



HILLINGDON
LONDON



Audit Committee

Members on the Committee

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

Date: WEDNESDAY, 15
DECEMBER 2010

Time: 5.00 PM

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

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

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This Committee

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

Terms of Reference

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

Statement of Purpose

The purpose of Audit Committee is to:

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

Audit Activity

The Audit Committee will:

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

10. Liaise with the Audit Commission over the appointment of the Council's External Auditor.
11. Commission work from Internal and External Audit, following a formal request by the Committee to and a joint decision from the Leader of the Council and Cabinet Member for Finance & Business Services.
12. Ensure that there are effective arrangements for ensuring liaison between Internal and External audit.

Regulatory Framework

The Audit Committee will:

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

Accounts

The Audit Committee will:

1. Review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from financial statements or from the auditor that need to be brought to the attention of the Council.

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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 Member
- 2 Declarations of Interest in matters coming before this meeting
- 3 Minutes of the previous meeting - 21 September 2010 **(Pages 1-8)**
- 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 Training and Guidance on Treasury Management Strategy **(Page 9)**
- 6 Treasury Management Strategy Statement and Investment Strategy 2011-12 to 2013-14 **(Pages 11– 34)**
- 7 Deloitte - Annual Audit Letter **(Pages 35-50)**
- 8 Internal Audit and Hillingdon Homes Transfer Back to the Council **(Pages 51-54)**
- 9 Internal Audit Progress Report **(Pages 55-94)**

- 10 The process taken for an audit investigation by Internal Audit **(Page 95)**
- 11 Conversion to International Financial Reporting Standards (IFRS) **(Pages 97-98)**
- 12 Audit Committee Work Programme **(Pages 99-102)**

PART II

- 13 Internal Audit Progress Report **(Pages 103-104)**

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Agenda Item 3

Audit Committee

21 September 2010

Minutes



HILLINGDON
LONDON

	<p>Independent Member: John Morley (Chairman)</p> <p>Members Present: Councillors Phoday Jarjussey, Richard Lewis and Raymond Graham.</p> <p>Apologies: Councillor George Cooper.</p> <p>Officers Present: 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), Steve Wilkins (Risk and Insurance Manager) and Khalid Ahmed (Democratic Services Manager).</p> <p>Others Present: Jonathan Gooding (Deloitte) and Gus Miah (Deloitte) Anthony Dean (Graduate Trainee Auditor), Jay Nandhra (Audit Manager), Seni Odunsi (Principal Auditor), Ramesh Rai (Graduate Trainee Auditor) and Graham Windsor (Auditor).</p>
19.	<p>DECLARATIONS OF INTEREST</p> <p>John Morley and Councillor Raymond Graham declared Personal Interests in Agenda Item 5 – External Audit Annual Governance Report and Agenda Item 6 – External Auditor Report on the Pension Fund Annual Report and 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 Richard Lewis declared a Personal Interest in Agenda Item 6 – External Auditor Report on the Pension Fund Annual Report and Accounts as he was a Member of the Pensions Committee. He remained in the room and took part in discussions on the item.</p>
20.	<p>MINUTES OF THE MEETING HELD ON 28 JUNE 2010</p> <p>Agreed as an accurate record.</p>

21.	<p>EXCLUSION OF THE PRESS AND PUBLIC</p> <p>It was agreed that Agenda Item 13 – Report for Quarter 1 to 30 June 2010 on Council Risk (and opportunity) register be considered in private.</p>	
22.	<p>EXTERNAL AUDIT ANNUAL GOVERNANCE REPORT</p> <p>Consideration was given to a report which summarised 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).</p> <p>Since the approval of the accounts on 28 June 2010, a number of amendments had been identified by both the Corporate Accountancy Team and Audit and the financial statements had been amended to reflect these changes. It had been indicated that the auditor expected to issue unmodified opinion on both the Financial Statements and on the Value for Money audit.</p> <p>Gus Miah of Deloitte attended the meeting and introduced the report to Members and presented the most significant matters which he wanted to bring to the attention of the Committee.</p> <p>The key financial audit risk areas were:</p> <p>Grant income recognition – Reference was made to the specific issue in relation to the Unaccompanied Children's Asylum grant and the overstatement of income which had been based on the historic success of claiming for the full amount of the Council's costs for this.</p> <p>In addition Deloitte had identified a difference of £807k between the housing benefit debtor recorded in the accounts and the debtor recorded on the Council Tax benefit grant claim form.</p> <p>Pension liability – The asset value included in the pension liability at year end was misstated with an overstatement of £600k.</p> <p>Property valuations – Reference was made to the insufficient depreciation which had not been built into valuations, in particular relating to schools' assets which had been valued five years ago.</p> <p>Bad debt provisions – Evidence suggested that estimates could be either under or over stated.</p> <p>Valuation of Icelandic investments – The Council had received a better than anticipated receipt and Deloitte were</p>	<p>Action By:</p>

	<p>satisfied that the Council had calculated the correct amount.</p> <p>Accounting for local taxes - only the Council's share of Council Tax arrears would be shown on the balance sheet.</p> <p>The audit plan had also identified two risks to the value for money conclusion:</p> <p>Contract procurement – This was generally robust but reference was made to the Hillingdon House Farm project where there was no formal signed contract in place. Members were informed that the Director of Planning, Environment and Community Services was in the process of reviewing Major Construction Project contracts to address this issue. The Head of Internal Audit and Corporate Governance reported that procurement officers had received an instruction to ensure that all Cabinet or Cabinet Member reports on contracts should seek the advice of Legal Services.</p> <p>Partnership working – The Council had demonstrated that it aligned priorities and achieved value for money in its partnership arrangements.</p> <p>Members were informed of the following other issues which were identified during the course of the audit:</p> <p>International Financial Reporting Standards – The Audit Committee was regularly kept up to date on this.</p> <p>Faster close down – timetable for producing accounts had been brought forward by a month and this would result in the final accounts being signed off quicker.</p> <p>Cost reduction plan – The economic downturn and the resultant impact on public spending. The Council had undertaken a comprehensive process of service review which would result in efficiency plans and savings to be made. Reference was made to the Business Improvement Development programme and that Deloitte had been involved in discussions on this.</p> <p>The announcement regarding the future of the Audit Commission and the demise of the Comprehensive Area Assessment – There would be new audit arrangements for 2012/13 and there would be a new, more targeted and better value approach to the local Value for Money audit. Reference was made to Hillingdon Homes returning back into the Council structure and the implications of this in terms of external auditing.</p> <p>Members expressed their appreciation at the efforts made by both Deloitte and Finance officers on the production of the</p>	<p>Action By:</p>
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	<p>accounts and the good joint working which had taken place.</p> <p>Resolved -</p> <p>1. That the Committee notes the following:</p> <p>(i) The audit adjustments as detailed in the report and in Appendix 1 to the report;</p> <p>(ii) The internal control recommendations as set out in the report and</p> <p>(iii) The progress made and actions being taken to continue to improve the quality and accuracy of the information contained within the accounts.</p>	Action By
23.	<p>EXTERNAL AUDITOR REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS</p> <p>Members were reminded that regulations required the auditor's report to be communicated to the Audit Committee as the body charged with governance of the Council's accounts. The report would also be considered by the Pensions Committee on 22 September 2010.</p> <p>Members were informed that on completion of the outstanding matters, the Council would be issued with an unmodified audit opinion.</p> <p>Members asked that the Pensions Committee be asked to consider the recommendation from the external auditors on the issue relating to Review of Fund Managers' internal control reports.</p> <p>Resolved –</p> <p>1. That the auditor's findings contained in the report be noted and the Pensions Committee be asked to consider the recommendation from the external auditors on the issue relating to Review of Fund Managers' internal control reports.</p>	Khalid Ahmed
24.	<p>UPDATE ON REVISED ANTI-FRAUD AND CORRUPTION STRATEGY</p> <p>Members were informed that substantial changes were needed to be made to the strategy due to impending legislative change (Bribery Act 2010) and changes in practice within the Council and the updated strategy would be submitted to the March 2011 meeting after approval by Cabinet.</p> <p>The Head of Internal Audit and Corporate Governance</p>	

	<p>reassured Members that the existing strategy provided sufficient coverage to mitigate against fraud and corruption within the Council.</p> <p>Resolved –</p> <p>1. That the information reported be noted.</p>	<p>Action By:</p>
<p>25.</p>	<p>INTERNAL AUDIT PROGRESS REPORT</p> <p>The Head of Internal Audit and Corporate Governance reported that based on the work undertaken from June 2010 to 31 August 2010, there were no significant causes for concern at this time with levels of assurance.</p> <p>Details of the audits which were deleted and added to the plan were reported. Particular reference was made to Hillingdon Homes, whereby Internal Audit had been involved in the project team which was working on the re-integration of Hillingdon Homes back into the Council.</p> <p>Five audits in the current report had received limited assurance but plans had been put in place to address the weaknesses identified. These were:</p> <ul style="list-style-type: none"> • Mental Health – The areas of concern were being jointly dealt with by Adult Social Care, Health and Housing and by managers within Central and North West London NHS Foundation Trust. • Payroll – All the recommendations of the audit were being addressed. Reference was made to the management comment on audits and it was asked that the relevant Corporate Director be assigned to the management comment. In addition the Head of Internal Audit and Corporate Governance would provide the latest date when all recommendations were expected to be completed in future summary reports of audits, to enable Members to be aware of implementation dates. • Flexi Working Arrangements – Members were informed that the arrangements would be reviewed as part of the BID process. • HR Payroll Changes & Trigger Dates. • Temporary Accommodation – The service had been redesigned following the BID process and there was confidence that there would be full implementation of outstanding actions. <p>Reference was made to the follow up for general audit in relation to Environmental Services Application and the high number of outstanding recommendations. Members were informed that this was on target for full implementation by December 2010.</p>	<p>Helen Taylor</p>

	<p>issues raised.</p> <p>Members re-iterated the importance of either the Chief Executive or the Deputy Chief Executive attending the meetings of this Committee when the Annual Governance Statement was discussed.</p> <p>It was agreed that the Committee would hold a private meeting with Deloitte prior to this Committee's meeting in December 2010. This would fulfil one of the outstanding issues from the self assessment.</p> <p>Resolved-</p> <p>1. That the report and the information provided at the meeting be noted.</p>	Action By:
28.	<p>REVISED TREASURY MANAGEMENT PRACTICES</p> <p>Members were provided with details of the changes in Treasury Management Practices since the Committee's review in 2009.</p> <p>Reference was made to Internal Audit conducting yearly reviews of the treasury management function and Members asked that there should be occasions when no notice was given when these inspections were to take place.</p> <p>Officers were also asked to follow up on why no formal contracts were in place with brokers and to provide additional information on how the brokers earned their commission.</p> <p>Resolved-</p> <p>1. That the report be noted.</p>	Nancy Roux Le
29.	<p>WORK PROGRAMME 2010/11</p> <p>Discussion took place on this Committee's work programme and a number of changes were agreed which would be reflected in the work programme for the next meeting of this Committee.</p>	
30.	<p>REPORT FOR QUARTER 1 TO 30 JUNE 2010 ON COUNCIL RISK (AND OPPORTUNITY) REGISTER</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</p>	

	as amended. Resolved – 1. That the information contained in the report be noted.	
	Meeting closed at: 7.00pm Next meeting: 15 December 2010 at 5.00pm	

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

Agenda Item 5

TRAINING AND GUIDANCE ON TREASURY MANAGEMENT STRATEGY

To receive training on Treasury Management

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TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2011-12 TO 2013-14

Contact Officer: Nancy Leroux
Telephone: 01895 250353

SUMMARY

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

RECOMMENDATIONS

That the contents of the report are noted.

INFORMATION

Treasury Management Strategy

1. The treasury management strategy is reviewed annually and attached is a draft of the strategy to be agreed by Council on 24th February 2011. Under delegated authority, the Director of Finance & Business Services has the authority to take all executive decisions in relation to daily treasury management.
2. The strategy for 2011/12 has been written with the assistance of Arlingclose, the Council's treasury advisors and the strategy has been developed to increase the range of permitted investment vehicles, to allow a greater diversity of investments, whilst maintaining a high degree of caution. The intention is to maintain a broadly risk averse approach, whilst being able to seek an optimum yield within the security and liquidity restrictions.
3. Throughout the year the specific investment guidelines in relation to additions and removals to the counterparty list and to the time and value limits of investments are kept under continual review and changes are agreed by the Director of Finance & Business Services under his delegated authority.

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Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

Contents

1. Background
2. Balance Sheet and Treasury Position
3. Borrowing and Rescheduling Strategy
4. Investment Policy and Strategy
5. Outlook for Interest Rates
6. Balanced Budget Requirement
7. 2011/12 MRP Statement
8. Reporting
9. Other Items

Appendices

- A. Current and Projected Portfolio Position
- B. Interest Rate Outlook: (Supplied by the Council's, treasury advisers – Arlingclose)
- C. Specified Investments for use by the Council
- D. Non- Specified Investments for use by the Council

1. Background

- 1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine its Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.
- 1.2. CIPFA has defined Treasury Management as:
"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.3. The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral element to treasury management activities and include:
 - Credit and Counterparty Risk (Security of investments)
 - Liquidity Risk (Inadequate cash resources)
 - Market or Interest Rate Risk (Fluctuations in interest rate levels)
 - Inflation Risk (Exposure to inflation)
 - Refinancing Risk (Impact of debt maturing in future years)
 - Legal & Regulatory Risk
 - Fraud & Corruption
- 1.4. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the Prudential Indicators, the current and projected Treasury position (Appendix A), and the outlook for interest rates (Appendix B).
- 1.5. The purpose of this TMSS is to approve:
 - Treasury Management Strategy for 2011-12 (Borrowing and Debt Rescheduling - Section 3, Investments - Section 4)
 - Prudential Indicators – (NB: the Authorised Limit is a statutory limit)
 - MRP Statement – Section 7
 - Use of Specified and Non-Specified Investments – Appendices C & D
- 1.6. The Council approved the adoption of the CIPFA Treasury Management Code in February 2010. The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.
- 1.7. All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Balance Sheet and Treasury Position

2.1. The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of treasury management activity. The CFR is derived from the balance sheet, taking assets and long term debtors minus reserves and also from capital spend minus external financing. The estimates based on the current revenue budget and forecast capital expenditure are:

	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
General Fund CFR	159.3	169.0	178.4	187.6
HRA CFR	64.1	64.1	64.1	64.1
Total CFR	223.4	233.1	242.5	251.7
Less: Existing Profile of Borrowing and Other Long Term Liabilities	161.6	158.6	152.6	146.6
Cumulative Maximum External Borrowing Requirement	61.8	74.5	89.9	105.1
Balances & Reserves*	17.4	15.4	13.4	11.4
Cumulative Net Borrowing Requirement/(Investments)	44.4	59.1	76.5	93.7

*In order to demonstrate a prudent net borrowing position the Balances and Reserves figures quoted above relate to core General Fund balances only and do not include those balances (circa £23m) over which the Council has no direct control.

2.2. The Council's level of physical debt and investments are linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

Estimates of Capital Expenditure:

2.3. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
General Fund	77.1	53.5	64.0	59.0	59.0
HRA	22.6	20.8	12.9	12.9	12.9
Total	99.7	74.3	76.9	71.9	71.9

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

Capital Financing	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Capital Receipts	9.0	5.0	15.0	10.0	10.0
Government Grants	34.8	37.8	30.5	30.5	30.5
Major Repairs Allowance	8.2	8.2	8.5	8.5	8.5
Revenue Contributions	2.1	4.4	4.4	4.4	4.4
Other External Funding	12.0	2.9	2.5	2.5	2.5
Supported Borrowing	2.1	2.8	3.0	3.0	3.0
Unsupported Borrowing	31.5	13.2	13.0	13.0	13.0
Total	99.7	74.3	76.9	71.9	71.9

Incremental Impact of Capital Investment Decisions:

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

Incremental Impact of Capital Investment Decisions	2010/11 Approved £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Increase in Band D Council Tax	2.41	13.29	14.07	26.99
Increase in Average Weekly Housing Rents	0.06	(0.03)	0.30	(0.09)

Reform to the Council Housing Subsidy System

2.6. CLG consulted on proposals to reform the council housing subsidy system in July 2010. The consultation proposed a removal of the subsidy system by offering a one-off reallocation of debt. Details of the new system will be announced following the recent Comprehensive Spending Review, and be introduced in the Localism Bill in December 2010 to enable the new system to start in 2012. This will require the Council to fund the amount owed in the medium term through internal resources and/or external borrowing. The Council has the option of borrowing from the PWLB or the market. The type of loans taken will be decided following discussions with the Housing department and the Council's treasury advisors.

- 2.7. The estimate for interest payments in 2011/12 is £6,937k and for interest receipts is £346k. The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Non-HRA	5.11	3.32	4.16	4.93	6.21
HRA	4.40	3.07	2.94	3.11	2.95
Total	4.95	3.27	3.87	4.48	5.39

3. Borrowing and Rescheduling Strategy

- 3.1. The Council's balance of actual gross borrowing plus other long term liabilities is shown in Appendix A. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.
- 3.2. The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Borrowing	299	299	289	298	307
Other Long term Liabilities	3	3	3	2	2
Total	302	302	292	300	309

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

Operational Boundary for External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Borrowing	269	269	259	268	277
Other Long term Liabilities	3	3	3	2	2
Total	272	272	262	270	279

- 3.4. The Director of Finance and Business Services has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to full Council.
- 3.5. In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the following borrowing options:
- PWLB loans
 - Borrowing from other local authorities
 - Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
 - Borrowing from the Money Markets
 - Local authority stock issues
 - Structured finance
- 3.6. Notwithstanding the issuance of Circular 147 on 20 October 2010 following the CSR announcement which increases the cost of new local authority loans to 1% above the cost of the Government's borrowing, the PWLB remains an attractive source of borrowing, given the transparency and control its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:
- Variable rate borrowing
 - Medium-term year Equal Instalments of Principal (EIP) or Annuity Loans
 - Long term Maturity loans, where affordable

Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and maintain stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2011/12. The "cost of carry" associated with medium and long term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short term costs. The use of internal resources in lieu of borrowing may again, in 2011/12, be the most cost effective means of financing capital expenditure.

- 3.7. PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. Exposure to variable interest rates will be kept under regular review. Each time the spread between long term rates and variable rates narrows by 0.50%, Arlingclose will trigger a formal review point with the Council and options will be considered and decisions taken on whether to retain the same exposure or change from variable to fixed rate debt.
- 3.8. The Council's existing PWLB variable rate loans borrowed prior to 20 October 2010 will be maintained on their initial terms and are not subject to the additional increased margin for new variable rate loans.

3.9. The Council has £48m loans which are LOBO loans (Lender's Options Borrower's Option), of which £9m of loans will be in their call period in 2011/12. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan(s) by borrowing from the PWLB. The default response will however be early repayment without penalty.

3.10. There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances and reserves. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. Borrowing in advance of need in line with the net borrowing requirement will only be considered if the long term costs outweigh the short term benefits.

- 3.11. The rationale for rescheduling would be one or more of the following:
- Savings in interest costs with minimal risk
 - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
 - Amending the profile of maturing debt to reduce any inherent refinancing risks.

As opportunities arise, they will be identified by Arlingclose and discussed with the Council's officers.

3.12. Borrowing and rescheduling activity will be reported monthly to Cabinet.

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

As at 30 November 2010 the Council's existing level of debt had a fixed interest rate exposure is 91%, £148.9m and variable rate exposure is 8%, £14.2m. The investment portfolio had a fixed interest rate exposure of 30%, £16.7m and variable rate exposure of 70%, £39.1m (excluding Icelandic investments).

Upper Limits for Interest Rate Exposure	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Debt - Fixed	100	100	100	100	100
Investment – Fixed	75	75	75	75	75
Debt - Variable	50	50	50	50	50
Investment - Variable	100	100	100	100	100

3.14. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt.

Maturity structure of fixed rate borrowing	Existing level (or Benchmark level) at 31/03/11 %	Lower Limit for 2011/12 %	Upper Limit for 2011/12 %
under 12 months	1.0	0	25
12 months and within 24 months	3.0	0	25
24 months and within 5 years	5.4	0	50
5 years and within 10 years	28.7	0	50
10 years and within 20 years	10.1	0	100
20 years and within 30 years	0.0	0	100
30 years and within 40 years	0.0	0	100
40 years and within 50 years	19.3	0	100
50 years and above	32.5	0	100

4. Investment Policy and Strategy

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

4.2. The Council's investment priorities are:

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

4.3. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendices C and D. The Director of Finance and Business Services, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported monthly to Cabinet.

4.4. Amendments to the investment strategy for 2011/12 include:

- Addition of AAA-rate Variable Net Asset Value Money Market Funds
- Addition of Collective Investment Schemes (Pooled Funds)
- Addition of Treasury Bills
- Addition of term deposits in Sweden - Counterparty - Svenska Handelsbanken
- Addition of National Westminster Bank
- Addition of Standard Chartered Bank
- Increase the maximum duration for new deposits 2 years
- Increase in Money Market Fund limits (from £5m/7.5% to £10m/15% and the total limit from 37.5% to 75%)
- Removal of Santander UK, Banco Santander and BBVA

- 4.5. It is unlikely the Council's investments will include money borrowed in advance of spending needs. However should this occur the management of risks, including the risk of loss of the borrowed capital, are identical for all forms of investment as set out in this strategy. The risk associated with interest rate changes are based on the Interest Rate forecast at Appendix B and the current "cost of carry".
- 4.6. The Council's current level of investments is presented at Appendix A.
- 4.7. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.
- 4.8. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the Debt Management Account Deposit Facility (DMADF) are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure. In addition as all investments with the DMADF are at fixed rates the Prudential Indicator showing investment fixed interest rate exposure will need to be increased to 100% to accommodate this.)
- 4.9. The Council selects countries and the institutions within them (see Appendix C), for the counterparty list after analysis and careful monitoring of:
- Credit Ratings (minimum long term A+ for counterparties; AA+ for countries)
 - Credit Default Swaps (where quoted)
 - GDP; Net Debt as a Percentage of GDP
 - Sovereign support mechanisms / potential support from a well-resourced parent institution
 - Share Prices
 - Macro-economic indicators
 - Corporate developments, news articles and market sentiment.
- 4.10. The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.
- 4.11. The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short term money market rates are likely to remain at very low levels for an extended period, which will have a significant impact on investment income.
- 4.12. To protect against a prolonged period of low interest rates and to provide certainty of income, 2 year deposits and longer term secure investments will be considered within the limits the Council has set for Non-Specified Investments (see Appendix D). The longer term investments will be likely to include:
- Term Deposits with counterparties rated at least A+ (or equivalent)
 - Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.

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

Upper Limit for total principal sums invested over 364 days	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
	47	47	35	33	31

4.14. Collective Investment Schemes (Pooled Funds):
The Council has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

4.15. Investments in pooled funds will be undertaken with advice from Arlingclose and their performance and continued suitability in meeting the Council's investment objectives will be regularly monitored.

4.16. Investments which constitute capital expenditure
Investments meeting the definition of capital expenditure can be financed from capital or revenue resources. They are also subject to the CLG's Guidance on "non-specified investments". Placing of such investments has accounting, financing and budgetary implications. Whilst it is permissible to fund capital investments by increasing the underlying need to borrow, it should be noted that under the CLG's MRP Guidance, MRP should be applied over a 20 year period. The Council has determined that it is not currently prudent to make investments which constitute capital expenditure. These would presently need to be sourced from revenue and therefore the requirement for MRP would make the investment not viable.

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

5. Outlook for Interest Rates

5.1. The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix B. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

6. Balanced Budget Requirement

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

7. 2011/12 MRP Statement

- 7.1. The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision (MRP) has been issued by the Secretary of State. Local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.
- 7.2. The major proportion of the MRP for several years from 2011/12 onwards will relate to the more historic debt liability. It will continue to be charged at the rate of 4%, using the CFR as the basis of calculation. Certain expenditure reflected within the debt liability at 31st March 2011 will, under delegated powers, be subject to MRP under option 3. It thus will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using a straight line method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.
- 7.3. Estimated life periods will be determined under delegated powers. Where expenditure is not on the creation of an asset, and is of a type subject to estimated life periods, to which guidance refers, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances. This would be where the recommendations of the guidance would not be appropriate.
- 7.4. Some types of capital expenditure incurred by the Council are not capable of being related to an individual asset. In these cases asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner, which reflects the nature of the main component of expenditure. It will only be divided up in cases where there are two or more major components with substantially different useful economic lives.
- 7.5. What is a Minimum Revenue Provision?
Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred. Therefore such expenditure is spread over several years so as to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision. This was previously determined under Regulation, and will in future be determined under Guidance.
- 7.6. Statutory duty
Statutory Instrument 2008 no. 414 s4 lays down that:
- A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.
 - The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146, (as amended)
 - The share of Housing Revenue Account CFR is not subject to a MRP charge

7.7. Government Guidance

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

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

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

7.8. Option 1: Regulatory Method

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

Option 2: Capital Financing Requirement Method

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

Option 3: Asset Life Method.

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2. Instead of a default position of 25 years, can change to match amortisation over life of asset (i.e. 40 years for a leisure facility)

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

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

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

There are two methods of calculating charges under option 3:

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

Option 4: Depreciation Method

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

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

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

Treasury activity is monitored and reported to Senior Management on a daily and weekly basis. Monthly updates are provided to Cabinet as part of the budget monitoring process.

The treasury Prudential Indicators will be monitored throughout the year and reported monthly to Senior Management. Compliance with limits will be reported monthly to Cabinet:

Cabinet will be provided with monthly reports on treasury management activity, and performance. Twice yearly reports against the approved strategy will also be issued.

The Audit Committee will be responsible for the yearly scrutiny of treasury management practices.

The Treasury Management Strategy Statement (including Prudential Indicators and Annual Investment Strategy) for the forthcoming financial year will be submitted to Audit Committee and Cabinet prior to agreement at full Council before the start of the financial year.

9. Other Items

Training

CIPFA's Code of Practice requires all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

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

Council members receive education regarding treasury management as part of their general finance training. Access to additional training is provided where required.

Investment Consultants

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

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

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

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	30 Nov 10 Current Portfolio £m	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m
External Borrowing:					
Fixed Rate – PWLB	100.9	100.1	98.6	94.1	89.6
Variable Rate – PWLB	14.2	13.5	12.0	10.5	9.0
Market (LOBO's)	48.0	48.0	48.0	48.0	48.0
Current Borrowing	163.1	161.6	158.6	152.6	146.6
New Borrowing	-	-	59.1	76.5	93.7
Total Borrowing	163.1	161.6	217.7	229.1	240.3
Existing long term liabilities	3.3	3.3	2.8	2.4	2.2
Total Gross External Debt	166.4	164.9	220.5	231.5	242.5
Total Investments	69.1	27.6	51.6	46.0	48.8
Net Borrowing Position	97.3	137.3	168.9	185.5	193.7

Arlingclose's Economic and Interest Rate Forecast

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Official Bank Rate											
Upside risk	-	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75
Downside risk	-	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
1-yr LIBID											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.50	3.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
5-yr gilt											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.00	2.25	2.75	3.25	3.50	3.75	4.00	4.00	4.00	4.00	4.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
10-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Central case	3.50	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	4.75	4.75
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
20-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Central case	4.25	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
50-yr gilt											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	4.25	4.25	4.50	4.75	4.75	4.75	4.75	4.50	4.50	4.50	4.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25

- The recovery in growth is likely to be slow, uneven and more “Square root” than “V” shaped.
- The initial reaction to the CSR is positive but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.

Underlying assumptions:

- The framework and target announced in the Comprehensive Spending Review to reduce the budget deficit and government debt are the same as announced in June and focuses on how the cuts are to be distributed. The next fiscal milestone will be the Office Of Budget Responsibility's assessment of the CSR's implications for growth, employment and inflation.
- The minutes of the Monetary Policy Committee's meeting suggest an increased likelihood of further Quantitative Easing. Money supply is weak and growth prospects remain subdued. The analysis and projections in November's Quarterly Inflation Report will give the Bank of England the opportunity to re-evaluate the outlook for economic activity and inflation and the fiscal impact of the CSR.

- Consumer Price Inflation is stubbornly above 3% and will likely spike above 4% in January as VAT, Utilities and Rail Fares are increased.
- Unemployment remains near a 16 year high at just under 2.5 Million. And is set to increase as the Public Sector shrinks. Meanwhile employment is growing but this is due to part time work, leaving many with reduced income.
- Recently announced Basel III capital/liquidity rules and extended timescales are positive for banks. Restructuring of UK bank balance sheets is ongoing and expected to take a long time to complete. This will be a pre-condition for normalisation of credit conditions and bank lending.
- Mortgage repayment, a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore future trend rate of growth despite Q3's fairly strong performance.
- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases might be required. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

Specified and Non Specified Investments

Specified Investments identified for use by the Council

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

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

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

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts: (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- *AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- *Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

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

For credit rated counterparties, the minimum criteria will be the lowest equivalent short term and long term ratings assigned by Fitch, Moody’s and Standard & Poor’s (where assigned).

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

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

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

New specified investments will be made within the following limits:

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits %/£m
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	£35m per Local Authority / No total limit
Term Deposits/Call Accounts	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	15% / £20m
Term Deposits/Call Accounts	Non-UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	15% / £15m
Gilts	UK	DMO	No limit
Treasury Bills	UK	DMO	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	40% / £50m
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	15% / £10m per institution. Maximum MMF exposure 75%
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme (CIS) per SI 2004 No 534 and subsequent amendments	15% / £10m per institution. Maximum MMF exposure 75%

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty / Group Limit £m	Maximum Counterparty / Group Limit %
Term Deposits	UK	DMADF, DMO	No limit	No Limit
Term Deposits	UK	Other UK Local Authorities	£35m per Local Authority	No Limit
Term Deposits /Call Accounts	UK	Lloyds Banking Group	20	15
Term Deposits /Call Accounts	UK	Barclays Bank Plc	20	15
Term Deposits /Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	20	15
Term Deposits /Call Accounts	UK	HSBC Bank Plc	20	15
Term Deposits /Call Accounts	UK	Nationwide Building Society	20	15
Term Deposits /Call Accounts	UK	RBS Group (Royal Bank of Scotland and Nat West)	20	15
Term Deposits /Call Accounts	UK	Standard Chartered Bank	20	15
Term Deposits /Call Accounts	Australia	Australia and NZ Banking Group	15	15
Term Deposits /Call Accounts	Australia	Commonwealth Bank of Australia	15	15
Term Deposits /Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	15	15
Term Deposits /Call Accounts	Australia	Westpac Banking Corp	15	15
Term Deposits /Call Accounts	Canada	Bank of Montreal	15	15
Term Deposits /Call Accounts	Canada	Bank of Nova Scotia	15	15
Term Deposits /Call Accounts	Canada	Canadian Imperial Bank of Commerce	15	15
Term Deposits /Call Accounts	Canada	Royal Bank of Canada	15	15
Term Deposits /Call Accounts	Canada	Toronto-Dominion Bank	15	15
Term Deposits /Call Accounts	Finland	Nordea Bank Finland	15	15
Term Deposits /Call Accounts	France	BNP Paribas	15	15

Term Deposits /Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	15	15
Term Deposits /Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	15	15
Term Deposits /Call Accounts	France	Société Générale	15	15
Term Deposits /Call Accounts	Germany	Deutsche Bank AG	15	15
Term Deposits /Call Accounts	Netherlands	ING Bank NV	15	15
Term Deposits /Call Accounts	Netherlands	Rabobank	15	15
Term Deposits /Call Accounts	Sweden	Svenska Handelsbanken	15	15
Term Deposits /Call Accounts	Switzerland	Credit Suisse	15	15
Term Deposits /Call Accounts	US	JP Morgan	15	15

Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively if a counterparty is downgraded, this list may be shortened.

The above percentage limits are based on a 30 day rolling average investment balance.

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

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

Non-Specified Investments determined for use by the Council

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

	In-house use	Maximum maturity	Max % of portfolio	Capital expenditure?
<ul style="list-style-type: none"> ▪ Deposits with banks and building societies ▪ CDs with banks and building societies 	✓	5 Years	40 In Aggregate	No
<ul style="list-style-type: none"> ▪ 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 	✓ (on advice from treasury advisor)	6 Years	40 In Aggregate	No
Money Market Funds and Collective Investment Schemes, which are not credit rated	✓ (on advice from treasury advisor)	5 Years	75 In Aggregate	No
Pooled funds, which are not capital expenditure investments as defined by regulations.	✓ (on advice from treasury advisor)	5 Years	75 In Aggregate	No

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

DELOITTE - ANNUAL AUDIT LETTER

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SUMMARY

This is a covering report to Deloitte's Annual Audit Letter which provides a summary of the conclusions from their audit work undertaken for the year ended 31 March 2010.

RECOMMENDATIONS

The committee is asked to note the report.

INFORMATION

The letter identifies the key areas of Deloitte's work over the year, their findings in each area and the focus of their work going forward:

1. The Council's Financial Statements – an unqualified opinion issued on 22 September 2010. The recommendations from the audit were discussed in detail at Audit Committee on 21 September 2010.
2. The Local Government Pension Scheme Annual Report – an unqualified opinion was issued on 22 September 2010.
3. Value for Money Conclusion – an unqualified opinion was issued as part of the main financial statements.
4. Whole of Government Accounts – an unqualified statement of assurance to the National Audit Office on the council's consolidation return for the purposes of the Whole of Government Accounts
5. Grants Certification – no issues were identified in the grants certified to date, however, it is likely that the Housing and Council Tax Benefits grant claim, which has yet to be completed, will be qualified, however that is not unusual for this claim.
6. Looking Forward – Deloitte have highlighted 2 main issues for focus over the next year: the transition to IFRS; and external audit arrangements following the abolition of the Audit Commission.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

Audit Committee 15 December 2010
PART 1 – MEMBERS, PUBLIC & PRESS

None

London Borough of
Hillingdon

Annual Audit Letter to the
Members of the Council
on the 2010 Audit

Final

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Executive summary

This letter reports our conclusions from our audit of the London Borough of Hillingdon ("the Council") for the financial year 2009/10. The letter's main messages are:

The Council's financial statements	<p>We issued an unqualified opinion on the Council's 2009/10 accounts on 22 September, in advance of the statutory deadline of 30 September 2010.</p> <p>We have reported in Section 2 the significant recommendations that were identified from our audit work, which were reported to the Audit Committee in September 2010.</p>
The local government pension scheme annual report	<p>We issued an unqualified opinion on information in the Council's 2009/10 pension scheme annual report on 22 September 2010, ahead of the statutory deadline of 1 December 2010 for the publication of this report.</p>
Value for money conclusion	<p>We issued an unqualified conclusion on the Council's arrangements for securing value for money during 2009/10.</p>
Whole of Government Accounts consolidation return	<p>We provided an unqualified statement of assurance to the National Audit Office on the Council's consolidation return for the purposes of their audit of the Whole of Government Accounts ahead of the statutory deadline of 1 October 2010.</p>
Grants certification	<p>We undertake work on grant claims and other returns on behalf of the Audit Commission and provide certificates to grant funders on compliance with aspects of the terms on which funds have been claimed.</p> <p>We have met the certification deadline for all grant claims certified in the year up to the date of this letter and there are no matters which we consider need to be brought to your attention in respect of these grant claims.</p> <p>We have three grant claims still to certify and from our work to date expect our report on one of these grant claims, Housing and Council Tax Benefits Scheme, to be qualified. We also qualified this grant claim in the previous year but, given the complexity and volume of transactions that are required to be included within this grant claim, our experience is that a qualified report is not unusual.</p> <p>There are no matters that we consider need to be brought to your attention in respect of the remaining two grant claims.</p> <p>We will provide a separate, detailed letter to the Council in the New Year on the outcome of this work.</p>
Looking forward	<p>This is a challenging period for local government, with the recent Comprehensive Spending Review adding to existing local pressures caused by reductions in income from other sources. We have provided an overview in Section 4 of the audit approach to examining Hillingdon's response to these challenges in 2011 based on revised guidance from the Audit Commission.</p> <p>We have also highlighted two developments which are particularly pertinent to our audit responsibilities, being the abolition of the Audit Commission and the impact of this on future audit arrangements; and the transition to financial reporting under International Financial Reporting Standards from 2010/11.</p>

1. Introduction

The purpose of this letter

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Council as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that the Council has relevant safeguards and properly accounts for public money.

This Letter will be published on the Audit Commission website at www.audit-commission.gov.uk and should also be posted on the Council’s website.

Responsibilities of the Appointed Auditor and the Council and scope of our work

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission which are available from www.audit-commission.gov.uk.

We have been appointed as Hillingdon’s independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities. As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (“the Code”). Under the Code, we review and report on:

- the Council’s accounts;
- the Council’s local government pension scheme annual report; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (“value for money conclusion”) in respect of its local authority functions.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

In earlier years we have also been required to assess how well the Council manages and uses its financial resources by providing scored judgements on the Council’s arrangements in three specific areas. This was known as the Use of Resources Assessment and formed a component of the Comprehensive Area Assessment (“CAA”) a performance assessment framework devised and operated by the Audit Commission. In 2010, we commenced, but did not conclude and report on this work, as a result of the abolition of the CAA before we could report on the Use of Resources Assessment work.

In addition to our responsibilities under the Code of Audit Practice we are also required to undertake grants certification work on behalf of the Audit Commission.

2. Financial reporting

Key issues arising from the audit of the Council's accounts

We reported separately to the Audit Committee in September 2010 on the issues arising from our 2009/10 audit and have issued an audit report providing an unqualified opinion on your accounts. We issued this report on 22 September 2010, in advance of the 30 September statutory deadline.

We have summarised below our areas of audit focus and the outcomes from our testing in these areas:

Area of focus	Outcome of our work
Grant income recognition	<p>The timing for the recognition of grant income will depend on the scheme rules for each grant.</p> <p>We performed focussed work on a sample of grants to confirm that expenditure was in line with the terms of the grants. We confirmed receipt of grants to relevant documentary evidence and reviewed the accounting treatment with reference to the requirements of the Statement of Recommended Practice ("SORP"). The results of our testing were satisfactory with the exception of the following:</p> <ul style="list-style-type: none">• Unaccompanied children's asylum grant – the Council recognised £769k of income in excess of the amount allowable under the SORP.• Grant benefit debtor – we identified that the housing benefit grant debtor was £807k understated when compared to the debtor recorded on the housing and council tax grant claim form. <p>Neither of the two exceptions above were corrected by management in the Statement of Accounts as they were not considered material.</p>
Pension liability	<p>The calculation of the gross pension liability is sensitive to small changes in assumptions in which there has been considerable volatility in the current economic climate. Overall, we concluded that the assumptions used to calculate the pension liability fell within a reasonable range.</p> <p>Based on our procedures we identified that the asset value included in the pension liability at year end was misstated. The value included in the Statement of Accounts is based on an estimate by the Council's actuary as, at the time of preparing the Statement of Accounts, the actual asset values are not known. The Council's actuary quantified the value of this as an overstatement of approximately £600k to the asset value at 31 March 2010. We confirmed that this is a reasonable assessment of the difference. This was not adjusted by management as it was not considered to be material.</p>
Property valuations	<p>The Council has a substantial portfolio of properties which are subject to a rolling revaluation programme. Some of the properties require the application of specialist valuation assumptions. The 'credit crunch' has affected property values and the Council is not immune to these effects.</p> <p>We performed focussed work on the valuation of fixed assets and reviewed the key assumptions made by the Council. Overall we concluded that the valuation was reasonable.</p>

2. Financial reporting (continued)

Area of audit focus	Outcome of our work
Bad debt provisions	<p>In our report to the Audit Committee 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.</p> <p>During the 2009/10 audit we reviewed the Council's methodologies and assumptions used to calculate provisions and the evidence collected by officers to support its approach. Where applicable, we assessed management's consideration of whether provisions appropriately reflected the impact of the current economic conditions by reference to recent collection performance. Overall we concluded that the bad debt provision was reasonable.</p>
Valuation of Icelandic investments	<p>Changes in the value of the Icelandic investments are required to be accounted for in accordance with relevant technical accounting guidance.</p> <p>We considered the latest guidance from CIPFA and re-performed the required impairment calculation. Overall we were satisfied that the Council calculated the impairment amount in accordance with CIPFA guidance and that this was reflected appropriately in the Statement of Accounts.</p>
Accounting for local taxes	<p>The 2009 SORP introduced changed accounting and presentational requirements for local taxes to better reflect the position which the billing authority has as agent for the collection of other preceptors' shares of Council Tax and for the collection of National Non Domestic Rates ("NNDR"). We reviewed the Council's working papers on the new requirements and re-performed the calculations undertaken. Overall we concluded that the changes had been properly reflected in the Statement of Accounts.</p>

2. Financial reporting (continued)

Our report to the Audit Committee included one high priority, two medium priority, and five low priority control recommendations identified in the course of our audit of the Statement of Accounts. We have summarised below the high and medium priority recommendations:

Signed contracts with suppliers (High priority)

Background

We identified that the Hillingdon House Farm project (managed by the Major Construction Project team) does not have a formal signed contract in place with the construction company, although the project is valued at approximately £30m.

Recommendation

We recommended that signed contracts are obtained for all high-value projects with sign off on the contract not possible without prior approval from the legal department. We also recommended that the Council prioritise finalising any 2009/10 Internal Audit recommendations in this area.

Management response

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.

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.

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.

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.

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.

Systems training (medium priority)

Background

We noted that a new system (ControCC) was implemented in Education & Children's Services in the year.

Recommendation

We recommended 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.

Management response

The Council does 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. 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.

2. Financial reporting (continued)

Property valuation under International Financial Reporting Standards (“IFRS”) (medium priority)

Background

2010/11 is the first year that the Council will be required to produce its Statement of Accounts in accordance with IFRS. 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.

Recommendation

We recommended that the property valuation team hold discussions with all relevant directorates on the IFRS transition requirements early in the process and that this should be evidenced in the valuation file. This will ensure the Council's assets are appropriately valued in accordance with IFRS.

Management response

Management accepts the recommendation and notes the following in relation to its school assets:

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.

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.

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.

In future the Education department can be specifically surveyed to identify potential surplus capacity for each school which would impact on a MEA valuation.

Key issues arising from the audit of the pension scheme accounts within the pension scheme annual report

We reported separately to the Pensions Committee on 22 September 2010 on our 2009/10 audit. There were no significant issues arising.

We issued an unqualified opinion on the pension scheme accounts within the pension scheme annual report on 22 September 2010, in advance of the deadline for this of 1 December 2010.

Whole of Government Accounts

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

We were able to issue an unqualified report on the consistency of Council's consolidation return with the statutory accounts and the policies governing the preparation of the return in advance of the 1 October 2010 deadline.

3. Value for money conclusion

The scope of our work

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources in respect of its local authority functions. This is known as the value for money conclusion.

Value for money conclusion

We issued an unqualified value for money conclusion for the 2009/10 financial year. This conclusion drew on the evidence we gathered for the use of resources assessment as well as from the work of other regulators, consideration of the Council's Annual Governance Statement and other work performed by us.

We identified two areas of audit focus in relation to our value for money conclusion: contract procurement and partnership workings. We reported separately to the Audit Committee in September 2010 on these areas but have summarised below outcomes from our testing in these areas:

Area of audit focus	Outcome of our work
Contract procurement	<p>The Council is a large organisation with various departments and partnership arrangements. During our planning for the 2009/10 audit we were made aware of issues in relation to procurement at Hillingdon Grid for Learning not having been in accordance with Council policy, and considered this to be part of a wider risk across the Council.</p> <p>We reviewed a sample of contracts awarded in the year and also the results of Internal Audit's work in this area. Our testing identified that not all contracts were recorded on the Council's procurement system but that these were likely to be for smaller, immaterial amounts.</p> <p>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 which was valued at approximately £30m. We raised a recommendation in relation to this in our September 2010 Audit Committee paper and have summarised this recommendation in Section 2 of this report.</p>
Partnership working	<p>Public agencies in all areas are expected to work effectively with each other in order to provide residents with effective and efficient services.</p> <p>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.</p>

4. Looking forward

This is a challenging period for local government on a number of fronts. The outcome of the recent Comprehensive Spending Review will add to existing local pressures. We have commented in this Section on the changes which have been made to the scope of our work in 2011 to respond to this changed environment.

This is also a dynamic environment for local government because of new obligations being placed on local authorities and possible changes to their responsibilities and powers in some areas. We have highlighted two developments which are particularly pertinent to our audit responsibilities in this Section.

Value for money conclusion work in 2011

The Audit Commission has advised that in 2011 the auditors' statutory value for money conclusion ("VFM") will be based on the following two criteria specified by the Commission:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2011
The organisation has proper arrangements in place for securing financial resilience.	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We will discuss with officers the detailed approach to the work as part of our detailed 2010/11 audit planning.

Preparations for the implementation of International Financial Reporting Standards from 2010/11

In 2010/11, the Council will need to prepare its accounts for the first time under IFRS. We have discussed the progress of this restatement work with the Council and understand that the Council are progressing well and in accordance with the timetable for the restatement.

We are commencing the first stages of our audit work in respect of the Council's IFRS transition in November 2010.

Abolition of the Audit Commission

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. Both we and the Audit Commission will keep you informed of further developments.

5. 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 letter is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This letter 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 Council and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the London Borough of Hillingdon, 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

29 November 2010

Appendix 1: Analysis of professional fees

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

	2010 £'000	2009 £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of Hillingdon Council	374	374
Fees payable in respect of our work under the Code of Audit Practice in respect of the Local Government Pension Scheme	38	38
Fees payable in respect of the certification of grants	137	138
Total fees payable	<u>549</u>	<u>550</u>

Our work on the certification of grants is ongoing and the amount shown above is an estimate only.

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Internal Audit and Hillingdon Homes Transfer Back to the Council

Contact Officer: Helen Taylor
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REASON FOR ITEM

This report provides the Audit Committee with details of the internal audit arrangements for the return of Hillingdon Homes to the Council.

OPTIONS AVAILABLE TO THE COMMITTEE

To note the information provided.

1. INFORMATION

1.1. Following a positive outcome to a tenant and leaseholder test of opinion, Hillingdon Homes (HH) was set up in 2003 to manage the Council's housing stock and to secure additional resources to deliver the Decent Homes target.

1.2. In September 2009, the Cabinet considered a comprehensive report entitled "Future of Hillingdon Homes" setting out the background and rationale for returning Housing Management Services to the Council. In February 2010, following consultation with tenants and leaseholders, the Council agreed to the return of Housing Management to the Council with effect from 1 October 2010.

1.3. When the decision was made for the return of HH to the Council, a Housing Management Project Team was set up and Internal Audit was included in the team. This allowed us to keep up to date with progress and to discuss any control or governance issues that might arise during the course of the transfer.

2. INTERNAL AUDIT OF HILLINGDON HOMES

2.1. Internal audit services were provided to Hillingdon Homes by Mazars, under a 3 year contract that started in October 2007. Although, HH was set up to manage and improve housing services, the Council has always continued to be accountable for strategic housing activity and we have been required to gain assurance on the control environment within HH by relying upon Mazars' internal audit work. This assurance was assessed by reviewing the final reports issued by Mazars.

2.2. As the contract with Mazars was ending in October 2010, which coincided with the return of housing management to the council, we discussed directly with HH senior management and Mazars' Lead Manager how they would ensure that they delivered an acceptable level of audit coverage. Initial discussions indicated that the audit plan that had been agreed for 2010/11 would be completed by Mazars prior to their contract terminating. However, subsequent to those discussions, HH's Senior Management Team agreed with Mazars to defer five audits on the understanding that once the services were merged into the Council these audits may either no longer apply or require a different focus.

2.3. The 5 audits deferred were:

- Resident Involvement
- Estate Services Contracts
- Business Planning
- Payroll and Expenses
- Budgetary Control

2.4. HH used the Council's systems for payroll and payment of expenses. These systems have been audited recently as part of the annual audit plan for LB Hillingdon and therefore this audit can be cancelled. For the remaining 4 audits, we are currently determining whether these audits will need to be carried out in the 4th quarter. If so, they will need to come from the contingency allocation within the Annual Audit Plan.

2.5. In accordance with the contract terms and conditions, we requested all correspondence and documents obtained or produced by Mazars during the course of their audits. As at 2 December 2010, 9 audit files had been received from Mazars. We are chasing Mazars for the remaining 36 audit files.

3. INTERNAL AUDIT OF HILLINGDON HOUSING SERVICES FROM 1 OCTOBER 2010

3.1. Upon return to the Council, the services provided by HH were renamed Hillingdon Housing Services (HHS). For 2011/12, we need to integrate HHS into the Internal Audit Annual Plan for the LB Hillingdon.

3.2. We have started to identify the audit universe that will include all the systems, functions, operations and activities currently undertaken by HHS. This will be followed by an assessment of the risk levels for each of the auditable areas, based on information obtained from:-

- Hillingdon Homes' Risk Register
- Reviews of Mazars' internal audit reports, including follow up audits, from 2007/08 to date

- Review of the last External Auditor's Management Letter
- Discussions with key managers to ascertain risk levels against various criteria

3.1. The plan for 20011-12 will therefore incorporate any relevant issue from our risk assessment of HHS.

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Internal Audit Progress Report

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REASON FOR ITEM

This report provides the Audit Committee with a summary of Internal Audit (IA) activity in the period from 1 September 2010 to 19 November 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. Nine audits, of which two were schools, received no or limited assurance in the current report. 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.

Financial Management Standard in Schools – The Secretary of State for Education’s decision that, with immediate effect, it would no longer be a requirement for schools to meet the Financial Management in Schools Standard has meant that the work we were undertaking on certification is no longer required. In most cases we had substantially completed the work during audit visits but we will now need to come to an equitable arrangement with schools to charge for any work already undertaken.

There is some indication from the department that it will be replaced with a less onerous standard in 2011-12 but details are not expected until summer 2011.

The abolition of this requirement has a direct effect on the Internal Audit staffing resource and income.

Ethnic Minority Achievement Support Service (EMASS) – EMASS is being decommissioned as part of the BID process and the statutory consultation process has already started and will conclude on Wednesday 8th December 2010.

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

Children’s Performance Licence Review – Added following a formal complaint.

Request for charity discount – The financial basis for a community association’s request for reduced rent on their premises has been queried by members. We are reviewing the financial information.

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. Following comments from the committee at its last meeting, the format of these has been changed. We have provide a contextual statement for each audit and indicated in a tabular format the summary recommendation, why it has been made, our assessment of the category of risk and when implementation was expected. 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. The 2007-8 Web Content audit has been cleared so there is no need for the Head of Communications to attend this meeting.

Audit Title: Blue Badges

Assurance level: No Assurance

The Customer Contact Centre administers the Blue Badge scheme for Hillingdon residents.

The Blue Badge Scheme is a European-wide scheme of parking concessions that allows people who travel as either drivers or passengers and have permanent and severe walking disabilities, and blind people, to park their vehicles near to their required destination to enable them to work, fulfil their domestic responsibilities and enjoy leisure and other pursuits.

Only those who would otherwise be incapable of getting to shops, public buildings or other places are eligible to receive a badge under the scheme. They can apply for a Blue Badge, which entitles them to up to 3 years of concessions.

There are 2 types of entitlement:-

- Automatic – for people who are registered blind and/or receiving Higher Disability Living Allowance or a war pension’s mobility supplement, or have a mobility vehicle supplied by the Department of Health and Social Security.
- Discretionary - If there is no automatic entitlement, then an assessed entitlement may be granted based on an individual’s circumstances.

The objective of the audit was to ensure that the Blue Badge Scheme was administered efficiently, effectively and economically.

We were pleased to report risks are appropriately addressed in these areas:

- Application forms were completed for all cases.
- All issued Blue Badges were recorded on the Protocol computer system against the client’s care record, giving the badge number, issue date and expiry date.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
All evidence to support entitlement should be retained on file and management should periodically check for compliance otherwise there is no evidence to verify that the officer processing the claim performed the correct checks.	High	Implemented
Approving officers should sign application forms and have their name entered on the Protocol system in order to provide evidence of who approved the application.	High	1/9/10
For clients who are assessed under the discretionary criteria, the reason should be recorded on the application form and on the Protocol system to ensure that at a later date the entitlement can be justified and to ensure statistics are correct.	Medium	1/10/10
Consideration should be given to including Blue Badges in the Electronic Social Care Record Scanning project so that previous	High	30/4/11

applications can be easily reviewed to ensure consistency between applications.

Management should ensure data input and the reporting function on Protocol will enable the Annual Return to be completed for 2010/11 and future years, otherwise a significant amount of manual work will be required. High 30/12/10

A comprehensive inventory should be maintained, with regular reconciliations and stock checks to ensure that all badges and laminates can be fully accounted for. High Implemented

Spoiled badges should have "cancelled" written across the middle and be recorded in the inventory, to prevent the badge being misappropriated and used fraudulently. Medium Implemented

Consideration should be given to applicants having to attend the civic centre with photographic evidence to collect their blue badge to prevent a person fraudulently using another person's identity. High 28/2/11

A note should be recorded on Protocol when an allegation of possible misuse is received and passed to the Fraud Team for investigation. This will enable the Contact Centre staff to take appropriate action if the badge holder contacts them. High Implemented

Monthly reconciliations should be carried out on income received and banked; otherwise monies could be misappropriated without being identified. Medium 30/11/10

The cost effectiveness of charging the £2 fee for a Blue Badge should be reviewed as it may be costing more in administration to collect, bank and reconcile the income received. Medium 28/2/11

The new processes should be included in the written procedures to ensure there is clear guidance for all staff to follow and to act as a training tool for new staff. Medium 30/11/10

Management Comments - The response to the vulnerabilities outlined in this audit was given top priority by both the Head of Service and the Management within the Customer Contact Centre. Most of the identified vulnerabilities have been addressed although a small number remain that are being actively worked through with regular, formal, reviews of progress being overseen by the Head of Service. Those that remain unresolved are on track for completion by end of April 2011 although one will be completed by end February 2011, these include factors that directly relate to a review of the national scheme overall which the Council is awaiting the findings of from Central

Government. The review was completed in the Summer of this year but findings are yet to be published.

Private Sector Renewal & Disability Facilities Grants

Assurance Level: Limited

The London Borough of Hillingdon has a legal duty to provide Disability Facilities Grants (DFG's). It assists people with disabilities with a range of adaptations in their homes. The maximum grant is set at £30,000 although a discretionary top-up can be authorised by the Head of Housing.

Private Sector Renewal Grants (PSRG's) are means-tested grants to assist in bringing owner occupied properties up to the Decent Homes Standards; with the maximum grant being £20,000.

The objective of the audit was to ensure that all grants allocated assisted the Council's vision of well-being and good standard of living for all residents.

We were pleased to report risks are appropriately addressed in these areas:

- Detailed policies and procedures incorporating relevant legislation were in place for DFG's and PSRG's, although they have currently exceeded their review date.
- All applications had been approved by a Senior Manager.
- Cost analyses were completed for each approved application.
- Invoices received were approved, processed and paid within 30 days.
- Land charges were placed on applicable properties.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
Housing and Social Services colleagues should liaise with a view to agreeing that Occupational Therapists will continue their involvement with the client through to completion of the work. This would negate the need for private Occupational Therapists to be employed; reducing costs and providing continuity for the client.	High	31/12/10
The 'Conditions of Grant' form should either be signed by the client or incorporated into the application form to ensure that the client's	High	31/09/10

awareness of the conditions cannot be in doubt in any dispute.

Management should liaise with the ASCHH Finance Team and Corporate Accountancy to develop a system that maximises reclaimable VAT. The council is not claiming all VAT because clients are paying suppliers for alterations. High 31/10/10

An officer other than the original case officer should also carry out the final inspection to ensure competency, transparency and separation of duties. Medium 31/09/10

Management should arrange with the Payments Team for all future invoice payments to utilise the I-procurement system; ensuring that orders are properly raised and have the correct authorisation. Medium 31/09/10

Receipt numbers should be recorded on the clients electronic 'Flare' records, ensuring that there is a record of payment should any disputes arise. Medium 31/09/10

Reconciliations should be carried out on a regular basis to confirm that all income has been banked; otherwise errors and omissions may go undetected. Medium 31/09/10

Management Comments -The Private Sector Housing Adaptations, Grants and Energy Team have implemented all of the Internal Audit Report control improvements required within the agreed target dates. The only outstanding improvement is regarding management liaising with Social Services with a view to agreeing that Occupational Therapists will continue their involvement with the client through to completion of the work. This is now being reviewed as part of the BID for Integration of Occupational Therapy Services process which is due to be completed in March 2011.

Audit Title: Higher Mileage User Allowance

Assurance level: Limited

Employees who use their vehicles for the purpose of the performance of their duties are eligible to receive allowances for the use of their cars on business only after manager authorisation. Higher mileage users are employees whose council business mileage exceeds or is expected to exceed 30 miles per week and who are contractually required to have their vehicle available for use for work at all times .

We were pleased to report risks are appropriately addressed in these areas:

- Where mileage was claimed log sheets were completed and submitted with the claims.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	
The Higher Car User Scheme should be reviewed to ensure it remains an appropriate use of Council funds.	High	31 March 2011
Managers should be requested to carry out an immediate review of staff currently receiving Higher Mileage Car User Allowance, to ensure the Council is not paying staff who are no longer eligible.	High	31 Dec 2010
The authorisation form for Higher Mileage users should be required to be kept on personnel files, otherwise there is no evidence to support the user's entitlement.	Medium	31 March 2011
Staff should be reminded that late mileage claims may not be paid as managers may not be able to properly check that the journeys were valid.	Low	1 Dec 2010
Staff should be reminded that if log sheets are not maintained of the journeys made, then entitlement to the allowance may be withdrawn as managers have no easy source to help them when conducting their monitoring of staff mileage.	Medium	31 Dec 2010

Management Comment - This limited assurance audit has highlighted a lack of managers understanding of their responsibility to check entitlement to higher mileage allowance on a yearly basis. A reminder will be issued. Overall the audit has highlighted the need to review the whole subject of higher mileage allowance, and this will be done early 2011.

Audit Title: Civic Centre Security – Manned Guarding Security Contract

Assurance level: Limited

Security at the Civic Centre has been undertaken by a Manned Guarding Services Contractor for the last 7 years.

The objective of the audit was to ensure that Civic Centre security arrangements are effectively managed and are efficient, effective and economical.

We were pleased to report risks are appropriately addressed in these areas:

- The approval to follow a single tender action followed proper process under the Council's Procurement Code of Practice.
- Following a long vacancy, there is now a dedicated officer responsible for the management and monitoring of the contract.
- There is adequate contractor performance monitoring and reporting.
- As part of the Corporate Procurement Unit Strategy, a review was undertaken in 2009 which resulted in monetary savings on the contract of £184k.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target date
Award of any future contract should be through competitive tendering to ensure value for money and prevent any legal challenge.	High	31/01/11
Legal Services should be given sufficient time to provide comments on a recommendation to Cabinet.	High	Immediate
Contractor insurances and certifications required under the contract should be verified otherwise risks may not be covered resulting in loss to the Council.	High	31/03/11
Payments should not be made until the service has been provided to prevent the Council paying for work that may not be carried out.	High	Already implemented
Contractor invoices should be supported by certified operative time records to ensure payment based on actual hours worked.	High	31/10/10
Contract variation requests and authorisation by management to be clearly evidenced and held on file, otherwise payment for unauthorised or unnecessary work could result.	High	Already implemented
All stakeholders should be formally given the opportunity to contribute to contract specification requirements otherwise security requirements may not be fully identified, leaving property and staff at possible risk.	Medium	30/09/10
Future contract specification should include security arrangements for Council and other meetings as standard, otherwise value for money may not be achieved, and increased costs could result.	Medium	30/09/10

Written procedures should be drawn up for contractor invoice checking and payment, otherwise Financial Regulations may not be being met and incorrect payments could result. Medium Already implemented

Management Comments - Recommendations have been agreed in conjunction with the Director of Finance, the Head of Procurement, and the Borough Solicitor. Improvements have been identified and some of the recommendations have already been implemented with the remainder to be implemented on the award of the new contract to be effective 1st March 2011.

Highways Maintenance (Responsive) – 2009/10 Review

Assurance level: Limited

Under the Highways Act 1980, the London Borough of Hillingdon has a statutory duty to carry out maintenance of highways. It includes roads, footways, drainages, signs, street furniture, winter road service and various other functions. Responsive maintenance is carried out by an in-house team as well as external contractors.

The objective of the audit was to provide management with an assurance that the systems and controls relating to the provision of highways responsive maintenance services are adequate and effective.

We were pleased to report risks are appropriately addressed in these areas:

- Broadly, the terms and conditions of the Highways Responsive Maintenance contract are complied with and are satisfactory.
- The Insurance Highways database, maintained by the Highways Inspection Team and shared with the Insurance Team of this council, and used to challenge or repudiate the claims is fairly comprehensive

However, improvement is required in the following areas:

Control improvements required	Risk	Agreed Target Date
Management for Street Scene Maintenance should document and formally communicate the key processes and practices they expect staff to follow, otherwise staff may continue applying inconsistent practices leading to objectives not being achieved and/or the service costing more.	High	By end of December 2010
Clear guidance on variation level thresholds should be set and communicated to all relevant parties to ensure inappropriate variations are not authorised with consequent cost to the Council.	High	Implemented

Management should draw up clear guidelines for deciding which referrals from the ONYX system should be treated as urgent / emergency work to avoid inconsistent practices developing and inefficient use of resources. High By end of December 2010

Management should document the criteria / procedures for deciding which jobs should be allocated to the in-house team and which should go out to the external contractor. Otherwise inconsistent practices may develop, leading to inefficient use of resources. High By end of December 2010

Management should continue to monitor deadlines and the liquidated damages clause of the contract should be invoked if the contractor does not meet the target date. Failure to do so could lead to possible loss of compensation to the Council. Medium By end of December 2010

Management comments - Out of the five recommendations agreed, one has been implemented within the agreed target date. Documentation relating to the procedures and guidance is being developed and those outstanding four recommendations are anticipated to be implemented by the end of December 2010.

Disagreed Recommendations:

The Head of Highways and Green Spaces should consult the responsible cabinet member, for the formal approval of both the “Highways Maintenance Plan” and the “Highways Asset Management Plan” and ensure that the target dates set in the 2010/11 team plan for the finalisation and rollout of those plans are met. Without such strategic documents, the policy for delivering highways maintenance service will not be demonstrable and inconsistent practices may continue to be followed. High N/A

Management comment:

The team plan for 2010/11 quotes the target date to finalise and rollout both of the above documents to staff and other interested parties by 31st March 2011. Subsequent to the drafting of the team plan, the implementation of the BID programme has meant that these plans have been put on hold until the Deputy Director (Corporate Landlord) is in post and can take a view on the way forward

The key processes and practices that staff are expected to follow should include cross referencing between ONYX and EXOR systems and progression notes on both systems, otherwise staff may High N/A

continue applying inconsistent practices.

Management comment:

The reason cross referencing between ONYX and EXOR and progression notes on both systems is not done is less to do with unclear guidelines and more to do with the significant resource implication of doing this manually in all cases.

Management should consider issuing an individual order to the contractor in respect of each EXOR job ticket, instead of the present system of batching several job tickets under one order, and asking the contractor to raise the invoice as soon as each job has been completed. Failure to pay the contractor in time could lead to extra costs in terms of interest payable by the Council. Medium N/A

Management comment:

The number of EXOR tickets issued to the responsive maintenance contractor in 2009/10 was 719, and the number of applications received from them was 41. Issuing EXOR tickets singly would therefore represent a seventeen fold increase in the administration of works orders for this contract. Instead the % of works completed on time will continue to be monitored and improved, the importance attached to it demonstrated by the fact that it is key team target.

Software Licensing

Assurance level: Limited

In UK, the use of software is governed by the Copyright, Designs and Patents Act 1988. If evidence of software piracy is found on the council's IT hardware assets, the council could be held responsible for the actions of employees and can be sued for copyright infringement. There are also huge financial penalties for software licence infringements as well as the risk of loss of reputation.

The objective of the audit was to ensure software is procured and implemented in line with agreed standards that deliver value for money and all software in use is licensed.

We were pleased to report risks are appropriately addressed in these areas:

- there is a ICT usage policy which stipulates (under the section of software) that software should only be procured and installed by ICT; sample testing confirmed compliance with the policy;
- the implementation of Centennial Discovery software allows the council to detect all machines that are on the network and collect information on all installed software automatically.

Improvements are required in the following areas:

Control improvements required	Risk	Agreed Target date
Having a dedicated software repository (currently held on a standalone server) from where software can be recovered in the event of a disaster.	High	30/11/10
Include requirements for software licence compliance and monitoring and refer to the Copyright, Designs and Patents Act (1988) and penalties from any breaches identified, in the ICT and Information Security Policy to ensure appropriate action can be taken.	Medium	31/03/11
Include in the induction programme for staff software licences and the consequences of breaches. Raising awareness helps to ensure greater compliance to the policy.	Medium	31/12/10
Update the current management procedure to include the handling of unauthorised software to ensure all breaches are captured and dealt with appropriately.	Medium	31/03/11
Restrict access to both the physical and software library to authorised ICT staff only.	Medium	31/10/10
Registering all the Council's IT hardware assets in Centennial and introduce a robust system of tracking and monitoring software on that cannot communicate with Centennial to enable effective monitoring and control.	Medium	31/12/10
Undertake regular reconciliations of software licences with actual software installed to ensure compliance.	Medium	31/03/11

Management Comments - Recommendations of the report have been agreed in conjunction with both the Head of ICT and Business Services and the Director of Finance. The above actions have largely been completed; those outstanding are scheduled to be signed off by the stated deadline.

Parking Permits

Assurance level: Limited

The annual parking report of 2008 highlighted that approximately 7,000 resident parking permits were issued to residents living within the borough where the Parking Management Scheme applies. There are 11 different types of parking permits which are available to residents, non-residents, businesses, employees and individuals who work

within the Borough. The Parking Administration Team are primarily responsible for processing and issuing parking permits except for the Brown Badge and Car Park Season Ticket permits which are administered by the Parking Operations Manager and Car Parks Manager respectively.

We were pleased to report risks are appropriately addressed in these areas:

- permits are uniquely numbered, designed, tamperproof and colour coded to ease identification which prevents fraudulent copies being made;
- roles and responsibilities for issuing and monitoring parking permits are clearly defined;
- performance standards are in place for processing applications and issuing permits which are monitored on a regular basis by The Parking Services Manager.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
Core processes (operational and financial) should be documented for car park season tickets to ensure staff follow consistent practices.	Medium	31/10/10
Official application forms should be completed for brown badges to ensure fraudulent applications are not received.	Medium	31/03/11
Parking Services Management should consider recording car park season tickets on the Integrated Civic Processing System (ICPS) to ensure management information is readily available.	Medium	31/12/10
Parking management should explore implementing a more effective and economical process for collecting and processing income to ensure it is recorded and collected more efficiently.	Medium	31/03/11
Stock records for car park season tickets and brown badges should be maintained to ensure stock is not misappropriated.	High	31/10/10

Management Comment - Since the audit report was agreed in October 2010, the Parking Services team have introduced a number of amended procedures to address the concerns raised by Internal Audit. This has included introducing management controls on how stocks are held and accessed, and documenting core processes.

The managers for the individual areas have been involved in introducing the changes so that all of the staff are aware that audit controls have full management support.

Local Government Pension Scheme Governance

Assurance level: Satisfactory

The Local Government Pension Scheme (LGPS) collectively is the largest pension fund in the UK, though each pension authority manages its own fund.

The Council is the administering authority of the London Borough of Hillingdon Pension Fund and operates under the national LGPS.

The management and investment of monies is crucial to delivering members' benefits. Clear identification and separation of operational and oversight responsibilities is an essential part of the governance process.

We were pleased to report risks are appropriately addressed in these areas:

- A new role of Corporate Pensions Manager has been created within Corporate Finance, part of the role of which will include specific responsibilities for Hillingdon Pension Fund governance compliance issues.
- The Pensions Committee has been made aware of Hillingdon Pension Fund governance issues via officer reports.
- Relevant and key pension information is published.
- The Pensions Committee has committed itself to receiving regular training.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
An action plan should be drawn up for the detailed compliance review of the core governance principles. This will allow the Pensions Committee to monitor progress against the plan to ensure compliance and identify any poor performance.	Medium	31/03/11
Management should review the codes currently adopted by fund managers to confirm that they conform to the Institutional Shareholders' Committee Statement of Principles. This will help ensure shareholders are obtaining good value from their investments without excessive risk.	Medium	Already implemented
The Council / Pensions Committee should undertake a self assessment of its effectiveness to ensure that it has the range of competencies necessary to oversee the fund management.	Medium	31/03/11

The Council pension web site needs regular review to ensure it is fit for purpose and includes the Pension Fund Governance Policy Statement otherwise scheme members may not be able to make properly informed decisions about their pensions. Medium 31/03/11

Stray Dog Service
Assurance Level: Satisfactory

The Council provides an in-house service, operating between 8am and 4pm Monday to Friday. The service for the remaining hours and weekends is provided by a contractor, CES Ltd.

For each stray dog collected there is mandatory Government fine of £25, with the Council charging £30 for transportation and kennelling costs.

The objective of the audit is to ensure that the Stray Dog Service provided is efficient, effective and economical.

We were pleased to report risks are appropriately addressed in these areas:

- A service is provided 24 hours a day, 365 days a year.
- Policies and procedures were in place on how to deal with stray and injured dogs.
- Forms were completed for all reports of stray dogs, with CCTV receiving the out of hour's calls.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
Consideration should be given to updating the contract with CES Ltd to include the provision of service should an emergency occur and the in-house service cannot be provided. Consideration should also be given to tendering the out of hours service to ensure Value for Money is achieved.	High	30/09/10
Consideration should be given into using alternative preventative measures from the RSPCA website, ensuring that all measures have been taken to reduce the number of stray dogs.	Medium	30/09/10
Management should liaise with the Payments Team with regard to using the I-Procurement system for all invoice payments, ensuring that orders have been raised and authorised correctly.	Medium	30/09/10

Management should liaise with CCTV Services to arrange for our reference numbers to be quoted to CES staff to include on their forms, ensuring a quick and easy process of matching dogs to forms. Medium 30/09/10

Monthly reconciliations should be completed and signed by an independent officer, ensuring that all money has been received and banked correctly. Medium 31/12/10

Culture and Arts

Assurance level: Satisfactory

The benefits of investing in culture and arts are both social and economic, such as making Hillingdon a good place to live and attracting business and tourism.

The Council Plan refers to LBH as “A Borough of Learning and Culture”, and states that LBH will launch its Culture and Art Strategy to provide the right facilities and events for the residents of the Borough. Local Authorities were empowered to provide, arrange for the provision of, or make a financial contribution towards arts, culture and entertainment by the Local Government Act: 1972 (section 145).

There is a National Indicator for Culture & Arts & (NI 11 Engagement in the arts) the objective is to encourage more widespread enjoyment of culture and sport and to support talent and excellence

We were pleased to report risks are appropriately addressed in these areas:

- Strategy - there is an approved 5 years Hillingdon Arts Strategy in place for 2005-10
- Delivery Plan- there is a plan in place to ensure the National Indicator (NI 11) of increasing attendance and participation in arts & culture events is achieved.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
A new Strategy which includes the Cultural dimension should be produced and approved as soon as possible to ensure Cultural and Arts within London Borough of Hillingdon continue to be developed.	Medium	December 2010
Management information should be produced showing the actual achievement against the delivery plans (in the current Arts Strategy and NI11) otherwise Management have no tangible measure of the efficiency and effectiveness of the service provided.	High	December 2010

Financial Control in Compass Theatre to ensure complete and accurate information is maintained of daily transactions. High Immediate

Section 75 Agreement (2009/10 Review)

Assurance level: Satisfactory

The London Borough of Hillingdon (LBH) entered into an agreement with the Hillingdon Primary Care Trust (HPCT) in relation to funding of Learning Disability (LD) services under Section 75 of the National Services Act 2006. The agreement was for three years, commencing 1st April 2007.

The objective of the audit was to ensure that both parties complied with the terms and conditions of the agreement and that the controls relating to the funding of LD services were adequate.

We were pleased to note that:

- There is a Learning Development (LD) Partnership Board, consisting of representatives from a wide spectrum of stakeholders, which meets periodically and considers issues raised.
- Recovery of contributions from PCT has significantly improved and the account is now up to date.
- Majority of the items on the Joint Learning Disabilities review Improvement Plan have been completed and the final version is being updated for submission to the Care Quality Commission (CQC).
- The 2008/09 annual Performance Assessment of the Adult Social Care Services, carried out by the Care Quality Commission, scored the overall performance of this Council to be “WELL”.

Improvement is required in the following areas:

Control improvements required	Risk	Agreed Target Date
A number of monitoring arrangements have been rendered redundant during the term of the existing Agreement by the DoH. Therefore the revised funding agreement for Learning Disabilities should only include those clauses which reflect current working practices. Otherwise officers may be confused over which clauses are currently operating.	Medium	31/12/10
LBH management should ensure that HPCT has carried out all employment and regularity checks. This will reduce the risk of exposing clients to employees who may be a threat.	Medium	31/10/10

Research & Statistics

Assurance Level: Full

The Performance and Analytical Services Team are responsible for collating information on children and young people and producing statistical intelligence that can be used to improve services across the Council.

All data used is compared with national figures and reports are produced that assist schools in meeting their obligations as per the Education Act of 2005.

The objective of the audit was to ensure that information obtained was accurate, up to date and was used in a way that did not breach Data Protection legislation.

We were pleased to report risks are appropriately addressed in these areas:

- Up-to-date policies and procedures were in place detailing the various reports required.
- Data was obtained from a secure and reliable source.
- Access to data was password protected.
- Data Protection legislation was adhered to.

Abandoned and Untaxed Vehicles

Assurance level: Full

An abandoned vehicle is where the vehicle has been unattended for at least a week and the vehicle is untaxed, (source: horizon).

The Refuse Disposal (Amenity) Act 1978 (RDA) places a duty on relevant local authorities (i.e. waste collection authorities (WCAs)) to remove vehicles within their area which they believe to have been abandoned.

The objective of the audit is to ensure abandoned and untaxed vehicle management is efficient, effective and economical within the borough.

We were pleased to report risks are appropriately addressed in these areas:

- policies and procedures are in place;
- roles and responsibilities are clearly defined;
- efficient and economical removal of abandoned vehicles;
- efficient routes to report abandoned vehicles;
- adequate performance framework in place.

Improvements are needed to address risks in the following areas:

Control improvements required	Risk	Agreed Target Date
More favourable contract terms could be negotiated with vehicle removal companies to ensure that the council is achieving consistency and value for money regarding pricing and quality.	Low	November 2010

Pooled Cars Usage Audit 2010/11

As part of our anti-fraud work plan 2010/11, we carried out a probity audit of pooled car usage. The results of our testing identified that improvements were needed in the following areas:

Control improvements required	Risk	Agreed Target Date
Office Managers should not authorise pool car usage or release pool cars to members of staff until they have presented their valid driver's licence to ensure that the council's vehicles insurance policy is not rendered invalid and the council is not exposed to litigation in the event the member of staff is involved in an accident.	High	December 2010
The Transport Manager should regularly reconcile fuel purchased to the miles driven to ensure that the rate per mile is within an acceptable range.	High	December 2010
The Transport Manager should introduce Pool Car authorisation forms with provision for unit Managers Authorisation in Harlington Depot, to ensure that pool cars are not used on personal business or without unit Managers authority.	Medium	December 2010

Football Foundation Grant Audit – We audited the claim for the Botwell Football Foundation Grant and certified the claim as fairly representing the eligible expenditure in accordance with the grant's conditions.

Local Area Agreement Reward Grant - We audited the outturn performance for all indicators on the LAA Reward Grant claim and were satisfied that the authority had in

place adequate systems to produce all the performance data and that the claim accurately detailed performance in relation to the targets agreed in the Authority's LAA.

Council Tax and National Non Domestic Rates - Contractor Visit - Together with management from the Revenues Service, we visited 3 of the operational sites used by the contractor for Council Tax and NNDR. We were given the opportunity to observe the various operations being undertaken and ask questions of the contractor's management. There did not appear to be any apparent control weaknesses, but a full audit is due in Quarter 4 where controls will be more robustly identified and tested.

Schools' Audits

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

2010/11	Assurance Level
Schools - Primary	
Cherry Lane	Limited
Field End Infants	Satisfactory
Harefield infants	Satisfactory
Botwell	Satisfactory
Dr Triplets	Satisfactory
Rabbsfarm Primary	Satisfactory
Highfield	Satisfactory
St Catherine's	Satisfactory
Oak farm Infants	Satisfactory
Breakspear Junior	Full
Schools - Special	
Chantry	No Assurance

3. Follow up audits

3.1. We continue to make progress in following up and clearing action points from previous audits.

3.2. The table below shows the results of follow ups for general audits and school audits. Implementation rates on follow ups has dropped slightly from 84% to 79%.

AUDIT TITLE	DATE ORIGINAL REPORT ISSUED	HIGH	MEDIUM	LOW		IMPLEMENTED HIGH	IMPLEMENTED MEDIUM	IMPLEMENTED LOW		NOT IMPLEMENTED HIGH	NOT IMPLEMENTED MEDIUM	NOT IMPLEMENTED LOW	REVISED TARGET DATE
Primary Sickness Scheme	29-Jan-10	3	6	1		2	6	0		1	0	1	Dec-10
Investigation 15	27-Aug-09	5	0	0		5	0	0		0	0	0	N/A
Building Control	16-Apr-10	0	1	0		0	1	0		0	0	0	N/A
Home Care in House Provision	13-May-10	3	4	2		0	3	1		3	1	1	Nov-10
Parking Management	04-May-10	0	1	0		0	1	0		0	0	0	N/A
Property Databases	07-Jan-09	1	0	2		1	0	2		0	0	0	N/A
Subsistence	09-Jul-10	4	0	0		2	0	0		2	0	0	Sep-11
London Tenders Portal	13-Oct-09	1	0	0		1	0	0		0	0	0	N/A
CRM Application Follow up	16-Dec-09	0	3	1		0	3	1		0	0	0	N/A
Budgetary Control	02-Mar-10	0	6	2		0	2	0		0	4	2	Mar-11
Axxia	16-Apr-10	0	2	5		0	1	0		0	1	5	Jan-11
Pensioners Abroad - Life Certificates	19-May-10	0	0	2		0	0	2		0	0	0	N/A
Estates and Valuations	19-Jul-10	1	5	2		0	2	2		1	3	0	Mar-11
ICT Risk Management	25-Jun-10	0	1	0		0	1	0		0	0	0	N/A
Oracle Financials	25-Jun-10	0	1	0		0	1	0		0	0	0	N/A
Utilities Gas and Electricity	26-Mar-10	0	1	1		0	0	0		0	1	1	Mar-11
Breakspear Crematorium	06-May-10	2	6	0		2	4	0		0	2	0	Jan-11
Pension Administration	08-Jan-09	0	1	0		0	0	0		0	1	0	Dec-10
General Ledger	17-Jun-09	0	1	1		0	1	1		0	0	0	N/A
Contract Register & Rationalisation	03-Jun-10	0	2	0		0	2	0		0	0	0	N/A
Chrysalis	11-Feb-10	2	2	1		2	2	1		0	0	0	N/A
HR Payroll Trigger Dates	29-Jun-10	4	4	0		3	2	0		1	2	0	Dec-10
Debt Recovery Processes - 2009/10 Review	10-May-10	0	6	2		0	3	2		0	3	0	Mar-11
Web Content Management (ICT)	04-Apr-08	1	0	0		1	0	0		0	0	0	N/A
MCP - Contracts Current	25-May-10	8	2	1		5	2	0		3	0	1	Dec-10
Belmore Primary	13-Nov-09	0	1	0		0	1	0		0	0	0	N/A
Charville Primary	12-Nov-09	1	0	0		0	0	0		1	0	0	Dec-10
Cranford Park Primary	05-Nov-09	0	1	0		0	1	0		0	0	0	N/A
Harlyn Primary	23-Apr-10	2	5	0		2	5	0		0	0	0	Dec-10
Wood End Park	11-Feb-10	1	7	4		0	7	4		1	0	0	Dec-10
Hillingdon Primary	17-Mar-10	0	5	3		0	5	3		0	0	0	N/A
Hillside Junior	03-Mar-10	2	4	3		2	4	3		0	0	0	N/A
Hayes Park Primary	10-Feb-10	1	2	0		1	2	0		0	0	0	N/A
Pinkwell Primary	21-May-10	4	5	2		4	4	2		0	1	0	Dec-10

AUDIT TITLE	DATE ORIGINAL REPORT ISSUED	HIGH	MEDIUM	LOW		IMPLEMENTED HIGH	IMPLEMENTED MEDIUM	IMPLEMENTED LOW		NOT IMPLEMENTED HIGH	NOT IMPLEMENTED MEDIUM	NOT IMPLEMENTED LOW	REVISED TARGET DATE
William Byrd Primary	30-Apr-10	2	1	2		1	1	2		1	0	0	Jan-11
Barnhill Community High	09-Oct-09	0	1	2		0	0	2		0	1	0	Mar-11
Bishopshalt	02-Feb-10	4	9	3		4	9	3		0	0	0	N/A
Harlington Community	01-Feb-10	0	6	3		0	6	3		0	0	0	N/A
Haydon	01-Feb-10	7	4	0		7	4	0		0	0	0	N/A
Northwood	23-Jul-09	1	4	0		1	4	0		0	0	0	N/A
Rosedale College	11-Feb-10	1	2	0		1	2	0		0	0	0	N/A
Uxbridge High	08-Mar-10	0	2	3		0	2	3		0	0	0	N/A
Vyners	12-Mar-10	2	7	5		2	7	5		0	0	0	N/A
Schools Private Funds	01-Feb-10	1	0	0		1	0	0		0	0	0	N/A
Email Security and Management ICT 2nd f-up	27-May-09	0	3	0		0	2	0		0	1	0	Dec-10
Waste - Civic Amenity sites – excludes 3 recommendations not yet due	04-Jun-10	3	1	3		1	1	3		2	0	0	Dec-10
Physical and Environmental Controls	01-Mar-09	0	2	5		0	1	5		0	1	0	Mar-11
Highways Planned Maintenance - 2009/10 Review	26-Jan-10	0	4	0		0	1	0		0	3	0	Mar-12
Securicor	10-Mar-08	3	0	0		2	0	0		1	0	0	Apr-11
Payroll Review f-up	17-Aug-10	4	2	1		3	0	1		1	2	0	Mar-11
Business Continuity & Emergency Planning	08-Jun-09	1	1	0		0	1	0		1	0	0	Dec-10
		75	134	62		56	107	51		19	27	11	
	% Implemented by Risk					75%	80%	82%					
	Overall % Implemented									79%			
	Overall % Not Implemented									21%			

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
Ocella	2	Sep 2010	Follow up In progress
Carefirst Debtors- 2009/10 Review	1	Mar 2011	
Environmental Services Application (M3) 09/10	8	Dec 2010	Includes 1 Low
Remote Access(ICT)	2	Apr 2011	
Hillingdon Grid for Learning	1	Sep 2010	Follow up in progress
Business Continuity Management & C/ E	1	Dec 2010	
Pension Administration	1	Dec 2010	
Data Security and Transfer	1	Dec 2010	
Debt Recovery Processes - 2009/10 Review	3	Mar 2011	
Home Care In-House Provision	5	Nov 2010	Includes 1 Low
Breakspear Crematorium	2	Jan 2011	
Subsistence	2	Sep 2011	
Charville Primary	1	Dec 2010	
Wood End Park	1	Dec 2010	
Pinkwell Primary	1	Dec 2010	
William Byrd Primary	1	Jan 2011	
Barnhill Community High	1	Mar 2011	
Utilities Gas and Electricity	2	Mar 2011	Includes 1 Low
Estates and Valuations	4	Mar 2011	
Budgetary Control	6	Mar 2011	Includes 2 Low
Primary Sickness Scheme	2	Dec 2010	Includes 1 Low
Commercial Properties	2	Dec 2010	
Email Security & Management	1	Dec 2010	
Private Sector Leasing 07/08	3	Sep 2010	Follow up in progress
Private Sector Leasing 09/10	1	Dec 2010	
Major Planning Applications	5	Sep 2010	Includes 1 Low. Follow up in progress
Section 106	2	Dec 2010	Includes 1 Low
Pension Administration	1	Dec 2010	

Audit Title	No. of Outstanding Recommendations	Revised Target Date	Comment
Helpdesk Review	1	Apr 2011	
Data Security and Transfer	1	Dec 2010	
ICT - Business Continuity Management	2	Dec 2010	
Northgate Application Review	2	Jun 2010	Follow up in progress
Payroll 08/09	1	Sep 2010	Follow up in progress
Payroll 09/10	3	Mar 2011	
Housing Benefits Subsidy 2009/10 Review	1	Aug 2010	Follow up in progress
Securicor	1	Apr 2011	
Payroll Expenses	1	Sep 2010	Follow up in progress
Email Security and management	1	Dec 2010	
IT Physical and Environmental Security	1	Mar 2011	
Waste - Civic Amenity sites	2	Dec 2010	
Highways - Planned	3	Mar 2012	
MCP Contracts Pre-Tender	1	Sep 2010	Follow up in progress
MCP – Contracts Current	4	Dec 2010	
AXXIA System	6	Jan 2011	Includes 5 Low
HR Payroll Changes & Trigger Dates	3	Dec 2010	
Performance Management	2	Feb 2011	Includes 1 Low
Subsistence	2	Sep 2010	Follow up in progress

4. Advice Guidance and Consultancy

Management continue to request ad hoc advice from us on operational issues within their service area and we have representatives on a number of project teams; the Social Care Transformation Board, the Adult Social Care Information Systems Modernisation Programme Board and the Electronic Social Care Record Project Team.

5. Anti Fraud Work

5.1. We completed 2 anti-fraud audits during the period. Summaries of their outcomes are detailed below:

Vehicle Driving Away Cancellations

We reviewed whether cancellation of Penalty Charge Notices within the borough were monitored to identify any trends or correlations with specific Civil Enforcement Officers or certain areas of the borough. We found the controls in place to monitor these cancellations were adequate with reports being produced on a monthly basis to monitor the performance of both Mouchel and Parking Administration.

Pooled Car Usage

No major concerns were identified but some improvements were recommended as detailed earlier in this report.

Fraud Awareness

5.2. An e-learning programme on Fraud Awareness was rolled out at the end of July, starting with the Adult Social Care, Health and Housing directorate. Since then 46 staff have completed the e-learning. A new Learning Pool module has just been released and this will replace the old module.

5.3. Two Fraud Awareness sessions for all new managers who started after the March 2010 sessions were delivered and 43 managers attended, including some managers who were previously Hillingdon Homes staff. Two more sessions are scheduled for February/March 2011.

NFI

5.4. Data was submitted to the Audit Commission for the National Fraud Initiative 2010/11 and we await the data match output which is expected in January 2011.

Other work

5.5. A review of the Conflicts of Interest policy and procedures has been undertaken to identify any gaps. Proposals to change the policy and procedures will be taken up with the Head of Legal Services.

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

The outcomes of the confidential investigations that we have completed are as follows:-

- **Investigation 32** - During our work on the Conflicts of Interest policy and procedures, we identified an employee who was carrying out undeclared private work. However, upon investigation no conflict was identified and the officer has now completed a declaration and submitted it to their manager.

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	Oct 10	0	0	0
- Subsistence	Finalised	6/7/10	Satisfactory	Oct 10	2	0	0
- Council Tax Student Exemptions	Finalised	15/6/10	Full		0	0	0
- Agency/Consultancy Staff	Drafting						
- Pooled Car Usage	Finalised	19/11/10	N/A		1	3	0
- VDA Cancellations	Finalised	15/09/10	N/A	N/A	0	0	0
- Increases in Pay Rate	In Progress						
- Overtime	Planning						
- Car Mileage Agency Staff	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	Drafting						
Healthy Hillingdon	Planning						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
Compliance with Driving Policy	Planning						
Misc Audit Tasks							
Follow ups	Ongoing						
Brought forward Audits	Completed						
FINANCE & RESOURCES							
Risk Management	Drafting						
Payroll - Starter & Leaver testing	In Progress						
Debtors							
Debtors - ASC Protocol							
CT/NNDR - Contractor visit	Completed						
CT/NNDR - System							
LG Pension Scheme - Governance	Finalised	30/09/10	Satisfactory		0	5	1
Online Payment Management Project							
Creditors							
Creditors - Protocol							
General Ledger	In Progress						
Blue Badges	Finalised	9/11/10	No Assurance		9	8	4
DCEO							
Risk Management	Drafting						
Performance Reward Grant (LAA)	Completed	30/11/10	N/A		0	0	0
Economic Development							
Grants to Voluntary Organisations	Finalised	9/6/10	Satisfactory		0	4	0
Learning & Development	Planning						
Establishment Control and Authorisation	In Progress						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
EDUCATION & CHILDREN'S SERVICES							
Risk Management	Drafting						
Schools - Primary							
Cowley St Laurence	Finalised	21/5/10	Satisfactory		2	5	5
Harefield Infants	Finalised	18/10/10	Satisfactory		1	2	0
Cherry Lane Primary	Finalised	02/09/10	Limited		6	6	3
Glebe Primary	Finalised	19/7/10	Satisfactory		1	5	0
Coteford Infants	Finalised	26/6/10	Satisfactory		0	6	3
Botwell House	Finalised	03/09/10	Satisfactory		2	1	0
Breakspear Junior	Finalised	17/09/10	Full		0	0	2
Dr Triplets CE	Finalised	16/09/10	Satisfactory		3	7	1
Field End Infants	Finalised	28/09/10	Satisfactory		1	1	1
St Catherine's RC Primary	Finalised	07/10/10	Satisfactory		1	6	1
Oak Farm Infants	Finalised	30/09/10	Satisfactory		2	4	2
Highfield Primary	Finalised	12/11/10	Satisfactory		1	2	1
Rabbsfarm Primary	Finalised	11/10/10	Satisfactory		2	5	2
West Drayton Primary	Draft Issued						
Guru Nanak Sikh Primary							
Lady Bankes Junior							
St Andrew's CE Primary	Draft Issued						
Brookside Primary							
Warrender Primary							
Harefield Junior							
Longmead Primary							
Whiteheath Junior							
Heathrow Primary							

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
Lady Bankes Infants							
Minet Junior School	Draft Issued						
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							
Swakeleys	Finalised	18/6/10	Satisfactory		3	3	1
Special							
Chantry School	Finalised	11/11/10	No Assurance		17	11	0
Grangewood School	Draft Issued	18/10/10					
Other School Related							
FMSIS Certification	Deleted	N/A	N/A	N/A	N/A	N/A	N/A
School Liaison/Newsletter/briefings	Ongoing						
BS21	No longer applicable	N/A	N/A	N/A	N/A	N/A	N/A
Pupil Transport	Deferred to 11/12	N/A	N/A	N/A	N/A	N/A	N/A
Education - Looked After Children	In Progress						
Section 52	In Progress						
Overpayments	Drafting						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
CHILDREN'S SERVICES							
Contact Point	Completed	N/A	N/A	N/A	N/A	N/A	N/A
Child Protection and Reviewing	Planning						
Referral and Assessments	Planning						
Placements	Deferred to Q4						
Research and Statistics	Finalised	03/09/10	Full		0	0	1
Target Youth Support							
Children's Centre's	Draft Issued						
Extended Schools	In Progress						
EMAS	Discontinued	N/A	N/A	N/A	N/A	N/A	
Youth Offending Service	Finalised	6/8/10	Full		0	3	0
ADULT SOCIAL CARE HEALTH & HOUSING							
Risk Management	Drafting						
Community Transport	Deferred to 11/12						
Equipment and Adaptations (All client groups)	Draft Issued						
Financial Assessments	In Progress						
Self Directed Support	In Progress						
Housing							
Hillingdon Homes Dissolution	Ongoing						
Supporting People	Drafting						
Housing & Council Tax Benefit	In Progress						
Private Sector Renewal & Disability Grant	Finalised	30/09/10	Limited		3	4	2
Older People's Care							
Homecare - Contract Provision	Planning						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
Residential Block Contracts							
Residential Spot Contracts							
Residential to Independent living							
People with Physical and Sensory Disability							
Children with Disabilities - Transition	In Progress						
Stroke Care Grant	Completed						
Other Adult Services							
Safeguarding Adults	Planning						
ENVIRONMENT AND CONSUMER PROTECTION							
Risk Management							
Street Cleaning	Drafting						
Improvement Projects							
Parking Cash Collection							
Parking Permits (Residents, Visitors & Brown Badges)	Finalised	12/10/10	Limited		1	4	1
Stray Dog Service	Finalised	14/09/10	Satisfactory		2	7	2
Abandoned & Untaxed Vehicles	Finalised	09/09/10	Full		0	0	1
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		
Property							
Civic Centre Security contract	Finalised	21/09/10	Limited		6	3	0
Civic Centre Mechanical and Electrical contract	Deferred to 11/12						
Facilities Management Contract							
Utilities - Water							
Arts, Culture, Libraries & Adult Education							
Adult Education							
Culture and Arts Strategy	Finalised	11/11/10	Satisfactory		4	3	0
Sport and Leisure							
Fusion Management Contract	In Progress						
Leisure Facilities Management Contract	Deferred to 11/12						
Contingency							
Audits							
S31/1717 NEW BURDENS (EFFICIENCY INFORMATION AND COUNCIL TAX DEMAND	Completed						
Conflicts of Interest	In Progress						
Higher Mileage User Status	Finalised	17/11/10	Limited		2	2	1
Engineering Consultancy	Drafting						
Payment Vouchers - Non-Invoice Payments	Completed	07/09/10	N/A	N/A	N/A	N/A	N/A
Investigation 028	In Progress						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
Investigation 029	In Progress						
Investigation 030	Completed	1/10/2010	N/A				
Investigation 031	In Progress						
Investigation 032	Completed						
Entertainment License Review	Drafting						
Investigation 033	Completed	1/10/2010	N/A	N/A	N/A	N/A	N/A
Investigation 034	In Progress						
Investigation 035	In Progress						
Hayes and Harlington Association	In Progress						
Investigation 036	In Progress						
ICT audit contract							
Disposals	Finalised	Sept	Satisfactory		0	3	1
Liquid Logic	In Progress						
Software Licensing	Finalised	Oct	Limited		1	11	2
Oracle Financials- Debtors							
E-Payments Project							
Information Assurance & Security	Draft Issued						

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
CROSS CUTTING CORPORATE ISSUES							
Budgetary control	Finalised	02/03/10	Satisfactory	15/11/10	0	4	2
Performance Management	Finalised	29/03/10	Satisfactory	Aug 2010	1	1	0
Flexi Leave - Monitoring, Approval and Control	Finalised	15/7/10	Limited	Follow up in progress	6	0	0
DEPUTY CHIEF EXECUTIVE/FINANCE & RESOURCES							
Chrysalis	Finalised	11/02/10	Satisfactory	03/11/11	0	0	0
HR Payroll changes and trigger dates	Finalised	29/6/10	Limited	23/11/10	1	2	0
Payroll	Finalised	17/08/10	Limited	Nov 2010	1	2	0
Corporate Property							
Estate and Valuation Service	Finalised	19/7/10	Satisfactory	19/11/10	1	3	0
Utilities Contracts Gas & Electricity	Finalised	26/03/10	Satisfactory	Nov 2010	0	1	1
Legal							
Freedom of Information /Data Protection	Finalised	11/06/10	Satisfactory	Follow up in progress	1	8	1
AXXIA System	Finalised	16/04/10	Satisfactory	Sept 2010	0	1	5
Debt Recovery Processes	Finalised	10/5/10	Satisfactory	22/11/2010	0	3	0
Major Construction Projects							
Contracts - Pre Tender	Finalised	30/10/09	Satisfactory	11/08/2010	1	0	0
Contracts - Current	Finalised	25/05/10	Limited	09/11/2010	3	0	1
Procurement							
Due North System	Finalised	13/10/09	Satisfactory	09/11/2010	0	0	0
Contract Register and Rationalisation	Finalised	3/6/10	Satisfactory	Nov 2010	0	0	0
ENVIRONMENT & CONSUMER PROTECTION							

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
Grounds Maintenance Contracts - Parks and Open spaces	Finalised	23/02/10	Satisfactory	Follow up in progress	0	4	0
Highways Reactive Maintenance	Finalised	7/9/10	Limited		6	2	0
Highways Planned Maintenance	Finalised	26/01/10	Satisfactory	10/11/10	0	3	0
Parking Management Schemes - Authorisation and Control of	Finalised	4/5/10	Full		0	0	0
Breakspear Crematorium	Finalised	06/05/10	Satisfactory	18/11/10	0	2	0
Domestic Waste Collection & Disposal	Finalised	3/6/10	Limited	Nov 10	2	3	0
PLANNING AND COMMUNITY SERVICES							
Major Applications	Finalised	15/04/10	Satisfactory	Follow up in progress	1	3	1
Building Control	Finalised	16/4/10	Full	06/09/2010	0	0	0
CHILDREN'S SERVICES							
Nursery Education - Private Provision	Finalised	15/7/10	Satisfactory	Follow up in progress	11	6	1
Asylum Accommodation	Finalised	23/04/10	Satisfactory	Follow up in progress	2	8	2
Asylum Finance	Finalised	23/04/10	Full		0	2	1
Schools - Primary							
				Sep 10			
Belmore Primary	Finalised	16/11/09	Satisfactory		0	0	0
Charville Primary	Finalised	12/11/09	Satisfactory	Sep 10	1	0	0
Cranford Park Primary	Finalised	05/11/09	Satisfactory	Sep 10	0	0	0
Harlyn Primary	Finalised	23/04/10	Satisfactory	Sep 10	0	0	0
Hayes Park Primary	Finalised	11/02/10	Satisfactory	Sep 10	0	0	0
Hillingdon Primary	Finalised	17/03/10	Satisfactory		0	0	0
Hillside Junior	Finalised	03/03/10	Satisfactory	Sep 10	0	0	0
Pinkwell Primary	Finalised	21/05/10	Satisfactory	Oct 10	0	1	0
William Byrd Primary	Finalised	30/4/10	Satisfactory	Oct 10	1	0	0

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
Wood End Park	Finalised	11/2/10	Satisfactory	Sep 10	1	0	0
Schools - Secondary							
Barnhill Community High	Finalised	09/10/09	Limited	Sep 10	0	1	0
Bishopshalt	Finalised	2/02/10	Satisfactory	Sep 10	0	0	0
The Douay Martyrs	Finalised	20/11/09	Satisfactory		3	3	3
Harlington Community	Finalised	2/2/10	Satisfactory	Sep 10	0	0	0
Haydon	Finalised	2/2/10	Limited	Sep 10	0	0	0
Mellow Lane	Finalised	27/11/09	Satisfactory		2	5	3
Northwood	Finalised	06/07/09	No Assurance	Sep 10	0	0	0
Rosedale College	Finalised	11/2/10	Satisfactory	Sep 10	0	0	0
Uxbridge High	Finalised	08/03/10	Satisfactory	Sep 10	0	0	0
Vyners	Finalised	12/03/10	Satisfactory	Sep 10	0	0	0
Ruislip High Secondary School	Finalised	25/03/10	Satisfactory	Follow up in progress	4	5	2
Other School Related							
Primary Sickness Scheme	Finalised	29/01/10	Satisfactory	06/09/10	1	0	1
Hillingdon Grid for Learning	Finalised	2/12/09	No Assurance	May 2010 – further follow up in progress	0	1	0
Schools Private Funds	Finalised	12/2/10	Satisfactory	Oct 2010	0	0	0
ASCHH							
Finance systems							
Carefirst Debtors	Finalised	12/2/10	Satisfactory	Jun 2010	1	0	0
Housing							
Private Sector Leasing	Finalised	23/06/10	Satisfactory	Follow up in progress	0	3	0
Temporary Accommodation (formerly B&B)	Finalised	26/08/10	Limited	Implemented date March 2011	0	2	1
Housing Benefit Subsidy	Finalised	28/10/09	Full		0	1	0
Older People's Care							
Homecare In-House Provision	Finalised	13/05/10	Satisfactory	23/09/2010	3	1	1

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
Learning Disabilities							
Sec 75 Agreement (Funding of LD Services)	Finalised	6/10/10	Satisfactory		0	2	0
Mental Health Service							
Mental Health Service	Finalised	29/06/10	Limited	Follow up in progress	0	8	1
ICT Contracted Days							
IT Risk Management	Finalised	29/06/2010	Satisfactory	19/11/10	0	0	0
IT Disaster Recovery	Finalised	14/04/10	Limited	Follow up in progress	1	3	0
CRM Application (Onyx)	Finalised	24/12/09	Limited	Nov 2010	0	0	0
Environmental Services Application	Finalised	25/08/09	Limited	29 th June 2010	1	6	1
Oracle Financials	Finalised	29/06/2010	Satisfactory	Nov 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	Nov 10	0	0	0
FINANCE & RESOURCES							
Payroll	Finalised	06/08/09	Satisfactory	Nov 10	0	1	0
General Ledger	Finalised	17/06/09	Satisfactory	Nov 10	0	0	0
Payroll Expenses Procedures	Finalised	23/12/08	Limited	Feb 10	1	0	0
Pensions Admin	Finalised	07/01/09	Satisfactory	Nov 10	0	1	0
Commercial Properties	Finalised	11/09/08	Satisfactory	March 2010	-	2	-
ENVIRONMENT & CONSUMER PROTECTION							
Business Continuity & Emergency Planning	Finalised	08/06/09	Limited	Aug 2010	1	0	0
PLANNING & COMMUNITY SERVICES							
S106 Planning Gain	Finalised	15/06/09	Satisfactory	Aug 2010	1	0	1
IT Audits							
IT Physical and Environmental Security	Finalised	25/03/09	Satisfactory	Nov 2010	0	1	0
Helpdesk Application	Finalised	05/03/09	Satisfactory	Aug 2010	0	1	0
Remote Access (ICT)	Finalised	29/7/09	Satisfactory	Sep 2009	0	2	0
Northgate Application Review	Finalised	25/03/09	Satisfactory	Follow up in progress	0	1	1
Ocella Application Review	Finalised	April 09	Limited	July 2010	0	2	0
IT Data Security and Transfer (from Contingency)	Finalised	26/03/09	Limited	August 2010	0	1	0
Email Security and Management	Finalised	27/05/09	Limited	Nov 2010	0	1	0

✓ for
Finalised/Satisfactory/Full
⇒ for in progress
⇩ for Limited

Key

Audit Title	Status	Assurance Level	Number of outstanding recommendations			Comments
			High	Med	Low	
PLAN 2007-8						
ADULT SOCIAL CARE, HEALTH & HOUSING						
Private Sector Leasing	✓	✓	1	1	1	Followed up as part of Feb 2010 audit – Revised dates Dec 2010
FINANCE & RESOURCES						
ICT						
Website Content Management System	✓	✓	0	0	0	Followed up November 2010
Business Continuity Planning	✓	✓	0	2	0	2 nd Follow up August 2010 – revised date Dec 2010
FINANCE AND RESOURCES						
Securicor Collection	✓	⇩	1	0	0	Follow up November 2010 – revised date April 2011

THE PROCESS TAKEN FOR AN AUDIT INVESTIGATION BY INTERNAL AUDIT

To receive an oral report from the Head on Internal Audit and Enforcement.

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INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Contact: Paul Whaymand
Telephone: 01895 250353

REASON FOR REPORT

From 2010/11, Local Authorities' Statement of Accounts is 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 quarterly since September 2009.

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.

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 is 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.

The Audit Commission released a report in October 2010, based on a survey carried out in July 2010, stating that:

- 41% of Authorities were on track overall with IFRS
- 43% on track regarding their IFRS Lease classifications
- 64% on track to ensure their Employee Benefit treatments were IFRS compliant.

Hillingdon has remained on track in each key area mentioned in the report.

Progress Update

Guidance issued by CIPFA suggested that that Local Authorities should have their draft restated accounts completed by the end of December 2010. Hillingdon completed their draft IFRS accounts by the middle of November. They were then submitted to Deloitte for audit review.

An oral report on the progress of the Deloitte audit review will be given at the meeting. To date, Deloitte have carried out a significant amount of work on auditing the IFRS accounts, covering all the key areas related to the

restatement, and have been satisfied with the IFRS work thus far and have found no material issues. The audit review work is not yet complete relation to contracts and the identification of any embedded leases, where some further testing is required.

Deloitte's review encompassed Leases and Employee Benefits, and a number of other key areas, and confirms that the Council is ahead of the CIPFA timetable and on course for full IFRS implementation.

Next Steps

Work has now commenced on the componentising of assets which will be completed shortly and will then be reviewed by Deloitte in the New Year.

In addition work has commenced to value transport and infrastructure assets, required for the 2011/12 accounts. A working group has been set up to implement the changes.

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

	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	Meeting with External Auditors Prior to Audit Committee	
	Integration of Hillingdon Homes back into LBH	
	Training Session on the process taken for an audit investigation	Head of Audit
	Internal Audit Progress Report and plan amendments	Head of Audit
	Conversion to International Financial Reporting Standards (IFRS)	Director of Finance
	Deloitte Annual Audit Letter	Deloitte
	Treasury Management Strategy Statement and Investment Strategy 2011-12 to 2013-14	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
	Anti-Fraud and Corruption Strategy	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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27 June 2011 (Provisional)		
	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
	Update on IFRS	Director of Finance
	Head of Audit Annual Assurance Statement and opinion	Head of Audit
	Interim Use of Resources Assessment	Director of Finance/Deloitte
	Audit Committee Work Programme	Democratic Services Manager
	Audit committee Annual Report to full council	Head of Audit

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

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