/10 was £186.8m which was an under spend of £5m compared to budget. The current medium term financial plan indicates the need to make savings of approximately £47m by April 2014 which is 15% of gross spend on controllable budgets. We understand that the Council expects £43m of these savings to be delivered through the Business Improvement Delivery (BID) plan with £4.4m of this savings target due to be delivered in 2010/11. There is an operational risk in implementing cost reduction that there could be a decline in public service.

Deloitte response

We have discussed the Council's BID plans with management and we will continue to work closely with the Council during the year to pre-empt any issues with respect to the accounts. We will need to consider how the Council has accounted for change, for example accounting for any restructuring costs, as we plan our audit for 2010/11. During the audit we have not identified any issues that materially impact the 2009/10 Statement of Accounts.

Audit Commission announcement

Background

On 13 August 2010, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission. The proposed abolition will be from March 2012 and the Audit Commission has confirmed that there is no immediate change to your audit arrangements. New audit arrangements are likely to apply from the start of the 2012/13 financial year.

Deloitte response

Both we and the Audit Commission will keep you informed of further developments. Included within our 2009/10 fee was the amount of £66k for Use of Resources and data quality work. In May 2010 the new government announced that they would abolish CAA. The Audit Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. We have been informed that from 2010/11 there will be a new, more targeted and better value approach to the local VFM audit work. We understand that this will be based on a reduced number of reporting criteria specified by the Commission. We would therefore expect a variation on this fee in our 2010/11 audit plan. We will keep the Council informed of further developments in respect of the VFM requirements.

3. Other issues (continued)

Comprehensive area assessment

Background

This was to be the second year of the Comprehensive Area Assessment (CAA). The Council did well in the 2008/9 CAA, being awarded 'Three – Performing Well', also being awarded a 'Green Flag' in relation to partnership working to support unaccompanied asylum seeking children. In May 2010 the new government announced that they would abolish CAA.

The Audit Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. We have been informed that from 2010/11 there will be a new, more targeted and better value approach to the local VFM audit work. We understand that this will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

Deloitte response

We have completed most of our Use of Resources (UoR) work this year and we are relying on that work for our VFM conclusion (see Section 2 for further details on our VFM conclusion). In respect of the CAA and our Use of Resources work, there will be no published scores this year. Following the recent announcement in respect of the abolition of the Audit Commission in August 2010, we will ensure that we keep the Council informed of further developments and the impact those changes may have on the audit work we perform.

4. Accounting and internal control systems

Control observation

During the course of our audit we identified a number of control observations, the most significant of which are detailed below, together with our assessment of priority:

- High – immediate action required
- Medium – action required within 6 months
- Low – action required within 1 year

Signed contracts with suppliers

Observation

The Hillingdon House Farm project does not have a formal signed contract in place with the construction company, although the project is valued at approximately £30m. Management relies on the letter of intent and will complete the contract with the supplier once construction is finished.

We understand that it is standard practice within the construction industry that signed contracts are not always in place. However, the lack of a formal agreement puts the council at risk of suffering losses since there is no legal recourse in the event of the counterparty reneging on the agreement. In this instance the asset had already been constructed and therefore if it were found to not meet the Council's requirements, there is the risk that no amendments would be enforceable.

Recommendation

We understand that the Council's Legal department was involved in the project consultation and had input regarding the form of the letter of intent. We understand that construction beginning without a formal signed contract is not unusual in the industry. Nevertheless, we recommend that contracts are obtained for all high-value projects with sign off on the contract not possible without prior approval from the legal department.

We understand that Internal Audit have conducted extensive work on procurement during 2009/10 but that there are outstanding recommendations from this work. We understand that the Internal Audit work plan for 2010/11 includes plans to undertake focused work on specific contracts. We recommend that the Council prioritise finalising recommendations from 2009/10 and any new recommendations that may arise from Internal Audit work on contracts in 2010/11.

4. Accounting and internal control systems

Signed contracts with suppliers (continued)

Management response	<p>The decision to proceed with construction based on a letter of intent was not taken lightly. It was a considered decision to proceed rather than accept a significant delay to the project with likely cost consequences.</p> <p>The procurement of contracts for this particular scheme was managed by the Major Construction Project team within delegated powers in 2005/6. The decision was taken at a high level with full agreement from the Council's Legal department and external consultants Atkins. The form of the letter of intent was agreed by the Legal department.</p> <p>The Council has not accepted the absence of a signed contract. It has made strenuous and continuous efforts throughout to achieve an agreed and signed contract, which is now close to completion.</p> <p>Management believes that the Council still has legal recourse in this situation. Construction work proceeding without a signed contract is by no means unusual in the industry. The Courts assume an implied contract in a standard form, based on the Tender Documents and the letter of intent, and in many respects similar to the contract that would otherwise be in place.</p> <p>However management does accept that contractual arrangements and change controls are essential to ensure the Council's interests are properly protected. To this end new control procedures, including contract signoff, are being implemented within the Major Construction Project team and across the Council generally.</p>
Priority:	High
Owner:	Norman Benn, MCP

Systems training

Observation	<p>We noted that a new system (ControCC) was implemented in Education & Children's Services in the year. The implementation of this system had some initial problems in relation to the timely payment of invoices and allocation of these payments. In addition we noted that some immaterial client accounts were not validated in the system leading to an understatement of claimable days in relation to the Asylum Seekers Grant.</p>
Recommendation	<p>We recommend that where the Council is implementing a new system, full staff training on all areas of functionality should be given as a priority in advance of the date the system goes live.</p>
Management response	<p>The Council does currently ensure staff training takes place prior to the introduction of new systems and has, in recent years, invested resources into providing specialist training facilities to accommodate this. However, the Council will endeavour to improve the quality of such training. Recent organisational changes within ICT have enabled the introduction of specific ICT Business Partners for each directorate who work collectively with the business areas, the project managers and the Learning Development teams to ensure that appropriate training is built into any IT systems implementation prior to going live.</p>
Priority:	Medium
Owner:	Louise Bateman, ICT Business Partner for F&R and DCEO

4. Accounting and internal control systems (continued)

Property valuation under IFRS

Observation	<p>No issues were noted from our work on property valuations for the year ended 31 March 2010.</p> <p>We have begun discussions with the Council in relation to the audit work that will be required for the restatement of the IFRS opening balance sheet and comparative figures. We understand that it is the Council's intention to 'roll-forward' the 31 March 2010 valuation for this purpose. In preparation for this piece of work our internal valuation specialists from Drivers Jonas Deloitte have noted that there was limited evidence of the full application of the guidance set-out in RICS Valuation Information Paper 10. Specifically there was no explicit confirmation that assets being valued using a Depreciated Replacement Cost (DRC) approach were valued using a Modern Equivalent Asset (MEA) approach. In all cases the conclusion was that the asset was operating at capacity and that therefore no alternative asset was relevant. Whilst this is appropriate under the SORP, for the IFRS restatement exercise we would expect explicit mention of an MEA valuation approach based on decisions informed by discussions with the Council's in-house departments.</p>
Recommendation	<p>We recommend that the valuation team include discussions with the relevant directorate early in the process. This will allow a robust assessment of whether an alternative asset could produce the same required outputs for a lower build cost. This should be evidenced in the valuation file. This will ensure the Council's assets are appropriately valued in accordance with IFRS.</p>
Management response	<p>Management accepts the recommendation but notes the following:</p> <p>The Asset rolling programme for revaluations was carried out against the background of the 'Schools Organisation Plan' the 'Hillingdon Children and Families Trust Plan' and the Primary Capital Programme.</p> <p>Hillingdon is experiencing considerable school places pressures and has a major school expansion programme underway. Hence the assumption that school assets are operating at capacity and no alternative use was relevant is indeed valid and therefore a MEA valuation would not be appropriate for these specific assets at this time.</p> <p>Furthermore if reduction in school sizes were to take place, such as the removal of temporary classrooms, this would be picked up as adjustments to valuations as and when such changes take place.</p> <p>In future the Education department can be specifically surveyed to identify potential surplus capacity for each school which would impact on a MEA valuation.</p>
Priority:	Medium
Owner:	Virginia de Mattos RICS, Corporate Property

4. Accounting and internal control systems (continued)

Authorisation of journals

Observation

Currently there is not a consistent, formalised procedure for approval of journals. Many employees do have all their journals reviewed by a colleague or manager, although unless a signed hard copy of the journal has been kept on file there is no evidence of this approval.

Some staff do not routinely have their journals approved or reviewed, as they work on a specific area such as the pension scheme or collection fund. In these cases they work alone and do not have a manager in their department, so it is not seen as effective to send journals for approval as staff in other departments would not understand what they were approving. The lack of approval or authorisation could result in incorrect or fraudulent postings being posted to the system.

Recommendation

We recommend that all journals should be approved before being posted. We understand that the journal system is intended to be updated this year, with a new automated approval process which would provide a clear audit trail.

Until this becomes operational, we recommend keeping hard copies of journals which can be signed and put on file, or an alternative may be for the reviewer to send an email to the preparer when their journal has been approved, as evidence of the review. This is especially important if there is a chance of the roll-out of the new system being pushed back again to 2011.

Management response

A new journal approval system is now developed and virtually ready to roll out and planned to become operational in September 2010. Significant progress has been made by the Council in relation to this system and all journal posters have now been assigned an approver. Templates have been created and end testing for the new system is complete. The new system obliges approvers to view any journals before approval and this should prove to be a considerable improvement on previous systems that allowed approvers to approve without reviewing the journals

Priority: Low

Owner: Harry Lawson, Corporate Finance

4. Accounting and internal control systems (continued)

Infrastructure depreciation policy

Observation	As part of the transition to IFRS, there is an increasing focus on component accounting in fixed assets. Currently the depreciation policy on infrastructure assets is to use a standard useful life of 40 years. This asset category includes all roads, resurfacing projects and street furniture which will all have different life spans. For example, the tarmac of a road and its underlying layers may be replaced at very differing intervals.
Recommendation	We recommend the Council consider reviewing the depreciation policies in respect of infrastructure.
Management response	Management accepts this recommendation and will liaise with Infrastructure managers to enable categorisation of works.
Priority:	Low
Owner:	Andy Evans, Head of Finance PE&CS

Finance lease depreciation policy

Observation	<p>Finance leases are currently depreciated on an annuity basis with a charge being made equal to the principal part of the lease payment due in the financial year. This results in lower charges in earlier years and higher charges in later years than would be the case using straight line depreciation. All other assets are depreciated on a straight line basis. In the case of the Barnhill Community School PFI scheme and the vehicles held on finance leases, we would not expect the benefits extracted from the assets to follow this annuity profile. In the case of the Barnhill school, all other schools are depreciated on a straight line basis which is considered to reflect the consumption of economic benefits. In the case of vehicles, we would expect the consumption of economic benefits (i.e. loss of value) to be higher in earlier years rather than lower.</p> <p>The impact of this difference in treatment is trifling in the current year as a result of the immaterial nature of such schemes but could be significant if the Council initiates high value finance leases in the future.</p>
Recommendation	The Council may wish to consider reviewing its depreciation policies in respect of finance leases including PFI schemes. This review should assess whether the policy appropriately reflects the consumption of economic benefits.
Management response	<p>Management accepts the recommendation and will undertake such a review.</p> <p>Barnhill is valued at amortised cost of the principal part of the original PFI contract. As such, an annuity basis depreciation is felt to be appropriate and in line with the corresponding strategy of establishing a sinking fund thus recognising increased consumption in later years. However, the consumption of economic benefit of vehicles may well be better reflected by another depreciation method but the amounts involved are fairly small and hence differences between the methods would be highly immaterial.</p>
Priority:	Low
Owner:	Harry Lawson, Corporate Finance

4. Accounting and internal control systems (continued)

IT related recommendations are as follows:

Server Room Access

Observation	<p>Of the 32 access cards which were granted access to the server room at Hillingdon, 18 were not required to be in circulation and could be revoked without affecting server room support.</p> <p>In addition, security guards were found to be 'clocking out' on server room doors, preventing accurate review of access violation attempts. Access reviews of logs are not in place, and the process for gaining access through facilities is not formalised.</p> <p>The 18 exceptions identified above are more a housekeeping issue as they were all confirmed to be members of IT or fire wardens / security. When users are clocking out using the card access system this means that Hillingdon staff are not able to build up a true picture of the number of inappropriate attempts to gain access to the server room. In addition it makes any process of reviewing the audit logs more difficult.</p>
Recommendation	<p>We recommend that management carry out the following:</p> <ul style="list-style-type: none">- review users who have access cards to the server rooms and remove any considered not necessary for individuals to carry out their job roles;- ensure that security staff are not using the access system as a means of clocking in and out; and- implement a periodic review of user access to the server room to ensure that only appropriate individuals are gaining access.
Management response	<p>Approval is now required from either the Head or two assistant heads of ICT, for any new or revised access request. All generic accounts have been removed and there is a procedure to review all access rights once a quarter to maintain appropriate levels of access.</p> <p>An agreement has been in place (since 1 April 2010) for any non-ICT access rights to be properly policed to ensure appropriate use only of the access privileges and the Head of Facilities Management has been asked to instruct security guards to stop misusing this system, and has subsequently confirmed that this has stopped.</p>
Priority:	Low
Owner:	Agreed and implemented

4. Accounting and internal control systems (continued)

Change Control Process

Observation	<p>Changes carried out by Northgate did not always have test material retained or approval documented on the RFC (Request For change form) which is raised in relation to each change. Whilst approval was found to be appropriate through review of email trails this was not documented on the RFC.</p> <p>Where approval and testing is not clearly captured there is a risk that unauthorised changes and changes which have not been fully tested may be loaded into the production environment. This can lead to system instability and system downtime where inappropriate changes may be loaded into production.</p>
Recommendation	<p>We recommend that management complete the current RFC form and ensure that approval and testing information is captured on it.</p>
Management response	<p>A new change request process has been developed using the Council's call management system, LANDesk, in partnership with Hillingdon application managers (piloted in April 2010). This ensures that each manager is responsible for changes requested to their system and has the functionality to store testing documentation. Approval of the change is a mandatory step in this process and can only come from the application manager for each system.</p>
Priority:	Low
Owner:	Agreed and implemented

5. Other matters for communication

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

Independence	<p>We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.</p> <p>If the audit committee wishes to discuss matters relating to our independence, we would be happy to arrange this. If the Audit Committee wishes to discuss matters relating to our independence, we would be happy to arrange this.</p>
Non-audit services	<p>We are not aware of any inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non audit services or of any apparent breach of that policy</p> <p>An analysis of professional fees earned by Deloitte in the period from 1 April 2009 to 31 March 2010 is included in Appendix 2.</p>
International Standards on Auditing (UK and Ireland)	<p>We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.</p>
Liaison with internal audit	<p>The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit and adjusted our assessment of risk as appropriate. No issues were noted from these procedures.</p>
Written representations	<p>A copy of the representation letter to be signed on behalf of the Council has been included within Appendix 3.</p>

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” circulated to you in September 2008 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 the Audit Committee 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 Audit Committee as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Chartered Accountants

St. Albans
8 September 2010

Appendix 1: Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our review:

		Credit/ (charge) to current year income and expenditure £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) in pension reserve deficit £'000	Increase/ (decrease) in change in general fund £'000
Factual misstatements					
Pension liability	[1]	-	(600)	600	-
Judgemental misstatements					
Asylum seekers grant	[2]	(769)	(769)	-	(769)
Housing and council tax benefit	[3]	807	807	-	807
Total		<u>38</u>	<u>(562)</u>	<u>600</u>	<u>38</u>

We will obtain written representations from the Council confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments are required.

- [1] The pension asset values at 31 March 2010 were estimated using the known asset value at 31 December 2009 and estimated asset returns up to 31 March 2010. The return from 31 December 2009 to 31 March 2010 was estimated by the Actuary as 6.6%, however the actual asset return over that period has since been confirmed as 6.4%. The Actuary has estimated that the assets have been overstated by approximately £600k.
- [2] The Special Representation bid for further funding for service provided to asylum seekers has been approved and the Council has recognised all of the income in relation to this grant. However, the Council has recognised an additional £769k of income (and related debtor) in excess of this in order to cover 100% of its direct costs since these have always historically been recovered. This is in excess of the amount approved in the Special Representation Bid and therefore an adjustment has been proposed to reflect that a greater degree of certainty is required before funding should be recognised.
- [3] The housing and council tax benefit grant claim (BEN01) indicates the net amount due to the Council relating to housing and council tax benefit subsidy from the Department of Work & Pensions (DWP). In the Statement of Accounts the Council has recognised a lower debtor amount than that which is shown in the grant claim form to provide for the possibility of DWP claw back of the subsidy. We are not aware of any history of such claw back and the claim form is considered to represent the Council's best estimate of the subsidy debtor. An adjustment of £807k has been proposed to reflect that a greater level of certainty is required before such a provision is recognised. The Council does not consider this to be a material adjustment.

Recorded audit adjustments

There were no recorded audit adjustments identified during the course of our review.

Appendix 1: Audit adjustments (continued)

Disclosure deficiencies

Auditing standards require us to highlight significant disclosure deficiencies to enable audit committees to evaluate the impact of those matters on the financial statements. The table below highlights those areas of disclosure that we consider require consideration by the committee.

Disclosure	Source of disclosure requirement	Quantitative or qualitative consideration
Net assets of Hillingdon Homes	[1] SORP	£1,494k

- [1] The SORP requires the disclosure of the net assets and results of operation for related companies of the Council. The Council has not included this disclosure in the accounts as, due to the required accounting treatment for the indemnity given by the Council to Hillingdon Homes in respect of FRS 17 losses, it would result in inconsistency between the two sets of accounts. The Council does not consider this to be a material disclosure deficiency.

Appendix 2: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2009 to 31 March 2010 are as follows:

	2010 £'000	2009 £'000
Statement of accounts	302	302
Use of Resources and data quality	66	66
Whole of Government accounts (WGA)	6	6
Pension fund	38	38
Grant claims and returns	137	138
Total fees for audit services provided to the Council	549	550

Included within our 2009/10 fee was the amount of £66k for Use of Resources and data quality work. In May 2010 the new government announced that they would abolish CAA. The Audit Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. We have been informed that from 2010/11 there will be a new, more targeted and better value approach to the local VFM audit work. We understand that this will be based on a reduced number of reporting criteria specified by the Commission. We would therefore expect a variation on this fee in our 2010/11 audit plan. We will keep the Council informed of further developments in respect of the VFM requirements.

No fees have been earned from non-audit services during the year. At the date of this report no future services have been contracted for or written proposals submitted.

Appendix 3: Management representation letter

Deloitte LLP
3 Victoria Square
Victoria Street
St Albans
AL1 3XT

Our Ref: GM/JLG/10

Date: September 2010

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Hillingdon (“the council”) for the year ended 31 March 2010 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the London Borough of Hillingdon as of 31 March 2010 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with applicable accounting framework.

We acknowledge our responsibilities for preparing financial statements for the council which give a true and fair view and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all council and relevant committee meetings, have been made available to you.
2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the council involving:
 - (i). management;
 - (ii). members of the council;
 - (iii). employees who have significant roles in internal control; or
 - (iv). others where the fraud could have a material effect on the financial statements.
5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the council’s financial statements communicated by employees, former employees, analysts, regulators or others.
6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
7. We have considered the uncorrected misstatements and disclosure deficiencies detailed in the appendix to this letter. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.
8. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the directors, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the council. Any significant changes in those values since the balance sheet date have been disclosed to you.

9. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements.
We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the council and confirm that we have disclosed in the financial statements all transactions relevant to the council and we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS8 "Related party disclosures" or other requirements.
10. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
11. We have considered all claims against the council and on the basis of legal advice have provided for the amount. No other claims in connection with litigation have been or are expected to be received.
12. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
13. Other than those described in Note 40 to the financial statements, there have been no events subsequent to 31 March 2010 which require adjustment of or disclosure in the financial statements or notes thereto.
14. There have been no irregularities involving members or employees who have a significant role in the accounting or internal control systems or that could have a material effect on the financial statements.
15. The council has satisfactory title to all assets and there are no liens or encumbrances on the council's assets.
16. We recognise that we are responsible for ensuring that the statement of accounts as published on the website properly presents the financial information and your auditor's report and for the controls over, and security of, the website. We also recognise that we are responsible for establishing and controlling the process for electronically distributing annual reports and other information.
17. We confirm that:
 - all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
 - all settlements and curtailments have been identified and properly accounted for;
 - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
 - the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
 - the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
 - the amounts included in the financial statements derived from the work of the actuary are appropriate.
18. We confirm that the methodology used by management to estimate the increase in value to fixed assets as a result of expenditure on those assets represents the best estimate of the value added.
19. All known material liabilities have been properly included in the statement of accounts and all material contingent liabilities have been disclosed.
20. We have adhered to guidance and used this to calculate the impact of any impairment on our investments, and have disclosed these fully in the statement of accounts.
21. We confirm that the provision in respect of Equal pay has been calculated to include all potential future claims and are satisfied that no liability exists prior to July 2003.
22. We confirm that the dilapidation provision has been calculated to take into consideration all expected future costs associated with the Annington Homes lease.

23. We confirm that the provision for doubtful debts in relation to council tax is appropriate.
24. We confirm that we consider an adjustment to decrease income by £0.8 million relating to the Asylum Seekers Grant is inappropriate based upon our belief that funding will be secured. We believe there is no need to adjust the provision due to:
- The immateriality of this in respect of the financial statements;
 - The previous historic record of achieving the funding through the Special Representation process in relation to these direct costs; and
 - The amount being sought not being dissimilar to 2008/09 and therefore there has not been an unexpected increase in 2009/10 that we are seeking to claim.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Christopher Neale
Director of Finance and Resources
Signed on behalf of the London Borough of Hillingdon

APPENDIX 1 SCHEDULE OF UNCORRECTED MISSTATEMENTS

Description	Assets DR / (CR) £'000	Liabilities DR / CR £'000	Equity DR / (CR) £'000	Income Statement DR / (CR) £'000
Being the overstatement of the pension scheme assets leading to understatement of DB liability				
Dr Pension reserve			600	
Cr Liabilities relating to DB pension scheme		(600)		
Being adjustment for Asylum Seeker Grant income recognised more than specified in grant letter				
Dr Education & Children's Services Income				769
Cr Government department debtors	(769)			
Being adjustment for housing & council tax benefit subsidy to bring the debtor in line with the grant claim form				
Dr Housing & council tax benefit debtor	807			
Cr Other housing services				(807)

APPENDIX 2 DISCLOSURE DEFICIENCIES

#	Disclosure title	Description of the deficiency and explanation of why not adjusted	Amount (if applicable) £'000
Note 1 on p72	Group accounts	SORP requires disclosure of net assets and results of operation for related companies of the authority. Due to the required accounting treatment for the indemnity given by the authority to Hillingdon Homes in respect of FRS 17 losses, such disclosure would be inconsistent with the Hillingdon Homes accounts.	1,494

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EXTERNAL AUDITOR REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS

Contact: Nancy Leroux
Telephone: 01895 250353

SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2009/10 Pension Fund Annual Report and Accounts. Regulations require that the auditor's report is communicated to Audit Committee as the body charged with governance of the council's accounts.

RECOMMENDATION

To note the auditor's findings.

BACKGROUND

1. The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.
2. The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Statement of Recommended Practice (SORP).
3. The Pension Fund Accounts were subject to a separate audit by the Council's external auditors, Deloitte LLP, which must be completed by 30 September 2010.
4. Whilst Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Annual Report requires the approval of Pensions Committee. Therefore a similar report is being taken to Pensions Committee on 22 September 2010.

International Standard on Auditing Report 260 (ISA 260)

5. The ISA 260 requires that auditors should communicate to elected members matters of governance that arise from the audit of the financial statements. These cover:
 - Key audit risks
 - Accounting and internal control systems

Audit Committee 21 September 2010
PART 1 – MEMBERS, PUBLIC & PRESS

6. In addition, the Auditor requires a “Representation Letter” to be signed by management and the Committee. The contents of this letter are set out at Appendix 3. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

COMMENT ON THE CONTENTS OF THE REPORT

7. There were no audit adjustments to report.

Accounting and internal control systems

8. During the audit, Deloitte identified two areas of improvement in relation to the internal control system, relevant to the pension fund accounts. Management has agreed with the recommendations which are discussed in Section 2 of the report.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

BACKGROUND DOCUMENTS

None

London Borough of Hillingdon Pension Scheme

Report to the Audit Committee and Pension Committee

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Executive summary

We have pleasure in setting out in this document our report to the Audit Committee and Pension Committee for the year ended 31 March 2010 for discussion at the meeting scheduled on 22 September 2010. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2010.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Key findings on audit risks and other matters	<p>In our audit plan we identified three key audit risks in relation to:</p> <ul style="list-style-type: none">• calculation of contributions in light of there being more than one admitted body;• the calculation of benefits given the complexities of calculating retirement, ill health and death benefits as a result of changes introduced in 2008; and• the valuation of private equity. <p>We carried out testing in line with our approach set out in our Audit Plan and there were no exceptions to report to you.</p>
--	---

Audit status	<p>The audit is substantially complete, and subject to the finalisation of the following:</p> <ul style="list-style-type: none">• completion of internal review processes;• review of final draft of financial statements;• representation letter (Appendix 3); and• update of post balance sheet event review. <p>We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.</p> <p>On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.</p>
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Identified misstatements and disclosure deficiencies	<p>Audit materiality has increased to £7.1m from £6m (2009 £6.4m) as set out in our Audit Plan. This is to reflect the final outturn for the year ended 31 March 2010 as opposed to the materiality determination forecasted result.</p> <p>There were no uncorrected misstatements or disclosure deficiencies.</p>
---	---

Accounting and internal control systems	<p>During our audit we observed two areas of improvements in relation to the internal control system. The following have been discussed in detail in section 2:</p> <ul style="list-style-type: none">• Control process for authorising the posting of journals; and• Regular review of Fund Managers internal control reports.
--	--

1. Key audit risks

The results of our audit work on the key audit risks are set out below:

Contributions	
Risk	Contributions are a material income stream for the Scheme and in view of the complexity introduced by the participation of more than one employer, together with changes made to the Local Government Pension Scheme in April 2008 which mean that members pay different rates on the basis of their pensionable pay, we have identified this as a specific risk.
Response	<p>We have performed the following testing to address the specific risk:</p> <ul style="list-style-type: none">• design and implementation of key controls were tested by discussing with the pensions team the controls around contributions and testing and that they were in force during the year. No issues were noted;• detailed testing, by selecting a sample of employees and recalculating the employee and employer contributions to ensure these are in accordance with the contribution rates in force during the year.• analytical review was performed to get assurance over the completeness of contributions. We built an expectation for the employer and employee contributions based on the 2009 contributions and adjusted for pay rises, change in member numbers and contribution rates. The difference between our expectation and the actual contributions fell within our tolerance level. <p>Our testing proved satisfactory.</p>

1. Key audit risks (continued)

Benefits	
Risk	<p>Changes were made to the Local Government Pension Scheme from April 2008 which introduced complexities into the calculation of retirement, ill health and death benefits.</p> <p>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.</p> <p>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 administrators may not have retained all the necessary records.</p>
Response	<p>The following tests were performed to address the specific risk around contributions:</p> <ul style="list-style-type: none"> • testing of design and implementation of key controls over benefits. This involved identifying key controls in place to ensure the accuracy, completeness and validity of benefits through discussion with the pension administration team and testing to ensure in force during the year. No issues were noted; • analytical review was performed over pensions payments by building an expectation for 2009 based on the 2008 pension paid and adjusting for pension increases and change in membership numbers. This was compared to the actual pension paid in the year and the difference between the two was within our tolerance level; and • for a sample of pension and other benefit payments, we performed detailed substantive tests on their benefit calculations and compared these calculations to the Scheme rules. Member files were reviewed to verify the necessary documentation for the sample chosen. No exceptions were noted in the sample tested. <p>Our testing proved satisfactory.</p>

1. Key audit risks (continued)

Private Equity	
Risk	<p>The Pension Fund makes some use of investments in unquoted investment vehicles. A number of such investment vehicles have suffered significant losses over the last two years.</p> <p>Private Equity (PE) funds are complex to value and given the lack of marketability and externally available information to value them their valuation includes an element of judgement on the part of the fund manager. These investments form a material balance within the Pension Scheme accounts and therefore the valuation of PE funds is regarded as a risk area.</p>
Response	<p>Our key audit procedure for testing PE funds was to request direct confirmations from all fund managers and custodians and to obtain and review AAF reports relating to internal controls in place at fund managers and custodians.</p> <p>We also performed the following detailed procedures:</p> <ul style="list-style-type: none"> • understood the pricing methods adopted for the PE investments and assessed whether these were appropriate; • obtained the fund manager's audited financial statements at 31 December 2009 and statements as at 31 March 2010 and understood the movements between the two dates; • values as at 31 December 2009 and 31 March 2009 were compared to custodian valuations to gain further assurance over the valuation; and • year end investments are in line with the Statement of Investment Principles. <p>As a result of our testing we have concluded that the PE valuations included in the financial statements are not materially misstated.</p>

2. Accounting and Internal Control Systems

Journal Authorisation

Issue:

During our audit we noted that there is no formal process for reviewing or authorising journals before they are posted and where such reviews do take place, there is no evidence of review. This increases the risk that unauthorised or incorrect journal may be processed and these will not be detected in a timely manner.

Recommendation:

Although there are mitigating controls in place we recommend that management introduce a formal process in the reviewing and authorisation of journals. We recommend having authorisation limits for various personnel depending on the value of journals.

Management response:

We are developing a system where journal entries will be automatically sent to managers for authorisation. Therefore this control will be implemented going forward.

2. Accounting and Internal Control Systems (continued)

Review of Fund Managers' internal control reports

Issue:

From our review of the fund managers' internal control reports, we noted some managers had a high level of control deficiencies. For each deficiency, a response has been obtained from management setting out the reason for the failure in the control and the remedial action taken to address the matter. Based on our discussions with management, it does not appear that the Pensions Committee has assessed the impact, if any, that the breakdowns in these controls may have on investments held by Hillingdon Pension Scheme.

Recommendation:

Demonstrating strong governance is an increasing area of focus by Audit Committees. We recommend that the Pension Committee perform due diligence on the investment manager internal control reports and request that the fund managers report back to the Committee on the impact that the deficiencies noted had on the Scheme. The Pension Committee may wish to supplement these reviews with visits to each of the key investments managers, such as SsgA and UBS.

Management response:

We agree with this recommendation and will add to the Pension Committee workplan.

3. Other matters for communication

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

Independence	<p>We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.</p> <p>If the audit committee wishes to discuss matters relating to our independence, we would be happy to arrange this.</p>
Non-audit services	<p>We refer you to our report on London Borough of Hillingdon where we have provided further information about our non-audit services to the Borough.</p> <p>An analysis of Pension Scheme fees earned by Deloitte in the period from 1 April 2009 to 31 March 2010 is included in Appendix 2. We have not received any non-audit fees.</p>
International Standards on Auditing (UK and Ireland)	<p>We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.</p>
Liaison with internal audit	<p>The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit. There were no areas where we needed to adjust our audit approach as a result of the findings of internal audit.</p>
Written representations	<p>A copy of the representation letter to be signed on behalf of the Committee has been attached to this document. Non-standard representations have been highlighted.</p>

4. Responsibility statement

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our audit plan has been prepared on the basis of the Code and the Statement of Responsibilities, copies of which have been provided to Boroughs by the Audit Commission, and our audit work carried out in accordance with these documents.

The audit may include the performance of national studies developed by the Audit Commission, where the auditors are required to follow the methodologies and use the comparative data provided by the Commission. A responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Audit Commission. The audit may also include reviews such as this report which address locally determined risks and issues the scope of which is agreed with management in advance of the work. In this case it is for management to determine whether the scope is adequate and appropriate to their needs.

While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Pension Scheme's system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors' report.

We view this report as part of our service to you for Corporate 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. It should not be made available to any other parties without our prior written consent

Deloitte LLP

Chartered Accountants

Birmingham

September 2010

Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2009 to 31 March 2010 are as follows:

	2009/10 £
Fees payable to the company's auditors for the audit of London Borough of Hillingdon Pension Scheme accounts	38,000

Appendix 2: Representation letter

(Client's Letterhead)

Deloitte LLP

4 Brindley Place

Birmingham B1 2HZ

Our Ref: GM/HP/GK/2010

Date:

Dear Sirs

London Borough of Hillingdon Pension Scheme (the "Scheme")

This representation letter is provided in connection with your audit of the financial statements of the scheme for the year ended 31 March 2010 for the purpose of expressing an opinion as to whether the financial statements are true and fair, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 in respect of the financial transactions of the Pension Scheme during the year ended 31 March 2010, and the amount and disposition of the scheme's asset and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We acknowledge as members of the London Borough of Hillingdon our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Scheme and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Scheme have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of Officer and Committee member meetings, have been made available to you.
2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Scheme involving:
 - (i). management;
 - (ii). employees who have significant roles in internal control; or
 - (iii). others where the fraud could have a material effect on the financial statements.

5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Scheme's financial statements communicated by members, former members, employers, regulators or others.
6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
7. Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Scheme. Any significant changes in those values since the balance sheet date have been disclosed to you.
8. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements.
9. We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Scheme and confirm that we have disclosed in the financial statements all transactions relevant to the Scheme and we are not aware of any other such matters required to be disclosed in the financial statements, whether under Statement of Recommended Practice – Financial Reports of Pension Schemes (revised May 2007) ("Pensions SORP 2007") or other requirements.
10. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the scheme. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Scheme's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
11. You have been informed of all changes to the Scheme rules during the year and up to the current date.
12. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Scheme's financial statements.
13. No claims in connection with litigation have been or are expected to be received.
14. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
15. There have been no events subsequent to 31 March 2010 which require adjustment of or disclosure in the financial statements or notes thereto.
16. There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.
17. The pension scheme accounts and related notes are free from material misstatements, including omissions.
18. The Scheme has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
19. The Scheme has satisfactory title to all assets.
20. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

21. No transactions have been made which are not in the interests of the members of the Scheme during the Scheme year or subsequently.
22. All trades in complex financial instruments are in accordance with our risk management policies, have been conducted on an arm's length basis and have been appropriately recorded in the accounting records, including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments (including any embedded derivatives and written options) and other financial instruments has been withheld.
23. We confirm that the Pension Scheme Annual Report is compliant with the requirements of Regulations 34(1) (e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.
24. We confirm that the information that is contained within the Pension Scheme Annual Report and Accounts for the year to 31 March 2010 is complete, accurate and consistent with the information that is contained within the Accounts.

We confirm that the above representations are made on the basis of adequate enquiries of other officials of the Scheme (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the London Borough of Hillingdon

Appendix 3: Draft Opinion

Independent auditor's report to the Members of London Borough of Hillingdon

We have audited the pension scheme accounting statements for the year ended 31 March 2010. The pension scheme accounting statements comprise the Scheme Account, the Net Assets Statement and the related notes 1 to 17. The pension scheme accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hillingdon in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance & Resources and auditor

The Director of Finance & Resources is responsible for preparing the pension scheme accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension scheme accounting statements, the Director of Finance & Resources is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension scheme accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension scheme accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension scheme during the year and the amount and disposition of the scheme's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Scheme Annual Report, is consistent with the pension scheme accounting statements. That information comprises the Management Report for the year ended 31 March 2010.

We review whether the governance compliance statement published in the Pension Scheme Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the accounting statements and related notes as described in the contents section and consider whether it is consistent with the audited accounting statements.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension scheme accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension scheme accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension scheme accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension scheme accounting statements and related notes.

Opinion

In our opinion:

- the pension scheme accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Scheme during the year ended 31 March 2010, and the amount and disposition of the scheme's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- the information given in the commentary on financial performance included within the Pension Scheme Annual Report is consistent with the pension scheme accounting statements.

Gus Miah (Engagement Lead)
For and on behalf of Deloitte LLP

Appointed Auditor

Birmingham, UK

Date

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Update on Revised Anti-Fraud and Corruption Strategy

Contact Officer: Helen Taylor
Telephone: 01895 556132

REASON FOR ITEM

To provide information on the status of the revised Anti-Fraud and Corruption Strategy.

OPTIONS AVAILABLE TO THE COMMITTEE

To note the information provided.

INFORMATION

The anti-fraud and corruption strategy was due to be reviewed by the committee at this meeting.

Due to impending legislative changes and significant changes in practice within the council the strategy needs to be fundamentally overhauled, which will require Cabinet approval. A revision will be placed on the forward plan for February 2011.

BACKGROUND PAPERS

Current Anti-fraud and Corruption Strategy
Bribery Act 2011

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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 in the period from June 2010 to 31 August 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 Audit Commission requirements 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 2010-11, and the updated position of those audits undertaken in 2007-8, 2008-9 and 2009-10.

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.

2. Progress against Plan and Follow up Status

2.1. In general, there are no significant causes for concern at this time with the levels of assurance being reported to the committee. Five audits in the current report received limited assurance. However, plans are in place to address the weaknesses identified.

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, 2008-9 and 2009-10 is included in Appendices 2, 3 and 4.

2.4. As anticipated when setting the plan, a number of changes have been made to accommodate the changing needs of the council.

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

Community Transport and Pupil Transport – These audits will not take place in 2010-11. A Business Improvement Delivery (BID) project is currently underway to create and implement a fully Integrated Transport Unit (ITU). This will provide a single consolidated interface between service user/client and service provider. The audit will be undertaken in 2011-12 when the new arrangements are in place.

BS21 – The Government's decision to halt the Building Schools for the Future programme means that this audit is no longer required.

Civic Centre Mechanical and Electrical Contract – On discussion with senior management this was considered a low risk area. Management requested that this be replaced with a review of Engineering Consultancy Fees, where findings could assist with a review of the service.

Leisure Facilities Management Contract – The main leisure centre covered under this contract did not fully open until July 2010. To ensure that we can fully assess the operation of the contract we will defer this audit until the 1st quarter of 2011/12.

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

Engineering Consultancy Fees – Added at the request of the Corporate Director for Planning, Environment and Community Services.

S31/1717 New Burdens (Efficiency Information and Council Tax Demand) – New grant - certification by the Head of Internal Audit required.

Hillingdon Homes – at the request of the Head of Finance we have been included in the project team and will have a significant input to issues as the transfer completes.

Conflicts Of Interest – during the course of other audit work, it has become apparent that the policy and procedures were not clear and needed a comprehensive review. The output will be a revised procedure.

Higher Mileage User Status – Added following a request from the Employee Engagement Manager.

Payment Vouchers - Non-Invoice Payments – Added as other audit work identified that this method of payment was possibly being used to avoid the normal purchase order process.

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.

Mental Health

Assurance level: Limited

The following processes were adequate:

- adequate structure to delivery of service effectively and efficiently;
- adequate communication with London Borough of Hillingdon;
- dedicated crisis team in place;
- process to enable aftercare support.

The areas of concern resulting from the audit were:

- partnership agreement needed to be updated;
- timescales in the Care Programme Approach (CPA) policy not always complied with;
- CRB checks not completed for all staff working with vulnerable adults;
- information on Jade and Protocol System is not always complete and timely;
- employee personnel files were not complete and up to date;
- expenses policy is not complied with on a consistent basis.

Management Comment

The issues raised within the audit report are being dealt with jointly between ASCH&H and our colleague managers within CNWL. Overall the issues raised will be addressed by the renewed and robust partnership agreement leading to a proposed formal section 75 agreement. As an interim measure the Director of mental health services (CNWL) for Hillingdon is ensuring that appropriate monitoring arrangements are in place and regular reporting on these matters is on the Partnership Board agenda to ensure proper scrutiny.

Payroll

Assurance level: Limited

The following areas were found to be operating satisfactorily:

- Payslips are independently produced for staff and also available electronically;
- There is satisfactory monthly reconciliation of statutory deductions; the council did not incur Inland Revenue fine during year 2009/10 financial year;
- Statutory deductions are correctly calculated, deducted and paid
- Overpayments recovery process for members of staff in the services of LBH is satisfactory

The areas of concern resulting from the audit were:

- Late notifications leading to overpayments;
- No proper procedure for prompt notification of leavers;
- Criminal Records Bureau (CRB) checks are not up to date;
- A Payroll Procedure Manual, recommended in the last audit, is yet to be produced;

Management Comment

It is very pleasing to note the satisfactory elements identified through this audit. All recommendations for improvements are being addressed. Reports are now regularly produced on reasons for overpayments - and these issues taken up with managers responsible. The impending responsibility shift of the Business Support Units to HR Shared Services will help to alleviate concerns raised about control of CRB re-checks, and this is actively being addressed.

Flexi Working Arrangements

Assurance level: Limited Assurance

We were pleased to note that in accordance with policy:

- All staff had accrued appropriate credit time before taking a Flexi day.
- 99% of staff had recorded the correct credit time for annual leave days.
- 99% of staff had taken one flexi day in each 4 week accounting period.

There were some areas of non-compliance with policy:

- 12% of staff had credit hours in excess of 20 hours carried-forward in a 4 week accounting period.
- 1 member of staff had more than 1 day flexi leave taken in a 4 week accounting period.
- Time records not maintained.
- 16% of staff had taken lunch breaks during core working hours.
- 6% of staff's Managers were not authorising staff time records.

Management Comment - The Flexible Working Arrangements are currently under review as part of the BID process. The policy will be revised as appropriate to ensure it is fit for purpose and reflects the future organisational needs of the Council.

HR Payroll Changes & Trigger Dates

Assurance Level: Limited

We are pleased to report that:

- The Conditions of Service Handbook gives information and guidance on these extra payments.
- Specific policies are in place for Maternity Leave, Market Factor Supplements and Protected Rates. A policy on Honoraria is within the Conditions of Service Handbook.
- Up to date Schemes of Delegation exist for each Directorate, detailing the required levels of authorisation for the different types of payments.
- All staff on maternity leave had submitted their MAT B1 forms and these were held on file.
- Payments and rewards are currently being reviewed by Human Resources.

The areas of concern resulting from the audit were:

- The Changes of Details form is not clear and does not specify the level of authorisation required.
- Authorisation of payments did not comply with the relevant Scheme of Delegation.
- End dates were not recorded for payments where entitlement should only be for a certain period of time.
- Honoraria payments were still being paid for Carefirst Super Users, even though this system is no longer in use.
- Some employees had been in receipt of honoraria payments for a long period of time
- The majority of authorisations were not held on file or in the HR Email Inbox.

Management Comment

This audit has highlighted the importance of ensuring that additional payments being made to staff are appropriately authorised before being processed within HR. HR staff are now fully aware of levels of authorisation in accordance with the scheme of delegations, and are educating managers by returning incorrectly authorised requests. In terms of reviewing additional payments once they are in payment; end dates are now required for all new additional monthly payments and review processes are now in place, which include regular payroll reports.

Temporary Accommodation

Assurance Level: Limited

We are pleased to report that:

- The council has a strategy (2010/2013) in place regarding the provision of temporary accommodation

- The process for managing voids and monitoring and recovering current tenant arrears was adequate.
- Performance indicators were being reported and monitored monthly within the directorate and council.

The areas of concern resulting from the audit were:

- The procedure notes are out of date and need to be updated.
- Responsibility for monitoring and recovery former tenant arrears has not been reassigned and therefore debts are not being recovered.
- Bad debt provisions have been made for 2009/10 but the irrecoverable debts have not been written off.

Management Comment

The Service has been redesigned following BID methodology and is now in operation as of 23rd August 2010. Having reviewed roles and responsibilities with clear accountability channels, the areas identified for improvement have already been covered in the new business process. Management is confident that the recommendations will be implemented within the timescale agreed.

Disposal of IT Hardware Assets

Assurance level: Satisfactory

The London Borough of Hillingdon regularly disposes of items of computer hardware as part of its refresh cycle. The in-house ICT Hardware team is primarily responsible for administering the disposal process, but processes for the final destruction or recycling of redundant kit has been outsourced to a disposal contractor, Corporate-Max, the trading name of Hogatex (UK) Ltd.

The objective of the review was to ensure appropriate procedures have been established for the proper disposal of obsolete hardware.

We were pleased to note:

- the council has a document disposal policy and procedures which ensure disposals are carried out in accordance with WEEE directives;
- hardware for disposal and hard discs that require data to be erased are stored in secure locked rooms to which access is restricted to authorised personnel;
- there are standard, automated processes in place for harvesting software licences from redundant equipment and transferring such licences to new equipment;
- the council has a commitment to use only WEEE registered disposal company for disposing redundant computers.

Improvement is required in the following areas:

- manual records of disposals are maintained;
- there is no process for regularly reconciling the number of items for disposal recorded by the ICT Hardware team with those recorded as disposed of by the disposal company;
- no printed reports are produced confirming the success of the internal Hard Disc data wipe process.

Grants to Voluntary Organisations

Assurance Level: Satisfactory

We are pleased to report that:

- The level of funding and allocations to voluntary organisations was approved by Cabinet.
- Organisations received the correct amounts in 2 equal instalments, which were paid in April and October.
- All payments had been authorised by the Head of Accounting.
- Service Level Agreements were in place where funding was agreed for 3 years.

The areas of concern resulting from the audit were:

- There were no written procedures for staff to follow.
- Voluntary organisations receiving over £5,000 in grant monies did not always have a Service Level Agreement in place.
- Monitoring visits are not recorded.

Estates and Valuation Service

Assurance level: Satisfactory

The following processes were found to be adequate:

- 5 year rolling valuation plan to get up to date valuations;
- effective rent collection process in place via Sundry Debtors.

Areas which can be improved are:

- team/Service plans should be updated on Excelsis;
- no procedures for core processes;
- compliance with the voluntary sector leasing policy;
- training on the database systems;

- audit trail of the decisions made by Strategic Property Group;
- qualification certificates not held;
- technical issues regarding the database systems not followed up.

The department did not agree with the recommendation that Human Resources should keep copies of employees' certificates on file as evidence of their qualification. They considered that the checks when recruiting new staff were sufficient.

Private Sector Leasing

Assurance level: Satisfactory

The Private Sector Leasing (PSL) scheme enables the Council to access private sector rented accommodation in order to provide temporary accommodation for households in priority groups. The PSL scheme has been in operation in London Borough of Hillingdon (LBH) since August 2002. Two large Landlords currently manage contracts for PSL accommodation on behalf of LBH

During this audit we followed up outstanding recommendations from the 2007-8 audit. Significant progress has been made with the one outstanding recommendation, which requires the cooperation of 3 external agencies to enable its full completion.

In the current audit the following processes were found to be operating well:

- Recovery of former tenant arrears
- Core processes have been documented with process flow diagrams
- Void properties are monitored and reconciled to the Private Sector Leasing housing stock
- There is clear evidence that the Key Performance Indicators are monitored on a monthly basis

The areas requiring further improvement are:

- The strategy on temporary accommodation has not been approved.
- Formalising procedures for collecting tenant arrears and agreeing end of tenancy liability calculations.
- Prompt resolution of reconciliation differences and any unidentified differences.
- the need for an independent review of Key Performance Indicators information provided by the managing agents

Freedom of Information and Data Protection

Assurance level: Satisfactory

We were pleased to note:-

- There is extensive general reference and guidance information held on the Council Intranet / Website.
- There are specific Council policy documents in place for FOI and DP.
- There is an officer with responsibility for FOI / DP and nominated departmental contact officers within services who also have associated delegated responsibilities.
- There is a computerised system in place for recording and tracking of actions and to assess performance.

The key areas of concern resulting from the audit were:-

- Little or no reference information held on the Hillingdon Grid for Learning Computer network.
- Limited pro-active action to assist staff awareness.
- Limited regularity and non-mandatory aspect of staff training.
- There is irregular review of the adequacy of Horizon / Council Website information.
- Access to the FOI Request-Logging application is not restricted.
- No periodic, independent review of departmental FOI / DP actions.
- No regular review and reporting of performance or performance comparisons with other local authorities.

The department did not agree with the recommendation that the Freedom of Information / Data Protection performance is periodically compared with other authorities.

Legal Services has introduced processes whereby it can itself accurately monitor the response times to requests for information which are made pursuant to the Freedom of Information and Data Protections Acts. The purpose of this is to ensure that a high quality service is provided at all times. This monitoring reveals that there is 100% compliance with all requests received and therefore if bench marking was undertaken with other authorities, this would add absolutely no extra value to the system which is currently in place.

Nursery Education

Assurance level: Satisfactory

For the 6 nursery settings we were pleased to note:

- Registers were being maintained
- Parents were informed of the Free Early Education Entitlement before enrolment

However some areas for improvement were:

- Invoices need to be amended to include amount of Free Early Education Entitlement hours.
- Birth certificates need to be copied and kept on file for each child
- Letters need to be sent out to parents informing of changes to entitlement

IT Risk Management

Assurance level: Satisfactory

We were pleased to note that the following were in place:

- A Risk Management Policy and Strategy;
- ICT Departmental risk register, which is reviewed by Senior Management Team on a regular basis and is used to populate the corporate risk register;
- Individual risk registers are maintained for IT projects in accordance with the Council's Project Management Methodology.

Control could be improved in the area of reviewing IT risks on an ongoing basis at the ICT Departmental Management Team meetings.

Contract Register and Rationalisation

Assurance level: Satisfactory

We were pleased to note that the following were in place:

- There is a council wide framework for managing procurement activities consisting of Contract Review Board, Contract Register and Procurement Delivery Plan for each directorate to help monitor and manage supplies.
- Roles and responsibilities for managing the procurement activities are clearly defined.
- The savings and efficiencies identified are logged and built into the procurement delivery plan.

The areas for improvement resulting from the audit were:

- Contracts to be given unique contract reference number
- Documented procedures & guidance notes are to be put in place.

Oracle Financials Application Review

Assurance level: Satisfactory

We were pleased to note that the controls upon which the organisation relies to manage the Oracle Financials Application, as currently laid down and operated, are adequate and complied with.

The area that requires improvement is reviewing the user accounts of Oracle Financials and disabling those that have not logged into the system more than 6 months.

Housing Revenue Account

Assurance level: Satisfactory

The following areas were reviewed and found to be operating satisfactorily:

- There is a detailed long term Business plan 2003-2033 in place;
- Satisfactory budget authorisation and monitoring process in place;
- There are controls in place to ensure that HRA abide by DCLG directives;
- Income and expenditure are calculated in accordance with DCLG annual directives.

Below are the areas which require improvement:

- Minutes of budget monitoring meetings with Hillingdon Homes are not produced;
- No proof of supervision check on reconciliation statement completed.

School Meals Service

Assurance Level: Full

The following controls were in place:

- There is a clear strategy on how to promote healthy eating within Hillingdon Schools.
- Food audits are conducted to ensure schools are compliant with the food and nutrient based standards.
- There were clear action plans in place to help the bottom twenty schools with the lowest take up to increase their take up.
- The initiatives organised by the Food In Schools Team (FiST) encourage community cohesion and raise healthy eating awareness.

The following areas require improvement:

- Capturing feedback from pupils who experience the school meal service.

Housing Benefit

Assurance level: Full

We were pleased to note:

- Controls around application forms, proof of residency and identity were found to be well controlled.
- Satisfactory evidence of income, dependants, non-dependants and rent payable was obtained for applications.

- There were no concerns regarding the payment of Housing Benefits, the recovery procedures for any overpayments or write-offs.

Youth Offending Service

Assurance level: Full

We were pleased to note that:

- Appropriate policies, plans and procedures were in place and accessible to staff.
- Case referral and assessment processes were satisfactory.
- Client information was appropriately recorded and managed.
- There was appropriate partnership, agencies and inter-service/authority working and liaison.
- Performance is measured, and reviewed and reported.
- Full staff Criminal Records Bureau (CRB) checks are undertaken.
- There is guidance on staff confidentiality expectations.
- A complaints process exists.

The areas of concern resulting from the audit were:

- YOS staff members are not required to formally sign up to a confidentiality code.
- There were some delays in the authorisation of client case records closure on the Careworks Computer System.
- There was a control lapse because the YOS had not ascertained whether a seconded officer from the Probation Service had an up to date CRB Disclosure and when the next CRB check was due.

Stroke Care Grant Audit – Internal Audit audited the claim for Stroke Care Grant and certified the Statement of Grant Usage as fairly representing the eligible expenditure in accordance with the grant’s conditions.

Schools’ Audits

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

2009-10	Assurance Level
Schools - Primary	
Glebe	Satisfactory
Coteford Infants	Satisfactory
Cowley	Satisfactory

2009-10	Assurance Level
Harlyn	Satisfactory
Pinkwell	Satisfactory
William Byrd	Satisfactory
Schools - Secondary	
Swakeleys	Satisfactory

3. Follow up audits

3.1. We continue to make progress in following up and clearing action points from previous audits. At the previous committee, we reported that one school had an outstanding recommendation. We have confirmed that this has now been implemented.

3.2. The table below shows the results of follow ups for general audits and school audits. Implementation rates on follow ups were relatively high at 84%.

AUDIT TITLE	DATE ISSUED	HIGH	MEDIUM	LOW	IMPLEMENTED HIGH	IMPLEMENTED MEDIUM	IMPLEMENTED LOW	NOT IMPLEMENTED - HIGH	NOT IMPLEMENTED - MEDIUM	NOT IMPLEMENTED - LOW
Trading Standards - 2009/10 Review	Nov-09	0	3	2	0	3	2	0	0	0
Carefirst Debtors- 2009/10 Review	Feb-10	1	2	1	0	2	1	1	0	0
Housing Benefits Subsidy 2009/10 Review	Oct-09	0	2	0	0	1	0	0	1	0
CRM Application (Onyx)	Dec-09	0	4	1	0	1	0	0	3	1
Carefirst Creditors- 2009/10 Review	Mar-10	0	1	1	0	1	1	0	0	0
Treasury Management	Feb-09	1	3	1	1	3	1	0	0	0
Private Sector Leasing	May-08	1	7	6	0	6	5	1	0	0
Finders Fee 2009/2010	Oct-09	0	2	0	0	2	0	0	0	0
Utilities Water	Apr-10	1	0	0	1	0	0	0	0	0
Teachers Payroll Audit 2009/2010	Aug-09	4	3	0	4	3	0	0	0	0
Environmental Services Application (M3) 09/10	Aug-09	1	7	2	0	1	1	1	6	1
Chrysalis Programme	Feb-10	2	2	1	1	2	1	1	0	0
Local Strategic Partnerships	Apr-10	0	2	6	0	2	6	0	0	0
Use of Shared Oyster Cards	Apr-10	5	2	0	5	2	0	0	0	0
HR & Payroll system	Dec-09	0	2	1	0	2	1	0	0	0

AUDIT TITLE	DATE ISSUED	HIGH	MEDIUM	LOW		IMPLEMENTED HIGH	IMPLEMENTED MEDIUM	IMPLEMENTED LOW		NOT IMPLEMENTED - HIGH	NOT IMPLEMENTED - MEDIUM	NOT IMPLEMENTED - LOW
Purchase Cards	Mar-10	0	3	0		0	3	0		0	0	0
Hillingdon First Card	May-10	2	1	1		2	1	1		0	0	0
Remote Access(ICT)	Dec-09	0	3	0		0	1	0		0	2	0
MCP Contracts Pre-Tender	Oct-09	2	3	2		1	3	2		1	0	0
Major Planning Applications follow-up	Apr-10	3	4	3		2	1	2		1	3	1
Council HRA Audit	Jun-10	0	1	1		0	1	1		0	0	0
Section 106 Contribution Audit	Aug-10	1	2	2		0	2	1		1	0	1
Pension Administration	Aug-10	0	1	0		0	0	0		0	1	0
Hardware Management	Dec-07	0	3	3		0	3	3		0	0	0
Helpdesk Review	Mar-09	0	1	3		0	0	3		0	1	0
Data Security and Transfer Follow up	Mar-09	0	4	3		0	3	3		0	1	0
Procurement/AP	Jun-07	0	3	3		0	3	3		0	0	0
Business Continuity Management & Civil Emergency	Jun-09	6	3	1		5	2	1		1	1	0
BACS Payment Application	Mar-08	0	4	2		0	4	2		0	0	0
Web Security	Nov-09	0	2	0		0	2	0		0	0	0
Restructuring of ICT	Jul-09	0	4	1		0	4	1		0	0	0
Land Charges	Mar-10	0	2	0		0	2	0		0	0	0
Belmore Primary	Nov-09	2	8	3		2	7	3		0	1	0
Charville Primary	Nov-09	3	4	2		2	4	2		1	0	0
Cranford Park Primary	Nov-09	1	3	3		1	2	3		0	1	0
The Douay Martyrs	Nov-09	3	3	3		3	3	3		0	0	0
Guru Nanak Secondary	Dec-09	2	5	2		2	5	2		0	0	0
Mellow Lane	Nov-09	2	5	3		2	5	3		0	0	0
Northwood	Jul-09	15	11	3		14	7	3		1	4	0
Queensmead	Dec-09	0	0	5		0	0	5		0	0	0
		58	125	71		48	100	67		10	25	4
	%					83%	80%	94%				

Audit Committee Date 21 September 2010
PART 1 – MEMBERS, PUBLIC & PRESS

AUDIT TITLE	DATE ISSUED	HIGH	MEDIUM	LOW		IMPLEMENTED HIGH	IMPLEMENTED MEDIUM	IMPLEMENTED LOW		NOT IMPLEMENTED - HIGH	NOT IMPLEMENTED - MEDIUM	NOT IMPLEMENTED - LOW
	Implemented by Risk											
	Overall % Implemented									85%		
	Overall % Not Implemented									15%		

3.3. Details of audits followed up, but where High or Medium risk issues remain outstanding are as follows:

Audit Title	No. of Outstanding Recommendations	Revised Target Date	Comment
London Tender Portal	1	Jun 2010	Follow up in progress
General Ledger	2	Sep 2010	
Commercial Properties	2	Dec 2010	
Pensions Administration	1	Sep 2010	
Hillingdon Grid for Learning	2	Sep 2010	
Network Security	1	Mar 2011	
Northgate Revenues & Benefits Review	1	Jun 2010	
Email Security & Management	5	Aug 2010	Follow up in progress
Private Sector Leasing	3	Sep 2010	
Payroll	1	Sep 2010	
Ocella	4	Sep 2010	
Barnhill	3	Sep 2010	
Carefirst Debtors- 2009/10 Review	1	Mar 2011	
Housing Benefits Subsidy 2009/10 Review	1	Aug 2010	
CRM Application (Onyx)	4	Sep 2010	Includes 1 Low
Private Sector Leasing	1	Dec 2010	
Environmental Services Application (M3) 09/10	8	Dec 2010	Includes 1 Low
Chrysalis Programme	1	Sep 2010	
Remote Access(ICT)	2	Apr 2011	

Audit Title	No. of Outstanding Recommendations	Revised Target Date	Comment
MCP Contracts Pre-Tender	1	Sep 2010	
Major Planning Applications	5	Sep 2010	Includes 1 Low
Section 106	2	Dec 2010	Includes 1 Low
Pension Administration	1	Oct 2010	
Helpdesk Review	1	Apr 2011	
Data Security and Transfer	1	Dec 2010	
Business Continuity Management & C/ E	2	Dec 2010	
Belmore Primary	1	Sep 2010	
Charville Primary	1	Jul 2010	
Cranford Park Primary	1	Sep 2010	
Northwood	5	Sep 2010	

4. Anti Fraud Work

4.1. We completed 3 anti-fraud audits during the period. Summaries of their outcomes are detailed below.

Pensioner's Abroad – Life Certificates

We found that for the pensioners living abroad:

- all pensioners living abroad had returned their life certificates
- selected a sample of returned life certificates and checked they had been signed by the pensioner by verifying their signature to those on their respective files
- the life certificates were countersigned by an appropriate witness
- life certificates returned were reviewed by pension's staff and they had signed it to confirm their check

Although no major control weaknesses were identified, enhancements to the control system recommended were:

- The Axis system (used to record details on pensioners) should be updated with details when a pensioner has returned a life certificate to confirm they are alive and living abroad.
- Members of staff in the Pensions Section should initial/sign the life certificate when it has been reviewed.

Subsistence

We were pleased to note that:

- There was a clear and up to date policy for Claiming Expenses
- The majority of claims complied with the Council's Claiming Expenses Policy
- No payments exceeded the maximum allowance payable

The areas of concern resulting from the audit were:

- Some Debit/ Credit receipts were submitted rather than purchase receipts.
- Non-food items being purchased and claimed for as part of the meal allowance.
- Hot drinks being purchased at lunchtime and claimed for as part of the evening meal allowance.
- One case of numerous expense claims being submitted over 18 months after the expenditure had been incurred.
- Staff not deducting normal costs for their subsistence allowances.

Student Exemptions for Council Tax

We were pleased to note that:

- valid student certificates are provided;
- student certificates received are signed and certified as being "a copy of the true original";
- expiry dates of the course are recorded on the system.

4.2. The e-learning on Fraud Awareness is currently being rolled out, starting with the Adult Social Care, Health and Housing directorate. Awareness sessions for all new managers who started after the March 2010 sessions are scheduled for September 2010 and February/March 2011.

4.3. Progress on investigation of matches from the National Fraud Initiative 2008/09 has gone well and preparations are underway for submitting data to the Audit Commission for the NFI 2010/11.

4.4. A review of the Conflicts of Interest policy and procedures is being undertaken to close identified gaps.

4.5. There are 6 confidential investigations underway and the results of these will be reported upon conclusion of the investigations.

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
					H	M	L
CROSS CUTTING CORPORATE ISSUES							
Anti Fraud and Investigation							
Taxes Management Act							
National Fraud Initiative (NFI)	Ongoing						
Anti Fraud Promotion	Ongoing						
Fraud/Irregularity Investigations	Ongoing						
Planned proactive (to be determined)	Ongoing						
- Pensioners Abroad - Life Certificates	Finalised	19/5/10	Satisfactory		0	0	2
- Subsistence	Finalised	6/7/10	Satisfactory		4	0	0
- Council Tax Student Exemptions	Finalised	15/6/10	Full		0	0	0
Consultancy Staff	In progress						
Pooled Car Usage	In progress						
VDA Cancellations	In progress						
Other Cross-Cutting							
Annual Governance Statement - Audit	Completed						
Annual Governance Statement - Input	Ongoing						
Advice and Information (Ad hoc)	Ongoing						
Consultancy Advice - Specific Projects	Ongoing						
Carbon Reduction Strategy							
IT Policy Compliance							
Records Management	In progress						
Healthy Hillingdon							
Compliance with Driving Policy							
Misc Audit tasks							
Follow ups	Ongoing						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
					H	M	L
Brought forward Audits	Ongoing						
FINANCE & RESOURCES							
Risk Management	In progress						
Payroll - Starter & Leaver testing							
Debtors							
Debtors - ASC Protocol							
CT/NNDR - Contractor visit	Completed						
CT/NNDR - System							
LG Pension Scheme - Governance							
Online Payment Management Project							
Creditors							
Creditors - Protocol							
General Ledger							
Blue Badges	Draft						
DCEO							
Risk Management	In progress						
Performance Reward Grant (LAA)	In progress						
Economic Development							
Grants to Voluntary Organisations	Finalised	9/6/10	Satisfactory		0	4	0
Learning & Development							
Establishment control and Authorisation							
EDUCATION & CHILDREN'S SERVICES							

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
					H	M	L
Risk Management	In progress						
Schools - Primary							
Cowley St Laurence	Finalised	21/5/10	Satisfactory		2	5	5
Harefield Infants	Draft						
Cherry Lane Primary	Draft						
Glebe Primary	Finalised	19/7/10	Satisfactory		1	5	0
Coteford Infants	Finalised	26/6/10	Satisfactory		0	6	3
Botwell House	Draft						
Breakspears Junior	Draft						
Dr Triplets CE	Draft						
Field End Infants							
St Catherine's RC Primary							
Oak Farm Infants							
Highfield Primary							
Rabbsfarm Primary							
West Drayton Primary							
Guru Nanak Sikh Primary							
Lady Bankes Junior							
St Andrew's CE Primary							
Brookside Primary							
Warrender Primary							
Harefield Junior							
Longmead Primary							
Whiteheath Junior							
Heathrow Primary							
Lady Bankes Infants							
Minet Junior School							

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
					H	M	L
Oak Farm Junior							
Newnham Infants							
Grange Park Junior							
Sacred Heart RC							
Belmore Primary							
Charville Primary							
Field End Junior							
Harlyn Primary							
Hillside Junior							
Wood End Park Primary							
Secondary							
Wakeleys	Finalised	18/6/10	Satisfactory		2	3	1
Special							
Chantry School	In progress						
Grangewood School							
Other School Related							
FMSIS Certification							
School Liaison/Newsletter/briefings	Ongoing						
BS21	Deleted						
Pupil Transport	Deleted Deferred to 11/12						
Education - Looked After Children	Planning						
Section 52							
Overpayments							

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
					H	M	L
CHILDREN'S SERVICES							
Contact Point	Finalised	16/06/2010	Not Applicable	N/A	N/A	N/A	N/A
Child Protection and Reviewing							
Referral, Assessment	Planning						
Placement	Planning						
Research and Statistics	In progress						
Target Youth Support							
Children's centre's	In progress						
Extended Schools	In progress						
EMAS	Planning						
Youth Offending Service	Finalised	6/8/10	Full		0	3	0
ADULT SOCIAL CARE HEALTH & HOUSING							
Risk Management	In progress						
Community Transport	Deleted Deferred to 11/12						
Equipment and adaptations (All client groups)	In progress						
Financial Assessments	Planning						
Self Directed Support	Pilot Testing						
Housing							
Hillingdon Homes Dissolution	Ongoing						
Supporting People	In progress						
Housing & Council Tax Benefit							
Private Sector Renewal & Disability Grant	Draft						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
					H	M	L
Older People's Care							
Homecare - Contract Provision							
Residential Block Contracts							
Residential Spot Contracts							
Residential to Independent living							
People with Physical and Sensory Disability							
Children with Disabilities - Transition	Planning						
Stroke Care Grant	Completed						
Other Adult Services							
Safeguarding Adults							
ENVIRONMENT AND CONSUMER PROTECTION							
Risk Management							
Street Cleaning	In progress						
Improvement Projects							
Parking Cash Collection							
Parking Permits (Residents, Visitors & Brown Badges)	Draft						
Stray Dog Service	Draft						
Abandoned & Untaxed Vehicles	Draft						
PLANNING AND COMMUNITY SERVICES							
Risk Management							
Major Construction Projects							
Individual Project Management x 2							

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
					H	M	L
Property							
Civic Centre Security contract	Draft						
Civic Centre Mechanical and Electrical Contract	Deleted Deferred to 11/12						
Facilities Management Contract							
Utilities - Water							
Arts, Culture, Libraries & Adult Education							
Adult Education							
Culture and Arts Strategy	In progress						
Sport and Leisure							
Fusion Management Contract							
Leisure Facilities Management Contract	Deleted Deferred to 11/12						
Contingency							
Audits							
S31/1717 NEW BURDENS (EFFICIENCY INFORMATION AND COUNCIL TAX DEMAND)	Completed						
Hillingdon Homes Balance Sheet Review	Drafting						
Conflicts of Interest	In progress						
Higher Mileage User Status	In progress						
Engineering Consultancy	In progress						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
					H	M	L
Payment Vouchers - Non-Invoice Payments	In progress						
Investigation 028	In progress						
Investigation 029	In progress						
Investigation 030	In progress						
Investigation 031	In progress						
Investigation 032	In progress						
Entertainment Licence review	In progress						
Investigation 033	In progress						
ICT audit contract							
Disposals	Finalised	23/8/10	Satisfactory		0	3	1
Liquid Logic							
Software Licensing	Draft	9/8/10					
Oracle Financials- Debtors							
E-Payments Project							
Information Assurance & Security							

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	Finalised	02/03/10	Satisfactory		0	6	2
Hillingdon First Card	Finalised	4/05/10	Satisfactory	11/8/2010	0	0	0
Purchase Cards - Corporate Usage	Finalised	29/03/10	Satisfactory	3/8/10	0	0	0
Local Strategic Partnership	Finalised	08/04/10	Satisfactory		0	0	0
Performance Management	Finalised	29/03/10	Satisfactory	28/02/11	1	1	0
Flexi Leave - Monitoring, Approval and Control	Finalised	15/7/10	Limited		6	0	0
DEPUTY CHIEF EXECUTIVE/FINANCE & RESOURCES							
Chrysalis	Finalised	11/02/10	Satisfactory	19/07/2010	1	0	0
HR Payroll changes and trigger dates	Finalised	29/6/10	Limited		4	4	0
Payroll	Finalised	17/08/10	Limited		4	2	1
Teachers Payroll - Starters, Leavers, Changes	Finalised	7/8/09	Limited	12/06/2010	0	0	0
Corporate Property							
Estate and Valuation Service	Finalised	19/7/10	Satisfactory		1	5	1
Utilities Contracts Gas & Electricity	Finalised	26/03/10	Satisfactory		0	1	1
Utilities Contracts Water	Finalised	16/04/10	No Assurance	June 2010	0	0	0
Legal							
Freedom of Information /Data Protection	Finalised	11/06/10	Satisfactory		1	8	1
Complaints Against Members	Finalised	23/11/09	Full		0	0	2
AXXIA System	Finalised	16/04/10	Satisfactory	Follow up in progress	0	2	5
Debt Recovery Processes	Finalised	10/5/10	Satisfactory		0	6	2
Major Construction Projects							
Contracts - Pre Tender	Finalised	30/10/09	Satisfactory	11/08/2010	1	0	0
Contracts - Current	Finalised	25/05/10	Limited		8	2	1

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
Procurement							
Due North System	Finalised	13/10/09	Satisfactory	12/03/2010	1	0	0
Contract Register and Rationalisation	Finalised	3/6/10	Satisfactory	29/10/10	0	2	0
ENVIRONMENT & CONSUMER PROTECTION							
Grounds Maintenance Contracts - Parks and Open spaces	Finalised	23/02/10	Satisfactory		0	4	0
Trees Maintenance	Finalised	6/1/10	Satisfactory	5/7/10	0	0	0
Highways Reactive Maintenance	Draft						
Highways Planned Maintenance	Finalised	26/01/10	Satisfactory		0	4	0
Parking Management Schemes - Authorisation and Control of	Finalised	4/5/10	Full		0	1	0
Breakspear Crematorium	Finalised	06/05/10	Satisfactory		2	6	0
Trading Standards	Finalised	16/11/09	Satisfactory	1/9/10	0	0	0
Domestic Waste Collection & Disposal	Finalised	3/6/10	Limited		3	4	3
PLANNING AND COMMUNITY SERVICES							
Major Applications	Finalised	15/04/10	Satisfactory		1	3	1
Building Control	Finalised	16/4/10	Full		0	1	0
Land Charges	Finalised	22/3/10	Satisfactory		0	0	0
CHILDREN'S SERVICES							
Nursery Education - Private Provision	Finalised	15/7/10	Satisfactory		11	6	1
School Meals Service	Finalised	14/06/10	Full		0	0	0
Asylum Accommodation	Finalised	23/04/10	Satisfactory		2	8	2
Asylum Finance	Finalised	23/04/10	Full		0	2	1
Schools - Primary							

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
Belmore Primary	Finalised	16/11/09	Satisfactory		2	8	3
Charville Primary	Finalised	12/11/09	Satisfactory		3	4	2
Cranford Park Primary	Finalised	05/11/09	Satisfactory		1	3	3
Harlyn Primary	Finalised	23/04/10	Satisfactory		2	5	0
Hayes Park Primary	Finalised	11/02/10	Satisfactory		1	2	0
Hillingdon Primary	Finalised	17/03/10	Satisfactory		0	5	3
Hillside Junior	Finalised	03/03/10	Satisfactory		2	4	3
Pinkwell Primary	Finalised	21/05/10	Satisfactory		4	5	2
William Byrd Primary	Finalised	30/4/10	Satisfactory		2	1	2
Wood End Primary	Finalised	11/2/10	Satisfactory		1	7	4
Schools - Secondary							
Barnhill Community High	Finalised	09/10/09	Limited	04/05/2010	0	1	2
Bishopshalt	Finalised	2/02/10	Satisfactory		3	7	5
The Douay Martyrs	Finalised	20/11/09	Satisfactory		3	3	3
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	06/07/09	No Assurance		15	11	3
Queensmead	Finalised	17/12/09	Full		0	0	5
Rosedale College	Finalised	11/2/10	Satisfactory		1	2	0
Uxbridge High	Finalised	08/03/10	Satisfactory		0	2	3
Vyners	Finalised	12/03/10	Satisfactory		2	7	5
Ruislip High Secondary School	Finalised	25/03/10	Satisfactory		4	5	2
Wood End Park	Finalised	11/2/10	Satisfactory		1	7	4
Other School Related							
Primary Sickness Scheme	Finalised	29/01/10	Satisfactory		3	6	1
Hillingdon Grid for Learning	Finalised	2/12/09	No Assurance	May 2010	0	1	0

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
Schools Private Funds	Finalised	12/2/10	Satisfactory		1	0	0
ASCHH							
Finance systems							
Carefirst Creditors (Part year Adult Services)	Finalised	16/04/10	Satisfactory	June 2010	0	0	0
Carefirst Debtors	Finalised	12/2/10	Satisfactory	June 2010	1	0	0
Housing							
Council HRA	Finalised	17/6/10	Satisfactory	August 2010	0	0	0
Finders Fee	Finalised	29/10/09	Satisfactory	February 2010	0	0	0
Private Sector Leasing	Finalised	23/06/10	Satisfactory		0	2	0
Temporary Accommodation (formerly B&B)	Finalised	26/08/10	Limited		0	2	1
Housing Benefit Subsidy	Finalised	28/10/09	Full		0	2	0
Older People's Care							
Homecare In-House Provision	Finalised	13/05/10	Satisfactory		3	4	2
Learning Disabilities							
Sec 75 Agreement (Funding of LD Services)	Draft						
Mental Health Service							
Mental Health Service	Finalised	29/06/10	Limited		0	8	1
Contingency							
Cherry Lane Primary	Draft						
ICT Contracted Days							
IT Risk Management	Finalised	29/06/2010	Satisfactory		0	1	0
Restructuring of ICT	Finalised	29/07/10	Satisfactory	August 2010	0	0	0
IT Disaster Recovery	Finalised	14/04/10	Limited		1	3	0
CRM Application (Onyx)	Finalised	24/12/09	Limited	June 2010 new revised date Sept 2010	0	3	0

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
Environmental Services Application	Finalised	25/08/09	Limited	29 th June 2010. April 2011	1	6	1
HR & Payroll System	Finalised	18/01/10	Satisfactory	30 th June 2010.	0	0	0
Oracle Financials	Finalised	29/06/2010	Satisfactory		0	1	0
Data Matching	Finalised	N/A	Not Applicable				
Telephone Systems	Finalised	21/10/09	Full		0	0	0
Hillingdon Grid for Learning - Security	Finalised	2/12/09	No Assurance	May 2010	0	0	0

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							
Property Databases	Finalised	07/01/09	Satisfactory	June 10 revised date Sept 2010	0	2	0
Use of Shared Oyster Cards	Finalised	31/8/09	Limited	July 2010	0	0	0
FINANCE & RESOURCES							
Payroll	Finalised	06/08/09	Satisfactory	Feb 10	-	3	2
General Ledger	Finalised	17/06/09	Satisfactory	March 10 revised date Sep 2010	-	1	1
Payroll Expenses Procedures	Finalised	23/12/08	Limited	Feb 10	1	0	0
Pensions Admin	Finalised	07/01/09	Satisfactory	August 2010 revised date Oct 2010	0	1	0
Commercial Properties	Finalised	11/09/08	Satisfactory	March 2010 revised date Dec 2010	-	2	-
ENVIRONMENT & CONSUMER PROTECTION							
Business Continuity & Emergency Planning	Finalised	08/06/09	Limited	Aug 2010 revised dated Dec 2010	1	1	0
PLANNING & COMMUNITY SERVICES							
S106 Planning Gain	Finalised	15/06/09	Satisfactory	12 th August, 2010. revised date December 2010	1	0	1
IT Audits							
Web Security	Finalised	30/11/09	Satisfactory	Followed up August 2010	0	0	0
IT Physical and Environmental security	Finalised	25/03/09	Satisfactory	Followed up Feb 2010	0	1	1
Helpdesk Application	Finalised	05/03/09	Satisfactory	Followed up August 2010 revised date	0	1	0

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
				April 2011			
Housing & CT (Northgate) application review	Finalised	25/03/09	Satisfactory	March 2010	0	0	0
Ocella application review	Finalised	April 09	Limited	Followed up July 2010 revised date Sept 2010	0	2	0
IT Data Security and Transfer (from Contingency)	Finalised	26/03/09	Limited	Followed up August 2010	0	1	0
Email Security and Management	Finalised	27/05/09	Limited	Followed up Jan 2010 revised dated August 2010	0	3	0

✓ for
Finalised/Satisfactory/Full

⇒ for in progress

⇩ for Limited

Key

Currently being followed up

PLAN 2007-8

Audit Title	Status	Assurance Level	Number of outstanding recommendations			Comments
			High	Med	Low	
ADULT SOCIAL CARE, HEALTH & HOUSING						
Private Sector Leasing	✓	✓	1	0	0	Followed up as part of Feb 2010 audit – Revised dates Dec 2010
FINANCE & RESOURCES						
Asset Management/ Software and Hardware Management	✓	✓	0	0	0	Followed up August 2010
Network Security	✓	✓	0	0	0	Followed up April 2010
BACS Payments Application	✓	✓	0	0	0	Followed up August 2010
Website Content Management System	✓	✓	1	0	0	Head of Communication to report progress to Audit Committee in Dec 2010.
Business Continuity Management	✓	✓	0	2	0	2 nd Follow up August 2010 – revised date Dec 2010
Procurement/AP	✓	✓	0	0	0	Followed up August 2010
Securicor collection	✓	✓	3	0	0	Followed up Nov 2009 – Revised target Sept 2010

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INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Contact: Nancy Leroux
Telephone: 01895 250353

REASON FOR REPORT

From 2010/11, Local Authorities' Statement of Accounts are required to be prepared under an IFRS-based Code of practice.

As the body charged with governance of the authority's Statement of Accounts, it is important that progress towards full implementation is reported to Audit Committee. This report follows previous progress reports tabled in September 2009, December 2009, March 2010 and June 2010.

INFORMATION

The transition to IFRS is a major change to financial reporting and represents a challenge to the whole organisation. IFRS implementation will have an impact beyond the actual production of accounting statements; including budgets, 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, it will be necessary to restate the accounts for 2009/10 on an IFRS basis to provide comparator figures and also restate the closing Balance Sheet for 2008/09 to provide the opening figures for the 2009/10 accounts.

Progress Update

It was reported to Committee in March 2010 that the 2008/09 Balance Sheet had been restated under IFRS, meeting the deadlines set by CIPFA LAAP 80 IFRS bulletin. In the same bulletin, CIPFA recommended that the 2009/10 accounts should be restated under IFRS by December 2010.

With the 2009/10 statements (under SORP) audit now virtually completed, restated figures for 2009/10 have been drafted and the IFRS template prepared for the 2010/11 accounts. These figures will be finalised shortly and the accounting system updated to reflect this.

We are, therefore, on course to meet the remaining deadlines for the preparation of the 2010/11 accounts under IFRS. We are working closely with Deloitte on the transition, who will be undertaking an audit of the restated accounts in due course once the guidance has been finalised. This will allow any resulting

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PART 1 – MEMBERS, PUBLIC & PRESS

issues to be resolved prior to commencing the closedown of the 2010/11 accounts.

Audit Committee Review of its own Effectiveness

Contact Officer: Khalid Ahmed
Telephone: 01895 250833

REASON FOR ITEM

To enable the committee to discuss progress made on the self assessment form which was compiled at the workshop which was held on 30 November 2009 and identified items for further action or clarification.

OPTIONS AVAILABLE TO THE COMMITTEE

To note the information reported.

INFORMATION

1. Background

1.1 On the 30 November 2009 the audit committee met and conducted a self assessment exercise to review its own effectiveness. The committee was compliant in most respects but there were some issues it felt needed further action. The table below lists only the issues that arose as needing further clarification or action.

Issue	Comments/Actions	Progress
Terms of Reference and duties		
<p>Are the terms of reference reviewed annually to take into account;</p> <ul style="list-style-type: none"> • governance developments; and • the remit of other committees within the Council? 	<p>No – Should this be put on the agenda – possibly in March?</p>	<p>The Council's Constitution is reviewed on a regular basis to keep it up to date with legislative changes, best practice and to continue to meet the needs of the political interface. This includes the Terms of Reference of Audit. The Committee could consider an item once a year on their Terms of Reference which could tie in with them looking at the Audit Committee's effectiveness. However, it must be stressed that the Audit Committee receives its powers from Council and any suggestions for changing Terms of Reference would need to be a recommendation to Council.</p>
<p>Can the Committee access other committees and full Council as necessary?</p>	<p>Not clear Review relationship between us and other committees. Include formal calling of members where appropriate</p>	<p>As above. The Committee if it wishes to suggest changes to its Terms of Reference would need to make a recommendation to Council</p>
<p>Are changes to the Committee's current and future workload discussed and approved at Council level?</p>	<p>No Need to clarify role and who reports and answers questions.</p>	<p>The direction of the Committee's workload is a matter for the Committee. The terms of reference clearly state the remit of the Committee</p>

Issue	Comments/Actions	Progress
Meetings and Reporting		
Are Committee papers distributed in sufficient time for members to give them due considerations?	Not always Members require .hard copy on time. Important to keep members informed and consider part distributions.	Agenda and reports are produced in accordance with Access to Information legal requirements. Paper copies are sent to the political group offices for Members to collect. A paper copy of the Chairman's agenda is sent by 1st class post and he should receive this the next day. There is an issue with late reports, as with all Committees, but this can only be improved if report authors produced reports on time.
Are minutes received as soon as possible after the meetings?	No often delayed. Committee felt that this was an issue to bring to the attention of Head of Democratic Services.	The intention is to produce a draft of these as quickly as possible after a meeting, but this is subject to the exigencies of other work pressures. Audit Minutes are technical and detailed so officer comments are crucial. This can delay the Minutes being sent to Members for information. Minutes are always published well in advance of the next meeting and officers are aware of actions when they see the draft of the minutes.
Do action points arising from the meetings indicate who is to do what and by when?	Not always by when. Having a date would make it easier to track progress. Can a date be included? Actions are included throughout the minutes. Can action points be listed at the	Minutes are produced in a house style and actions points clearly indicate which officer(s) is responsible for taking forward an action. Actions are usually carried out before the next meeting and this can be

Issue	Comments/Actions	Progress
	end of the minutes? Can agenda then include outstanding action points?	discussed at the next meeting when the Chairman goes through the minutes of the previous meeting, page by page. Having action points at the end of the Minutes does not fit in with the house style and there seems little benefit for doing this.
Does the Committee report regularly to Council?	Has reported but not regularly Report to be produced annually in June at the same time as the Head of Audit Annual Assurance statement. It will reflect activities in the previous financial year.	Report to committee is included in this agenda and will be included in each June going forward. This can be considered as fully implemented.
Committee Membership		
Are members, particularly those new to the Committee, provided with training in all areas of its remit?	Insufficient for a member with no relevant background Devise an induction programme for members. Consider intranet web site for members. Consider topical pre meeting sessions to increase knowledge and skills.	New members of the committee have been invited to meet with the Head of Audit and Chair of Governors to assess their needs. Two members have availed themselves of this opportunity and they had had productive discussions and have been given a range of documents to increase their understanding. Given that there are new members, the committee may want to take this opportunity to look at its needs again.
Do members have sufficient knowledge of the organisation to identify key risk areas and to challenge both management and the auditors	Yes But it was felt that this was very dependent on the selection of	

Issue	Comments/Actions	Progress
on critical and sensitive matters?	experienced councillors to serve on the committee. A discussion issue for the whips?	
Compliance with Laws and Regulations		
Has the Committee formally assessed whether the support it receives is sufficient and enables it to ensure that it complies with relevant laws and regulations?	Partly It was felt that Committee support is not always adequate.	An experienced Democratic Services Manager supports the Committee, with additional expertise from the Head of Democratic Services
Does the Committee have a mechanism to keep it aware of topical, legal and regulatory issues?	No Standing item to be put on agenda. – Current issues/information	Now included as an agenda item.
Internal Control and Risk Management		
Has the Committee considered how its work integrates with the wider performance and risk management responsibilities of other committees / cabinet?	Partly Needs more clarity. How do we close the circle?	This has been clarified in a report to the audit committee in December 2009.
Does the Committee receive regular assurance statements encompass all the organisation's responsibilities, that the system of internal control is operating effectively and that it is effective in managing risk?	Partly How to we get assurance on external partnerships?	Partnership risks are reviewed as part of the process for producing the Annual Governance Statement, the as are the controls in place to ensure that partnership work effectively to achieve their objectives.
Does the Committee receive progress reports with regard to the action plan produced to address any significant internal control issues	Yes At the year-end. Should the committee get a six monthly report – say in December?	The committee decided it only wanted such a report if there were significant items that needed to be brought to its

Issue	Comments/Actions	Progress
reported in the Statement of Internal Control?	For this year it could be included in the interim AGS report already timetabled for March 2010.	attention.
Has the Committee satisfied itself that the Council's approach to dealing with fraud and corruption is reviewed annually, is fit for purpose and creates a strong counter fraud culture throughout the Council?	Anti Fraud and corruption strategy has been reviewed regularly but now needs to be completely overhauled to meet the standards set out in CIPA's 'Red Book' Managing the risk of Fraud. This is already timetabled for the March meeting. Note; Southend have offered to share their strategy documents.	The red book review has been rescheduled to September 2010. However, the current agenda includes an assessment of our compliance with the checklist contained in the Audit Commission guidance – Protecting the Public Purse – and we can demonstrate good levels of assurance.
Officer Attendance		
Does the Committee have the benefit of attendance of appropriate officers at its meetings?	Yes But request that CEO or DCE attend the June meeting with the Annual Governance Statement is approved with the accounts.	The Chief Executive or the Deputy Chief Executive will attend the June 2010 meeting of this Committee to introduce the Annual Governance Statement. Also when requested other officers when invited to attend meetings do so.
Audit Planning and Reporting		
Has the Committee established a process whereby it reviews any material objection to the plans and associated assignments that cannot be resolved through negotiation?	No If there were an issue the committee would consider what action to take. Do we need to formalise?	The committee decided that this was not necessary.
Does the Committee review the adequacy of staffing and resources within Internal Audit to deliver the plan?	No Resources are included in the strategy. Head of audit could do a report on staffing. Is this required?	The committee decided that this could be reviewed with the annual audit plan and strategy and information was included in those reports.

Issue	Comments/Actions	Progress
Independence and Relationships		
Does the Committee hold periodic private discussions with the Head of Internal Audit?	No To be organised at the beginning of a meeting	This was to be organised for the beginning of a meeting but has not so far taken place. Consider for September 2010?
External Audit & Inspection		
Has the Committee satisfied itself that work in the plan not relating to the financial statements reflects the Council's significant risks?	In part	The committee was to be alert to its own role in reviewing the external audit plan and to discuss the plan fully when it was presented to them.
Does the Committee assess the performance of External Audit?	No Committee to discuss with Deloitte	Deloitte to provide a checklist to the Director of F&R to see if it would be useful
Does the Committee hold periodic private discussions with the External Auditor / Relationship Manager?	Yes But check future timetable.	The committee needs to set a timetable at this meeting.
Does the Committee receive reports on large write offs, changes in accounting treatment or other significant financial matters arising during the year?	Assurance around budget setting? Large write offs Compliance with contract procedure rules.	To produce a report on the process in the coming year.

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REVISED TREASURY MANAGEMENT PRACTICES

Contact Officer: Nancy Le Roux
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REASON FOR THE REPORT

The CIPFA Code of Practice on Treasury Management in Public Services recommends the creation and maintenance of Treasury Management Practices (TMP's). The TMP's provide information on the responsibilities, decision-making and reporting arrangements in place for the treasury management function.

The CIPFA Code also recommends that a suitable committee receive reports on TMP's in order to improve the scrutiny process. This is now the second year these have been reported to Audit Committee.

RECOMMENDATION

That Audit Committee scrutinise and review the Treasury Management Practices, updated August 2010

INFORMATION

Following the collapse of the Icelandic banks in October 2008 there have been publications issued by CIPFA, Audit Commission and Communities and Local Government amongst others, relating to treasury management in the public sector. These culminated in a consultation document being issued suggesting the revisions of the CIPFA Treasury Management Code.

In September 2009, based on the proposed revisions within the consultation document, the TMP's were updated and brought to the Audit Committee for review. Following this the CIPFA Code was officially updated and published in November 2009, reflecting the proposed amendments included in the consultation document.

The TMP's are produced in a format prescribed by CIPFA and divided into twelve categories. Each category focuses on a specific area and includes principles and schedules giving details of how the Council addresses the issues in each category.

As a matter of course the TMP's are reviewed on a regular basis to make sure they are up to date and reflect current practices as well as ensuring compliance with the latest guidance. They are taken to Audit Committee annually for scrutiny and review.

Changes since the Audit Committee review of the TMP's in 2009, relate mainly to the renewal of the banking contract and the management of target cash balances, and include:

- TMP 1.2 – Amendment of cash flow target balance from a debit or credit balance of £250k to a balance between 0 and £600k credit.
- TMP 1.2 – Amendment to temporary borrowing overdraft limit and fees from £6m to £200k and fees from 1% to 2.55%, above Bank of England base rate.
- TMP 1.6 – Replacement of the Statement of Recommended Practice with the Code of Practice on Local Authority Accounting in the United Kingdom
- TMP 11 - The renewal of the banking contract with HSBC

BACKGROUND DOCUMENTS

None

**TREASURY MANAGEMENT PRACTICES (TMP)
PRINCIPLES AND SCHEDULES (Revised August 2010)**

INTRODUCTION:

The CIPFA Code of Practice on Treasury Management in the Public Services (the Code), which was revised in 2001, had a further revision in 2009. The code requires the setting out of the responsibilities of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. This Council adopted the previous Code in March 2002 and the new revised code in February 2009.

The Code recommends the creation and maintenance of:

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities.
- Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

THE TREASURY MANAGEMENT PRACTICES COMPRISE:

TMP 1	Risk management
TMP 2	Performance measurement
TMP 3	Decision-making and analysis
TMP 4	Approved instruments, methods and techniques
TMP 5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP 6	Reporting requirements and management information arrangements
TMP 7	Budgeting, accounting and audit arrangements
TMP 8	Cash and cash flow management
TMP 9	Money laundering
TMP 10	Training and qualifications
TMP 11	Use of external service providers
TMP 12	Corporate governance

Schedules supporting these practices along with documents held at an operational level provide details of the systems employed to implement the Council's treasury function.

TREASURY MANAGEMENT PRACTICE 1: RISK MANAGEMENT

All treasury management activities involve both risk and the pursuit of reward or gain for the Council. The Council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

The Investment Manager will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. These arrangements are scheduled below:

1.1 Credit and Counterparty Risk Management

Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.

Principle: The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 "Approved instruments, methods and techniques" and listed in the schedule. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations to which it may make investments.

Schedule:

<p>Criteria to be used for creating/ managing approved counterparty lists/limits</p>	<p>The council's treasury advisors will provide guidance and assistance to the Director of Finance and Resources who is responsible for setting prudent criteria.</p> <p>Council will agree the criteria.</p> <p>The current criteria are contained in the Annual Investment Strategy.</p> <p>The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from 3 ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support, CDS data and share price etc). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.</p>
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Approved methodology for changing limits and adding/removing counterparties	The Director of Finance and Resources has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above.
Counterparty list and limits	A full individual listing of counterparties based on the criteria will be maintained. As credit ratings and other credit quality related indicators are subject to change without notice, an up-to-date lending list will be maintained on an ongoing basis.
Country, sector and group listings of counterparties and overall limits applied to each, where appropriate	Investments will be displayed so as to show individual exposure, total group exposure and total country exposure. Limits have been set for the above, in terms of monetary value and percentage of overall portfolio, where appropriate.
Credit rating agencies' services and their application	The Council considers the ratings of all 3 ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions.
General approach to collecting/using information other than credit ratings for counterparty risk assessment	The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information on share price. In addition, the Senior Finance Manager, Investment Manager and Treasury Senior Accountant read quality financial press for information on counterparties.

1.2 Liquidity Risk Management

Liquidity risk is the risk that cash will not be available when it is needed, that the ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business objectives will be compromised.

Principle: The Investment Manager will ensure the Council has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so for the current capital programme or to fund future debt maturities.

Schedule:

Cash flows and cash balances	<p>The Council will aim for effective cash flow forecasting and monitoring of cash balances.</p> <p>The Treasury Officers will seek to optimise the balance held in the Council's main bank accounts at the close of each working day, in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned.</p> <p>In order to achieve the maximum return from investments and obviate overdraft fees, a daily cash balance of between zero and £600k is the objective for the Council's bank account.</p>
Short Term Investments	<p>A balance in the region of £30m to deal with day-to-day cash flow fluctuations is maintained by placing short-term deposits and by using call accounts and money market funds.</p> <p>These accounts/funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy.</p>
Temporary Borrowing	<p>Temporary borrowing up to 364 days through the money market is available should there be a cash flow deficit at any point during the year.</p> <p>At no time will the outstanding total of temporary and long-term borrowing, together with any bank overdraft, exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.</p>
Bank Overdraft and standby facilities	<p>The Council has an authorised overdraft limit with its bankers HSBC of £200k at an agreed rate of 2.55% over base rate.</p>

1.3 Interest Rate Risk Management

Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

Principle: The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with "TMP6 Reporting requirements and management information arrangements".

Schedule:

<p>Minimum/ maximum proportions of fixed/variable rate debt/interest</p>	<p>Borrowing/investments may be at a fixed or variable rate.</p> <p>The Prudential Code requires the Council to determine each year the maximum proportion of interest payable on net borrowing which is subject to fixed and variable interest rates. This is set each year as part of the annual budget setting process.</p> <p>In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets. At the same time it will allow sufficient flexibility to benefit from potentially advantageous conditions and mitigate the effects of potentially disadvantageous situations.</p> <p>The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques. This will create stability and certainty of costs and revenues, but at the same time will retain a sufficient degree of flexibility.</p>
<p>Managing changes to interest rate levels</p>	<p>The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.</p> <p>The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.</p> <p>Interest rate forecasts are provided by the Council's treasury advisors and are closely monitored by the Investment Manager. Variations from original estimates and their impact on the Council's debt and investments are notified to the Senior Finance Manager – Corporate Finance as necessary.</p> <p>For its investments, the Council also considers dealing from forward periods dependant upon market conditions.</p>
<p>Approved interest rate exposure limits</p>	<p>The upper limit for variable interest rate exposure is shown within the Council's prudential indicators, included in the Treasury Management Strategy Statement.</p>

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

Principle: The Council will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Schedule:

Exchange rate risk management	This Council does not, on a day-to-day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity. At the present time statute prevents the Council borrowing in currencies other than Sterling.
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1.5 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those re-financings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Principle: The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

Schedule:

Projected capital expenditure requirements	<p>Three-year projections are in place for capital expenditure and its financing or funding. Financing will be from capital receipts, reserves and any grants or contributions awarded, revenue resources or reserves. Funding will be from internal or external borrowing, as decided.</p> <p>As required by the Prudential Code, the Council will undertake Options Appraisal to evaluate the best capital expenditure financing route.</p> <p>The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.</p>
Debt profiling policies and practices	<p>Any longer term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.</p> <p>The Council will maintain through its treasury system, Logotech, reliable records of the terms and maturities of its borrowings. Where appropriate it will plan and successfully negotiate terms for re-financing.</p> <p>Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.</p>
Policy concerning limits on revenue consequences of capital financings	<p>The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.</p>

1.6 Legal and Regulatory Risk Management

The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

Principle: The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy as set out in TMP1(1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Schedule:

<p>References to relevant statutes and regulations</p>	<p>The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council.</p> <p>These are:</p> <ul style="list-style-type: none"> ▪ CIPFA’s Treasury Management Code of Practice 2001 and subsequent amendments ▪ CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments ▪ CIPFA Standard of Professional Practice on Treasury Management ▪ The Local Government Act 2003 ▪ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146 and subsequent amendments ▪ The CLG’s statutory Guidance on Minimum Revenue Provision (MRP) ▪ The ODPM’s (now CLG’s) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments ▪ Code of Practice on Local Authority Accounting in the United Kingdom ▪ LAAP Bulletins ▪ Accounts and Audit Regulations 2003, as amended together with CLG Guidance ▪ Council’s Constitution including: - <ul style="list-style-type: none"> - Standing Order relating to Contracts - Financial Regulations - Scheme of Delegation
<p>Procedures for evidencing the organisation’s powers/ authorities to counterparties</p>	<p>The Council’s, Finance & Resources Group Scheme of Delegations contains evidence of the power / authority to act as required by section 151 of the Local Government Act 1972.</p> <p>The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.</p> <p>Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.</p>

Required information from counterparties concerning their powers/ authorities	Lending shall only be made to institutions on the Council's authorised lending list. The Council will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from commercial banks.
Statement on political risks and management of the same	Political risk is managed by: <ul style="list-style-type: none"> ▪ Adoption of the CIPFA Treasury Management Code of Practice ▪ Adherence to Corporate Governance (TMP 12 – Corporate Governance) ▪ Adherence to the CIPFA Ethics Statement of Professional Practice by the Investment Manager

1.7 Fraud Error and Corruption and Contingency Management

This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.

Principle: The Council will ensure that it has identified the circumstances, which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Schedule:

<p>Details of systems and procedures to be followed, including Internet services</p>	<p>Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in TMP5 "Organisation, clarity and segregation of responsibilities, and dealing arrangements".</p> <p>Electronic Banking and Dealing Banking: The Council's online banking service provided by HSBC is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required and the system also holds historic data. Officers having access to the bank's online system are detailed in the Operations Manual. Officer access is reviewed as required following operational changes.</p> <p>Access to the Council's treasury management system, Logotech is limited to those officers listed in the Operations Manual and is password protected.</p>
<p>Details of systems and procedures to be followed, including Internet services continued...</p>	<p>Full procedure notes covering the day-to-day operation of the on-line banking system and the treasury management system are documented and included in the Operations Manual.</p> <p>Standard Settlement Instructions (SSI) list: A list is maintained of named officers who have the authority to transact loans and investments and is included in the operations manual.</p> <p>Brokers and counterparties with whom the Council deals direct are provided with a copy of the SSI list.</p> <p>A list of named officers with authority to borrow from the PWLB and invest with the Debt Management Agency Deposit Facility is also maintained with the PWLB/DMADF.</p> <p>Payment Authorisation: Payments can only be authorised by an agreed bank signatory/(ies) of the Council, the list of signatories having previously been agreed with the Council's bank. One bank signatory is required for payments up to £1m and two signatures for any payments over £1m.</p> <p>Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts.</p> <p>Separate officers will carry out (a) dealing and (b) recording of transactions and disbursements within the Oracle accounting system.</p>

Verification	<p>Loans and investments will be maintained in registers and the Logotech treasury management system.</p> <p>Transactions will be cross-checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.</p>
Substantiation	<p>The Treasury Management system balances are reconciled with Oracle financial ledger codes at the end of each month and at the financial year-end.</p> <p>Working papers are retained for audit inspection.</p> <p>The bank reconciliation is carried out monthly from the bank statement to the Oracle accounting system.</p> <p>Investment and loan principal and interest transactions are verified through the daily treasury cash flow monitoring process.</p>
Internal Audit	<p>An annual review is carried out by Internal Audit of the treasury management function including probity testing. See TMP7 “Budgeting, accounting and audit arrangements”.</p>
Contingency Management	<p>All treasury systems are retained on the Council’s network.</p> <p>A daily back up is taken and maintained and can be used by the IT department to restore files, if necessary.</p> <p>A daily back up is also carried out offsite by a third party.</p> <p>Temporary off-site working facility: Members of the Treasury section can access the off-site facility following an emergency and will be made aware of the procedures to follow.</p> <p>Electronic Banking System Failure: Contact can be made directly with the bank via telephone and systems are in place to ascertain bank account balances. Arrangements have been made with the local branch of the bank to allow properly authorised payment instructions to be actioned.</p> <p>The Operations Manual, which includes contingency procedures, is maintained by the Treasury Department and printed copies are retained both on and off site. Also the Civil Protection Service holds a complete Business Continuity Plan.</p>
Insurance Cover details	<p>The Council has Fidelity Guarantee cover. The Insurance department holds details of the provider and cover.</p>

1.8 Market Risk Management

This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it fails to protect itself adequately.

Principle: This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations as it is possible to do so.

Schedule:

Details of limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc)	<p>Certain investment instruments are subject to fluctuation in capital movements and are exposed to interest rate risk.</p> <p>In order to minimise these risks capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective.</p> <p>Risk control guidelines are detailed in the Annual Investment Strategy and include maximum exposure and duration limits.</p>
Accounting for unrealised gains/losses	<p>The method used when accounting for unrealised gains or losses on the valuation of financial assets will comply with Accounting Code of Practice</p>

TREASURY MANAGEMENT PRACTICE 2 - PERFORMANCE MEASUREMENT

Principle: The Council is committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out below.

Schedule:

<p>Policy concerning methods for testing value for money</p>	<p>Best value will include the production of plans to review the way services are provided by challenging, comparing performance and consulting with other users and interested parties.</p> <p>Applying competition principles in order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.</p>
<p>Policy concerning methods for performance measurement</p>	<p>Performance measurement is intended to calculate the effectiveness of the treasury activity in delivering the strategic objectives and to enhance accountability. These objectives are set through the Treasury Management Strategy and the Council's Prudential Indicators</p> <p>Costs and income relating to financial instruments are scrutinised through the monthly budget monitoring process.</p> <p>Prudential Indicators are local to the Council and are not intended as a comparator between authorities.</p> <p>The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis.</p> <p>Performance measurement is intended to calculate the effectiveness of the treasury activity in delivering the strategic objectives and to enhance accountability. These objectives are set through the Treasury Management Strategy and the Council's Prudential Indicators</p>

<p>Policy concerning methods for performance measurement continued...</p>	<p>Performance measurement is intended to calculate the effectiveness of the treasury activity in delivering the strategic objectives and to enhance accountability. These objectives are set through the Treasury Management Strategy and the Council's Prudential Indicators</p> <p>Costs and income relating to financial instruments are scrutinised through the monthly budget monitoring process.</p> <p>Prudential Indicators are local to the Council and are not intended as a comparator between authorities.</p> <p>The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis.</p> <p>Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to:</p> <ul style="list-style-type: none"> ▪ Allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed. ▪ Permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments. <p>In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.</p>
<p>Methodology to be applied for evaluating the effectiveness and impact of treasury management decisions</p>	<p>Monitoring the outcome of treasury management activity against the Prudential Indicators will be carried out as part of the treasury report and will be reported to Cabinet on a six monthly basis.</p> <p>The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the Prudential Indicators set prior to the commencement of the financial year and any in-year amendments.</p> <p>The Council's Treasury Management advisers regularly review the existing debt portfolio and all transactions that have occurred in the interim in order to ensure that best practice has been achieved.</p>

<p>Methodology to be employed for measuring the performance of the Council's treasury management activities</p>	<p>Treasury management activity is reviewed every six months against strategy and prevailing economic and market conditions through the Treasury Report to Cabinet.</p> <p>The report will include:</p> <ul style="list-style-type: none"> ▪ Total debt including average rate and maturity profile ▪ The effect of new borrowing and/or maturities on the above ▪ The effect of any debt restructuring on the debt portfolio ▪ An analysis of any risks inherent within the debt portfolio (e.g. exposure to variable rate: LOBOs in their call period) ▪ Total investments including average rate, credit and maturity profile ▪ The effect of new investments/redemptions/maturities on the above ▪ The rate of return on investments against their indices for internally managed funds ▪ A statement whether the treasury management activity resulted in a breach of the Prudential Indicators.
<p>Benchmarking and calculation methodology with regard to risk and return</p>	<p>Investment returns are compared to the 7 day LIBID benchmark</p> <p>The investment credit profile is also scored monthly with reference to credit ratings on a value and time weighted basis.</p> <p>Internally Managed Investment Returns will show the total interest accruing on investment balances relating to the period under review.</p> <p>Debt Management</p> <ul style="list-style-type: none"> Average Rate on external debt Maturity profile of external debt Ratio of PWLB and market debt (beginning and end of period) Ratio of fixed and variable rate debt (beginning and end of period)
<p>Best value</p>	<p>The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated corporate and service objectives.</p> <p>When tendering for treasury-related or banking services, the Council adheres to its Procurement Standing Orders.</p>

TREASURY MANAGEMENT PRACTICE 3 - DECISION MAKING AND ANALYSIS

Principle: The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issued relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedule:

Major treasury decisions	<p>As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either:</p> <ul style="list-style-type: none"> ▪ Changes to Prudential Indicator(s) during the course of the financial year ▪ Options Appraisal to determine a funding decision ▪ Raising a new long-term loan / long-term source of finance ▪ Prematurely restructuring/redeeming an existing long-term loan(s) ▪ Investing longer-term ▪ Utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a body corporate) ▪ Leasing ▪ Change in banking arrangements ▪ Appointing/replacing a treasury advisor
Process	<p>The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy.</p> <p>Based on the Annual Treasury Management Strategy, the Investment Manager will prepare a cash flow forecast of the financing, borrowing and surplus cash requirements of the Council, for the purpose of:</p> <ul style="list-style-type: none"> ▪ Applying the strategy on a day to day basis ▪ Monitoring the results of the strategy ▪ Recommending amendments to the strategy where applicable during the course of the year to the Council
Delegated powers for treasury management	<p>The Senior Finance Manager – Corporate Finance, has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.</p>

<p>Issues to be addressed, evaluation, authorisation</p>	<p>In exercising these powers, the Senior Finance Manager – Corporate Finance and those to whom the treasury activity have been delegated will:</p> <ul style="list-style-type: none"> ▪ have regard to the nature and extent of any associated risks to which the Council may become exposed; ▪ be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained; ▪ be satisfied that the documentation is adequate to deliver the Council’s objectives, protect the Council’s interests, and to maintain an effective audit trail; ▪ ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits; ▪ be satisfied that the terms of any transactions have been fully checked against the market; ▪ follow best practice in implementing the treasury transaction. <p>In exercising Borrowing and Funding decisions, the Investment Manager will:</p> <ul style="list-style-type: none"> ▪ evaluate economic and market factors that may influence the manner and timing of any decision to fund; ▪ consider alternative forms of funding, including use of revenue resources, leasing and private partnerships; ▪ consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; ▪ consider ongoing revenue liabilities created. <p>In exercising Investment decisions, the Investment Manager will:</p> <ul style="list-style-type: none"> ▪ determine that the investment is within the Council’s strategy and pre-determined instruments and criteria; ▪ consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions; ▪ consider the alternative investment products and techniques available if appropriate.
<p>Processes to be followed</p>	<p>The processes to be followed will be in keeping with TMP 4: “The Council’s Approved, Instruments, Methods and Techniques”.</p>

<p>Evidence and records to be kept</p>	<p>The Council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.</p> <p>The Council will maintain records and working papers electronically using Oracle, Logotech, Excel, Word and scanning software. Hard copies of relevant documentation will also be retained where required.</p>
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TREASURY MANAGEMENT PRACTICE 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Principle: The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed scheduled in this document, and within the limits and parameters defined in TMP1 Risk Management.

Schedule:

<p>Approved treasury management activities</p>	<p>The Council is permitted to undertake the following activities:</p> <ul style="list-style-type: none"> ▪ Managing cash flow ▪ Capital financing ▪ Borrowing including debt restructuring and debt repayment ▪ Lending including redemption of investments ▪ Banking ▪ Leasing ▪ Managing the underlying risk associated with the Council's capital financing and surplus funds activities <p>The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques. However, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.</p>
<p>Approved capital financing methods and types/sources of funding</p>	<p><u>Capital financing methods</u> Capital receipts Revenue balances Use of Reserves Capital Grants and Contributions</p> <p><u>Funding Sources</u> Public Works Loans Board (PWLB) loans Long term money market loans including LOBOs Temporary money market loans (up to 364 days). Bank overdraft Loans from bodies such as the European Investment Bank (EIB) Stock issues Finance Leases Deferred Purchase</p>

<p>Approved capital financing methods and types/sources of funding continued...</p>	<p><u>Other</u> PFI/PPP Operating leases Structured Finance</p> <p>The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.</p>
<p>Approved investment instruments and exposure limits</p>	<p>The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).</p> <p>The Council will determine through the AIS which instruments will be used in-house including and the maximum exposure for each element of specified and non-specified investments. Two criteria will be used and the lower applied when ascertaining exposure limits. The criteria include absolute values and relative percentages of the average investment portfolio. The relative percentage will be based on the rolling average investment total for the proceeding 30 days. By applying two criteria the council will maintain a diversified spread of investments.</p> <p>Where applicable, the Council's credit criteria will also apply.</p> <ul style="list-style-type: none"> ▪ Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities ▪ Term deposits with banks and building societies ▪ Certificates of deposit ▪ Callable deposits ▪ Investments in Money Market Funds, i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM) ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments

TREASURY MANAGEMENT PRACTICE 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

Principle: The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

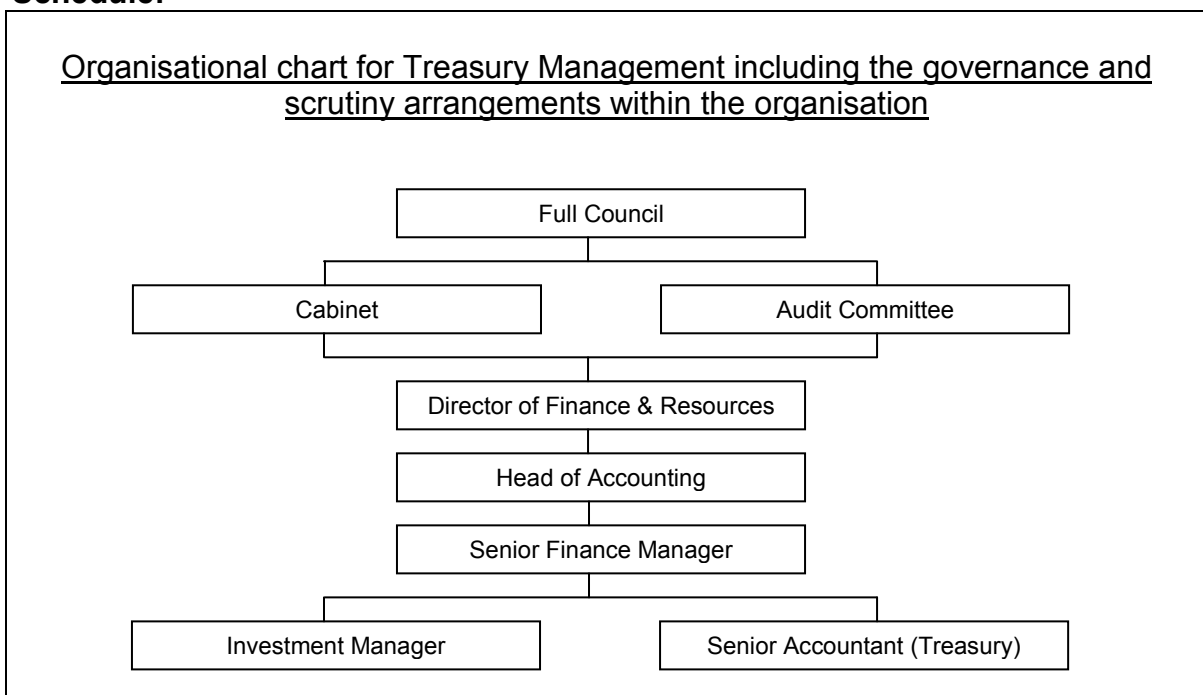
The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

The Senior Finance Manager – Corporate Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Senior Finance Manager – Corporate Finance will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The Investment Manager will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule.

The delegations to the responsible officers in respect of treasury management are set out in the schedule below. The responsible officers will fulfil all such responsibilities in accordance with the organisation's TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

Schedule:



Schedule:

<p>Limits to responsibilities at Executive levels</p>	<p>Full Council: Receive, review and approve :</p> <ul style="list-style-type: none"> ▪ Treasury Management Strategy Statement and amendments ▪ Prudential Indicators and amendments ▪ Treasury Management Investment Strategy and non-operational amendments <p>The Cabinet: Receive and review:</p> <ul style="list-style-type: none"> ▪ Treasury Management Strategy Statement & Prudential Indicators ▪ Treasury Management Investment Strategy ▪ Reports on treasury management activities <p>Audit Committee Receive and review:</p> <ul style="list-style-type: none"> ▪ Treasury Management Strategy Statement & Prudential Indicators ▪ Treasury Management Investment Strategy ▪ Treasury Management Practices ▪ External audit reports and acting on recommendations
<p>Statement of duties/ responsibilities of each treasury post</p>	<p>Director of Finance and Resources</p> <ul style="list-style-type: none"> ▪ Implement the Council's treasury policy ▪ Determine Capital Financing, borrowing and investment strategy, and Prudential Indicators ▪ Approve operational amendments to counterparty list <p>Head of Accounting</p> <ul style="list-style-type: none"> ▪ Oversee the Treasury function ▪ Submit budgets and reports on budget variations ▪ Receive Internal Audit Reports on the Treasury Function ▪ Approving long term borrowing and investment decisions <p>Senior Finance Manager – Corporate Finance</p> <ul style="list-style-type: none"> ▪ Monitor and oversees the Treasury function ▪ Receive Internal Audit Reports on the Treasury Function ▪ Approving long term borrowing and investment decisions

<p>Statement of duties/ responsibilities of each treasury post continued...</p>	<p>Investment Manager</p> <ul style="list-style-type: none"> ▪ Provide budget information and variations ▪ Recommending clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance ▪ Assist in determining Prudential Indicators ▪ Recommending and advising on long-term borrowing and investment decisions ▪ Management Strategy including the Annual Investment Strategy ▪ Submit regular treasury management policy reports ▪ Review management information reports ▪ Review the performance of the treasury management function ▪ Review treasury products in order to achieve best value ▪ Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function ▪ Liaise with internal and external audit ▪ Assist in determining long-term capital financing and investment decisions. ▪ Determine and undertake the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments. ▪ Reviewing daily transactions and querying discrepancies ▪ Identify and recommend opportunities for improved practices. <p>Senior Accountant</p> <ul style="list-style-type: none"> ▪ Execution of transactions: ▪ To make short term borrowing or investments decisions adherence to agreed policies and practices on a day to day basis ▪ Maintain relationships with third parties and external service providers ▪ Monitor performance on a day to day basis ▪ Submit management information reports to the Investment Manager and Senior Management ▪ Record treasury management transactions ▪ Reconcile treasury management transactions with the financial ledger ▪ Record/ reconcile counterparty documentation ▪ Record/reconcile relevant bank transactions and charges ▪ Maintain the cash flow forecast ▪ Maintain TM Operations Manual ▪ Update and maintain the counterparty list ▪ Verify third party deal confirmations ▪ Ensure monies to be paid are released and monies due are received
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Principles and practices concerning segregation of duties	<p>Segregation of duties exists in that:</p> <ul style="list-style-type: none"> ▪ The officer(s) responsible for negotiating and closing treasury management deals are completely separate from the officer(s) with responsibility for recording the transactions in the cashbook and completing cheque and bank reconciliations. ▪ The officer(s) responsible for negotiating and closing treasury management deals is separate from officer(s) authorising payments <p>Additionally, The Council receives bank statements on a daily basis. These are posted independent of the treasury function in order to maintain an adequate separation of duties.</p>
Absence cover arrangements	<p>Adequate cover is maintained at all times to ensure the treasury function remains operational.</p> <p>Full procedure notes are included in the Operations manual, detailing the processes required to enable the day-to-day operation of the treasury management function.</p>

Dealing:

Authorised officers	Included within the Operational manual / dealing procedure notes
Dealing limits	<p>The maximum for any one-investment deal is subject to the lending limits detailed in the Council's Annual Investment Strategy.</p> <p>Senior Accountants/Trainee should confirm investments in excess of three months with the Investment Manager/Senior Management prior to agreement.</p>
List of approved brokers	Brokers used by the Council are named in TMP 11: External Service Providers
Policy on brokers' services	<p>It is the Council's policy to utilise the services of four brokers. The Council will maintain a spread of business between them in order to avoid relying on the services of any one broker.</p>
Policy on taping of conversations	<p>The Council does not record conversations with brokers. However recording systems are in place with all brokers and as such the brokers record conversations.</p>

Direct dealing practices	<p>Direct dealing is carried out subject to counterparty and maturity limits.</p> <p>Prior to undertaking direct dealing, the Council will ensure that each counterparty has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Instructions.</p> <p>The template for the Council's Standard Settlement Procedures is included in the Operational Manual.</p>
Deal Ticket pro forma	Deals will be recorded as per the deal card.
Settlement transmission procedures	<p>Settlements are made by CHAPS.</p> <p>All CHAPS payments relating to settlement transactions require authorisation by the one bank signatory for transactions up to £1m and two bank signatories for transactions over £1m</p> <p>CHAPS payments are transmitted using the HSBCnet online banking system.</p>
Documentation requirements	<p>For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, maturity date and broker if applicable.</p> <p>Investments:</p> <ul style="list-style-type: none"> ▪ Deal card ▪ Payment voucher (unless HSBC transfer or roll over) ▪ Confirmation from the broker ▪ Confirmation from the counterparty ▪ CHAPS payment transmission document <p>Income advice Loans:</p> <ul style="list-style-type: none"> ▪ Deal card with signature to agree loan ▪ Confirmation from the broker (if used) ▪ Confirmation from PWLB/market counterparty ▪ CHAPS payment transmission document when repayment of loan actioned.
Unpaid Investment Recovery Procedures	Instructions on the procedures to deal with unpaid investments are held at an operational level and included within the treasury management operations manual.

TREASURY MANAGEMENT PRACTICE 6: REPORTING REQUIREMENTS, MANAGEMENT INFORMATION ARRANGEMENTS

Principle: The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

Council:

Will receive reports on the Prudential Indicators (PI's), Treasury Management Strategy Statement, Annual Investment Strategy (AIS) and activities for the forthcoming year

Cabinet:

Will receive monthly, mid financial year and end of financial year reports on the performance of the treasury management function. It will consist of the effects of the decisions taken, the management of activities, risks and include details of non-compliance with the organisation's treasury management policy statement. Receive and scrutinise Treasury Management Strategy Statement (Including AIS and PI's)

The Audit Committee:

Will receive and be responsible for the annual scrutiny of Treasury Management Policies and Practices and Treasury Management Strategy Statement (Including AIS and PI's).

The present arrangements and the form of these reports are outlined below.

Schedule:

<p>Frequency of executive reporting requirements</p>	<p>The Head of Accounting will submit budgets and will report on budget variations as appropriate.</p> <p>The Investment Manager will submit the Prudential Indicators and the Treasury Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to Audit Committee and Cabinet prior to agreement at full Council before the start of the year.</p> <p>Monthly, mid year and year end treasury reports will be prepared by the Investment Manager and will report on treasury management activities relating to their relevant period. These reports will be submitted to Cabinet for scrutiny during the year.</p>
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<p>Frequency of executive reporting requirements continued...</p>	<p>Amendments to the Treasury Management Policies and Practices will be submitted to the Audit Committee for scrutiny annually.</p> <p>The Treasury Officers will produce daily, weekly and monthly treasury updates for senior management:</p>
<p>Content of Reporting: 1. Prudential Indicators</p>	<p>The Council will set the following Prudential Indicators and following the year end publish actuals in respect of:</p> <ul style="list-style-type: none"> ▪ Financing costs as a proportion of net revenue stream (estimate; actual) ▪ Capital expenditure (estimate; actual) ▪ Incremental impact of capital financing decisions (estimate) ▪ Capital Financing Requirement (estimates; actual) ▪ Authorised limit for external debt ▪ Operational boundary for external debt ▪ Actual external debt ▪ Upper limits on fixed and variable rate interest exposures ▪ Upper and lower limits to maturity structure of fixed rate borrowing ▪ Upper limit to total of principal sums invested longer than 364 days. <p>The Prudential Indicators are approved and revised by Council and are integrated into the Council’s overall financial planning and budget process.</p> <p>Reasons for any significant difference between gross and net debt and the risks associated with such a strategy will be placed before Cabinet and Council as part of their agreement of the Annual Strategy.</p> <p>Audit Committee and Cabinet will receive a copy of this report prior to Council to carry out its scrutiny role of treasury management.</p>

<p>2. Treasury Strategy Statement including the Annual Investment Strategy</p>	<p>The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:</p> <ul style="list-style-type: none"> ▪ Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years ▪ Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt; ▪ The investment strategy for the forthcoming year <p>The interest rate outlook against which the treasury activities are likely to be undertaken.</p> <p>Based on the ODPM's (now CLG) Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out:</p> <ul style="list-style-type: none"> ▪ The objectives, policies and strategy for managing its investments; ▪ The determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and investment outlook and the expected level of investment balances; ▪ The limits for the use of Non-Specified Investments. <p>The AIS will be integrated into the Treasury Strategy Statement.</p> <ul style="list-style-type: none"> ▪ Audit Committee and Cabinet will receive a copy of this report to carry out its scrutiny role of treasury management.
<p>3. The Year End Annual Treasury Report</p>	<p>The Investment Manager will produce an annual report for the Cabinet on all activities of treasury management and should be included with the month two budget outturn report.</p> <p>The main contents of the report will comprise:</p> <ul style="list-style-type: none"> ▪ The prevailing economic environment ▪ Commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council ▪ Compliance with agreed policies/practices and statutory/regulatory requirements; ▪ Performance measures. ▪ Borrowing information (including premature repayment, new loans information) ▪ Information on investments, including current lending list ▪ Prudential indicators relating to treasury management ▪ Governance framework and scrutiny arrangements

<p>4. Mid-Year Treasury Report</p>	<p>The Investment Manager will produce a mid-year report for Cabinet on the borrowing and investment activities of the treasury management function for the first six months of the financial year.</p> <p>The main contents of the report will comprise:</p> <ul style="list-style-type: none"> • Economic background • Economic forecast (including interest rates forecast) • Treasury Management Strategy Statement update • Performance measures • Borrowing information (including premature repayment, new loans information) • Information on investments, including current lending list • Prudential indicators relating to treasury management • Governance framework and scrutiny arrangements
<p>5. Monthly Reporting</p>	<p>The Treasury Officer will produce a monthly report for Cabinet on the borrowing and investment activities of the treasury management function.</p> <p>The main contents of the report will comprise:</p> <ul style="list-style-type: none"> • Performance measures • Borrowing information (including premature repayment, new loans information) • Information on investments • Compliance with prudential indicators • Short term strategy information
<p>6. Content and frequency of management information reports</p>	<p>The Investment Manager will produce for Cabinet a mid financial year update on treasury activities covering the same items as those in the annual treasury report. In addition, a monthly report will also be produced providing an overview on treasury activities.</p> <p>The Treasury Officers will produce daily, weekly and monthly treasury updates for senior management:</p> <p>The Monthly report includes details of:</p> <ul style="list-style-type: none"> ▪ Loan balances, activity and interest payable. ▪ Investment balances and interest earned ▪ Performance of investments against benchmark ▪ Information and compliance with treasury prudential indicators ▪ Details of any breaches of daily bank balances against target balances.

<p>6. Content and frequency of management information reports continued...</p>	<p>The weekly report includes details of:</p> <ul style="list-style-type: none"> ▪ Maturity profile of investments ▪ Weighted rate of return by investment maturity and in total ▪ Country breakdown of investments ▪ Credit rating breakdown of investments ▪ Weekly review and forthcoming weekly strategy <p>The daily report include details of:</p> <ul style="list-style-type: none"> ▪ Summary and detail of investments ▪ Compliance against deposit limits ▪ Activity regarding new and repaid investments ▪ Details of any short term borrowing ▪ Commentary to support Investment decisions
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TREASURY MANAGEMENT PRACTICE 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

Principle: The Head of Accounting will prepare, and the Council will approve and, if necessary from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 “Risk management”, TMP2 “Performance measurement”, and TMP4 “Approved instruments, methods and techniques”.

The Head of Accounting will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 “Reporting requirements and management information arrangements”.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council’s accounts is set out in the schedule.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

Schedule:

Statutory/ regulatory requirements	Balanced Budget Requirement: The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects: <ul style="list-style-type: none"> ▪ The expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account ▪ Revenue costs which flow from capital financing decisions <p>S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.</p>
Proper Accounting Practice	CIPFA’s Code of Practice on local authority accounting in the United Kingdom constitutes “proper accounting practice under the terms of S21 (2) of the Local Government Act 2003”.

Financial Statements	<p>The Financial Statements comprise:</p> <ul style="list-style-type: none"> • Explanatory foreword • Accounting policies, changes in accounting estimates and errors • Presentation of financial statements • Movement in reserves statement • Comprehensive income and expenditure statement • Balance sheet • Cash flow statement • Statement of responsibilities • Notes to the financial statements • Housing revenue account • Collection fund • Statements reporting reviews of internal controls or Internal financial controls • Events after the reporting period • Related party disclosures
Format of the Council's accounts	The current form of the accounts is available on the Council website.
Disclosures relating to treasury management	Due regard will be given to the disclosure requirements under CIPFA's Accounting Code of Practice
<p>Treasury-related Information</p> <p>Requirements of external auditors</p>	<p>The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work, which often requires further information and/or explanations from the Council's officers.</p> <p>Information in this context includes:</p> <ul style="list-style-type: none"> ▪ System generated reports ▪ Supporting working papers ▪ Internally generated documents ▪ Externally generated documents <p>Prudential Indicators</p> <p>Treasury Management Strategy including Annual Investment Strategy.</p>

	<p>External borrowing:</p> <ul style="list-style-type: none"> ▪ New loans borrowed during the year: PWLB certificates / documentation in relation to market loans borrowed ▪ Loan maturities ▪ Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years. ▪ Analysis of loans outstanding at year end including maturity analysis ▪ Analysis of borrowing between long and short-term ▪ Debt management and financing costs <ul style="list-style-type: none"> - calculation of (i) interest paid (ii) accrued interest - interest paid ▪ MRP calculation and analysis of movement in the CFR ▪ Bank overdraft position ▪ Brokerage/commissions/transaction related costs <p>Investments:</p> <ul style="list-style-type: none"> ▪ Investment transactions during the year including any transaction-related costs ▪ Cash and bank balances at year end ▪ Short-term investments at year end ▪ Long-term investments at year end by asset type, including unrealised gains or losses at year end ▪ Calculation of (i) interest received (ii) accrued interest ▪ Actual interest received ▪ Basis of valuation of investments
Internal Audit	<p>Internal Audit generally conducts a yearly review of the treasury management function and probity testing.</p> <p>The internal auditors will be given access to treasury management information/documentation as required by them.</p>
Compliance with CIPFA Treasury Management and Prudential Codes	<p>Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.</p> <p>Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.</p>
Costs for treasury management	<p>The budget for treasury management forms part of the Corporate Finance budget</p>

TREASURY MANAGEMENT PRACTICE 8: CASH AND CASH FLOW MANAGEMENT

Principle: Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director of Finance and Resources, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared and the Investment Manager will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [1] liquidity risk management. The present arrangements for preparing cash flow projections and their form are set out in the schedule to this document.

Schedule:

<p>Arrangements for preparing /submitting cash flow statements</p>	<p>Cash flow forecasts will be viewed over a three yearly time horizon and will be used to formulate the Council's borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances.</p> <p>The cash flow forecasts and statements are held at operational level.</p> <p>The accuracy and effectiveness of the Council's cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods.</p> <p>An outline medium-term cash flow model is prepared as part of the budget process, with projections for 3 further years. It is highly summarised and looks mainly at cash flows arising from the capital programme, the in-year capital financing requirement, scheduled loan maturities and long-term investment maturities.</p> <p>A detailed annual cash flow is prepared for the financial year once the budget for the ensuing year has been agreed, which is monitored and updated as required. It identifies the major inflows and outflows on a month-by-month basis. It is prepared using the agreed revenue budget and capital programme for the financial year and based on the knowledge obtained from the Council's various service sections. The cash flow is also supplemented by the experience from previous years.</p> <p>Daily cash flows show forecast and planned movements of cash on a daily basis, including the matching of known inflows and payments.</p> <p>The medium term and annual cash flows are recorded electronically whilst the daily cash flow is held manually.</p>
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<p>Content and frequency of cash flow projections</p>	<p>The detailed annual cash flow model includes the following: Revenue income and expenditure - based on the budget. Profiled capital income and expenditure - as per the capital programme.</p> <p>Revenue activities: Inflows:</p> <ul style="list-style-type: none"> ▪ Non domestic rates receipts ▪ Council tax receipts ▪ Housing subsidy ▪ Government grants ▪ Other operating cash receipts <p>Outflows:</p> <ul style="list-style-type: none"> ▪ Salaries and payments on behalf of employees ▪ Schools payments ▪ Tax ▪ National Insurance ▪ Operating cash payments ▪ Precepts and levy payments ▪ NNDR payments to national pool ▪ Payments to the capital receipts pool ▪ Pension contribution payments <p>Capital activities including financing Inflows:</p> <ul style="list-style-type: none"> ▪ Capital grants received ▪ Sale of fixed assets ▪ Other capital cash receipts <p>Outflows:</p> <ul style="list-style-type: none"> ▪ Purchase of fixed assets ▪ Purchase of long-term investments ▪ Other capital cash payments
	<p>Financing, Servicing of Finance/Returns on Investments Inflows</p> <ul style="list-style-type: none"> ▪ New long-term loans raised ▪ New short-term loans raised ▪ Interest received ▪ Discount on premature repayment of loan <p>Outflows:</p> <ul style="list-style-type: none"> ▪ Loan repayments ▪ Premia on premature repayment of loan ▪ Short-term investments ▪ Capital element of finance lease rental payments ▪ Interest paid ▪ Interest element of finance lease rental payments

Monitoring, frequency of cash flow updates	The annual cash flow prediction is updated as required taking account of any revisions.																																
Bank statements procedures	The Council receives bank statements on a daily basis. These are posted independently of the treasury function and are reconciled to the Oracle accounting system on a monthly basis.																																
Payment scheduling	The Council has a policy of paying suppliers in line with agreed terms of trade.																																
Monitoring debtor/ creditor levels	Debtor levels are monitored on an ongoing basis. The status of overdue payments is examined regularly and the appropriate action is taken to recover any delinquent debts. The level of Creditor invoices being processed and which remain unpaid is monitored on a monthly basis by the P2P Operational Manager.																																
Banking of funds	Instructions for the banking of income are set out in the Financial Regulations. Income should be paid fully and promptly into the appropriate authority bank account in the form in which it is received. All the Council's sections are advised of the requirement to bank on a regular basis in order to comply with recommended best practice and also remain within the particular insurance limits for the Council's premises.																																
Listing of sources of information	The treasury function receives cash flow information from the following persons/departments: <table border="1" data-bbox="528 1370 1378 1982"> <thead> <tr> <th>Type of Information</th> <th>Source</th> </tr> </thead> <tbody> <tr> <td>Area Based Grants</td> <td>Sharon Carter</td> </tr> <tr> <td>West London Waste</td> <td>Sharon Carter</td> </tr> <tr> <td>London Pension</td> <td>Sharon Carter</td> </tr> <tr> <td>Greater London Authority</td> <td>Sharon Carter</td> </tr> <tr> <td>Environment Agency</td> <td>Sharon Carter</td> </tr> <tr> <td>Lee Valley</td> <td>Sharon Carter</td> </tr> <tr> <td>DSG</td> <td>Rajan Perinpanayagam</td> </tr> <tr> <td>Schools</td> <td>Ken Wood</td> </tr> <tr> <td>Schools Salaries</td> <td>Rajan Perinpanayagam</td> </tr> <tr> <td>LBH Salaries</td> <td>Tina Lockyer</td> </tr> <tr> <td>TPA & HMRC</td> <td>Tina Lockyer</td> </tr> <tr> <td>NNDR, BAA, BA</td> <td>Mitra Davami</td> </tr> <tr> <td>Housing Benefits</td> <td>Richard Wakefield</td> </tr> <tr> <td>Supporting Peoples Grant</td> <td>Ceri Lamoureux</td> </tr> <tr> <td>Weekly BACS payments</td> <td>Tracey Tully</td> </tr> </tbody> </table>	Type of Information	Source	Area Based Grants	Sharon Carter	West London Waste	Sharon Carter	London Pension	Sharon Carter	Greater London Authority	Sharon Carter	Environment Agency	Sharon Carter	Lee Valley	Sharon Carter	DSG	Rajan Perinpanayagam	Schools	Ken Wood	Schools Salaries	Rajan Perinpanayagam	LBH Salaries	Tina Lockyer	TPA & HMRC	Tina Lockyer	NNDR, BAA, BA	Mitra Davami	Housing Benefits	Richard Wakefield	Supporting Peoples Grant	Ceri Lamoureux	Weekly BACS payments	Tracey Tully
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<p>Practices concerning prepayments to obtain benefits</p>	<p>Contracts where payments are made in advance include:</p> <ul style="list-style-type: none"> Treasury advisers Treasury software support Financial publications CIPFA network Vehicle leasing <p>It is common practice for these services to have contractual arrangements where the annual fee is paid in advance. Accounting prepayment journals correct costs to reflect the actual charge for the accounting year.</p>
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TREASURY MANAGEMENT PRACTICE 9: MONEY LAUNDERING

Background: The Proceeds of Crime Act 2002 (POCA) consolidated, updated and reformed criminal law in the UK in relation to money laundering. Part 7 of the POCA establishes the principal offences relating to money laundering, these being:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland.
- Being concerned in an arrangement, which a person knows, suspects or facilitates the acquisition, retention use or control of criminal property.
- Acquiring, using or possessing criminal property.

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations. The Money Laundering Regulations are concerned with measures to restrict the opportunities for money laundering in certain types of business.

CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

Principle: The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties, reporting suspicions and ensuring staff involved in this area are properly trained. The present arrangements, including the title of the officer to whom reports should be made, are detailed in the schedule below.

Schedule:

Anti money laundering policy	<p>This Council’s policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.</p> <p>The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.</p>
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<p>Nomination of Responsible Officer(s)</p>	<p>The Head of Internal Audit and & Risk Management is supported by the Head of Revenues and they have been nominated as the responsible officers for anti-money laundering. Any suspicions relating to transactions involving the Council will be communicated to these officers.</p> <p>The responsible officers will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions.</p> <p>The responsible officers will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).</p>
<p>Limit placed on acceptance of cash sums</p>	<p>The Council has set an upper limit of £5,000 for receipt of 'cash' (this includes notes, coins, or travellers cheques in any currency). This limit should be applied to any transaction or group of related transactions amounting to more than the limit specified.</p>
<p>Procedures for establishing the Identity of Lenders and Borrowers</p>	<p>In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4.</p> <p>The Council will not accept loans from individuals</p> <p>In the course of its treasury activities, the Council will only invest with those counterparties, which are on its approved lending list.</p> <p>All banking transactions will only be undertaken by the personnel authorised to operate the Council's bank accounts.</p>

TREASURY MANAGEMENT PRACTICE 10: TRAINING AND QUALIFICATIONS

Principle: The Council recognises the importance of ensuring that all staff involved in the treasury management function is fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Senior Finance Manager – Corporate Finance will recommend and implement the necessary arrangements. The present arrangements are detailed in the schedule below.

The Senior Finance Manager – Corporate Finance will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Schedule:

Qualifications/ experience for treasury staff	Investment Manager – CCAB qualified
Career Development / Continuing Professional Development (CPD)	Among the courses/events the Council would expect its treasury personnel to consider for CPD are: Training courses run by CIPFA Any courses/seminars run by Treasury Management Consultants. Attending CIPFA Conference. Training attended by those responsible for scrutiny of the treasury function. The Council participates in a CIPFA Employer Accreditation Scheme for CPD purposes, which is based on planning, recording and evaluating development.
Training records	Treasury related training records are maintained providing details of the date and event relating to each member of staff.
Qualifications / Access to Training for Council Members	Treasury Management is included in the general finance training for members.

TREASURY MANAGEMENT PRACTICE 11: USE OF EXTERNAL SERVICE PROVIDERS

Principle: The Council recognises that responsibility for treasury management decisions remains within the organisation at all times. The Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The details of the current arrangements are set out in the schedule below.

Schedule:

Contract threshold	The Council's Procurement Standing Orders require that a formal contract be in place with external service providers where the contract value is £20k and above.
Details of providers and procedures and frequency for tendering services	<p>Bankers to the Council: HSBC High Street, Uxbridge Contract from April 10 to April 13 with two year extension option Formal agreement in place: yes This service will be re-tendered every three or five years depending on whether the extension option is exercised</p> <p>Treasury advisor: Arlingclose Ltd 6/7 Hatton Garden, London, EC1N 8AD Tel 020 7831 3114 Contract period: Feb 2009 to Feb 2012 with two year extension option Formal agreement in place: yes This service may be re-tendered every three or five years depending on whether the extension option is exercised</p> <p>Brokers: It is considered good practice for the Council to have at least four brokers and to spread business between them.</p> <p>Tradition (UK) Ltd Beaufort House, 15 St Botolph Street, London, EC3A 7DT Tel: 020 7422 3566 No contract or formal agreement in place</p>

<p>Details of providers and procedures and frequency for tendering services continued...</p>	<p>Martin Brokers Ltd 25 Dowgate Hill, London, EC4R 2BB Tel: 020 7469 9580 No contract or formal agreement in place</p> <p>Sterling International Brokers Ltd 10 Chiswell Street, London, EC1Y 4UQ Tel: 020 7496 8950 No contract or formal agreement in place</p> <p>Tullet Prebon Group Ltd 155 Bishopsgate London EC2M 3TQ Tel: 020 7200 7393 No contract or formal agreement in place</p>
<p>Business reserve accounts / direct deposit takers</p>	<p>Business Reserve Accounts / Direct deposit takers The Council may have one or more business reserve accounts / access to direct to deposit takers at any one time. Their details are held separately at an operational level.</p>
<p>Regulatory status of services provided</p>	<p>The Council's external service providers are listed below, along with their regulatory status: Bankers to the Council (HSBC) – regulated by the Financial Services Authority (FSA) Treasury Adviser (Arlingclose) – regulated by FSA Brokers Tradition (UK) Ltd - regulated by FSA Martin Brokers Ltd - regulated by FSA Sterling International Brokers Ltd - regulated by FSA Tullet Prebon Group Ltd - regulated by FSA</p>
<p>Details of service provided by Treasury Advisor</p>	<p>Provide economic and political information and advice to allow treasury making decisions.</p> <p>Advice and assistance to structure appropriate investment/borrowing strategy and decisions.</p> <p>Advice on investment counterparty creditworthiness, including prudent parameters established using information from one or more of the leading credit rating agencies.</p> <p>Reports to be provided monthly with any revisions to ratings provided as they are announced.</p> <p>Advice on borrowing, debt management and investments including regular information on interest rates for borrowing/investment opportunities.</p> <p>Interest rate (investment and borrowing) forecasts with analysis.</p>

<p>Details of service provided by Treasury Advisor</p>	<p>Provision of advice on alternative financing options.</p> <p>Daily bulletins covering information on financial markets, economic data releases and market rates, including interest rate views and forecasts</p> <p>Training in relation to treasury management and capital finance.</p> <p>Meetings including on-site annual strategy meeting and in-year review meeting to develop and inform annual treasury management.</p> <p>Monitoring and advice on legislative and accounting issues affecting treasury management and capital finance.</p> <p>The provision of template documents and advice on:</p> <ul style="list-style-type: none"> • Annual Treasury Management Strategy Report • Annual review report • Treasury Management Practices • Adoption of CIPFA Code of Treasury Management • Annual investment strategy. <p>Provide fair value calculations for investments and loans in relation to year-end accounting disclosure requirements.</p> <p>Leasing advice and options appraisal.</p>
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TREASURY MANAGEMENT PRACTICE 12: CORPORATE GOVERNANCE

Principle: The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice. This together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and Internal Audit will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule:

Stewardship responsibilities.	Internal Audit ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.
List of documents to be made available for public inspection or on the council's website.	The following documents are freely available for public inspection: <ul style="list-style-type: none"> ▪ Annual Statement of Accounts ▪ 3 Year Capital Plan ▪ Treasury Management Policy ▪ Treasury Management Strategy ▪ Budget Monitoring Reports ▪ Annual Treasury Report
External funds managed on behalf of others and the basis of attributing interest earned and costs to these investments	The Council manages the following external funds on behalf of others: Hillingdon Homes The basis of attributing interest earned and costs to these investments is as follows: Rates of interest are based on the weighted average achieved and paid by the Council. Costs of administering these investments are based on a percentage of the cost centre.

Note:

Items the Council would maintain at operational level in an 'Operations Manual' include:

- The Council's Credit Criteria
- Current lending list
- Business Reserve Accounts / Money Market Funds
- Counterparties with whom the Council deals direct
- Dealing checklist
- Deal card, Payment Voucher & confirmation of deal fax proformas
- Format of the Council's Standard Settlement Instructions form
- Settlement procedures
- Full procedures notes for the day-to-day operation of the TM function
- Procedure notes for the Council's on-line banking system
- Procedure notes for the Council's treasury management system
- Procedure notes for the recovery of unpaid investments
- Contingency procedures
- List of names officers with authority to transact loans and investments
- List of officers with access to HSBC's online banking system
- List of officers with access to the Treasury Management Logotech System

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Agenda Item 12

WORK PROGRAMME 20010/11

Contact Officer: Khalid Ahmed
Telephone: 01895 250833

REASON FOR ITEM

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

OPTIONS AVAILABLE TO THE COMMITTEE

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

INFORMATION

All meetings to start at 5.00pm

Meetings	Room
28 June 2010	CR 3
21 September 2010	CR 3A
15 December 2010	CR 3
10 March 2011	CR 3

AUDIT COMMITTEE

2010/11 DRAFT Work Programme

28 June 2010		
	Fraud Awareness Survey	Head of Audit
	Consolidated Fraud Report	Head of Audit
	Review of the systems of Internal Audit – Head of Audit.	Head of Audit
	Approval of Accounts, including Annual Governance Statement	Director of Finance
	Head of Audit Annual Assurance Statement and opinion	Head of Audit
	Interim Use of Resources Assessment	Director of Finance/Deloitte
	Key Financial Audit Risk Relating to the Valuation of Icelandic Investments - PART II	Deloitte
	Audit Committee Annual Report to full Council	Head of Audit

Meeting Date	Item	Officer/member
21 September		
	External Audit Annual Governance Report	Director of Finance/Deloitte
	External Auditor's report on the Pension Fund Annual Report and on the Statement of Accounts 2009/10	Director of Finance/Deloitte
	Revised Treasury Management Practices	Senior Finance Manager – Corporate Finance
	Internal Audit Progress Report and plan amendments	Head of Audit
	Update on IFRS	Director of Finance
	Risk Management Quarter 1 Report – PART II	Risk Manager

Audit Committee 21 September 2010
PART 1 – MEMBERS, PUBLIC & PRESS

	Revised Anti Fraud and Corruption Strategy	Head of Audit
	Audit Committee Work Programme	Democratic Services Manager
	Review progress on implementing actions arising from Committee self assessment.	Head of Audit / Chairman of Committee

15 December 2010		
	Internal Audit Progress Report and plan amendments	Head of Audit
	Conversion to International Financial Reporting Standards (IFRS) - update	Director of Finance
	Treasury Management Strategy 20010/11	Director of Finance

10 March 2011	Internal Audit Progress Report and plan amendments	Head of Audit
	Internal Audit Strategy and Audit Plan 2011-10	Head of Audit
	Review of Internal Audit Terms of Reference,	Head of Audit
	Annual Governance Statement – Interim Report	Head of Policy
	Conversion to International Financial Reporting Standards (IFRS) - update	Director of Finance
	Reserves and Balances Policy	Director of Finance
	Annual Audit Letter	Director of Finance/Deloitte
	Risk Management report Part II	Risk Manager

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