



HILLINGDON  
LONDON



## Audit Committee

### Members on the Committee

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

**Date:** THURSDAY, 10 MARCH  
2011

**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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Published: 2 March 2011

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<http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CIId=256&MIId=664&Ver=4>

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## **This Committee**

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

## **Terms of Reference**

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

### **Statement of Purpose**

The purpose of Audit Committee is to:

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

### **Audit Activity**

The Audit Committee will:

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

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

### **Regulatory Framework**

The Audit Committee will:

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

### **Accounts**

The Audit Committee will:

1. Review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and

whether there are concerns arising from financial statements or from the auditor that need to be brought to the attention of the Council.

2. Consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

# Agenda

- 1 Apologies for absence and to report the presence of any substitute Member
- 2 Declarations of Interest in Matters coming before this meeting
- 3 Minutes of the previous meeting - 15 December 2010 (**Page 1-6**)
- 4 Exclusion of Press and Public  
To confirm that all items marked Part I will be considered in public and that any items marked Part II will be considered in private.
- 5 Deloitte - Annual Grant Audit Letter (**Pages 7-22**)
- 6 Deloitte - 2010/11 Annual Audit Plan (**Pages 23-64**)
- 7 Delivering the Annual Governance Statement (AGS) 2010-11 (**Pages 65-66**)
- 8 Internal Audit Progress Report (**Pages 67-94**)
- 9 Internal Audit Strategy (**Pages 95-98**)
- 10 Internal Audit Operational Plan 2011/12 (**Pages 99-106**)
- 11 Review of Internal Audit Terms of Reference (**Pages 107-112**)
- 12 Balances and Reserves Statement 2011/12 (**Pages 113-130**)
- 13 Report on the Revisions to the Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14 (**Pages 131-134**)
- 14 Proposal to Hold a Training Session to Review the Effectiveness of Internal Audit and other Training Matters
- 15 Changing Legislation and Current Issues
  - Revision to Accounts and Audit Regulations 2003 (**Pages 135-136**)
  - CIPFA publication – The role of the Head of Internal Audit in Public Service Organisations
- 16 Work Programme 2010/11 (**Pages 137-140**)

## **PART II**

- 17 Internal Audit Progress Report - PART II (**Pages 141-142**)
- 18 Risk Management Report 2010/11 - Quarter 3 - PART II (**Pages 143-157**)

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## Minutes

### Audit Committee

Wednesday, 15 December 2010

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



HILLINGDON  
LONDON

	<p><b>Independent Member:</b> John Morley (Chairman)</p> <p><b>Members Present:</b> Councillors George Cooper, Raymond Graham, Phoday Jarjussey and Richard Lewis.</p> <p><b>Apologies:</b> None.</p> <p><b>Officers Present:</b> James Lake (Investment Manager), Harry Lawson (Corporate Accounting Manager), Nancy Le Roux (Senior Finance Manager – Corporate Finance), Jay Nandhra (Audit Manager), Christopher Neale (Director of Finance &amp; Business Services), Helen Taylor (Head of Internal Audit and Enforcement), Paul Whaymand (Head of Accounting) and Khalid Ahmed (Democratic Services Manager).</p> <p><b>Others Present:</b> Heather Bygrave (Deloitte), Mark Pickering (Arlingclose Limited) and Bridget Scheuber (Arlingclose Limited).</p> <p>The Chairman reported that Members had held a scheduled private meeting with the external auditors (Deloitte) prior to this meeting.</p>
31.	<p><b>DECLARATIONS OF INTEREST</b></p> <p>Councillor Richard Lewis declared a Personal Interest in Agenda Item 7 – Deloitte – Annual Audit Letter as he was a Member of the Pensions Committee. He remained in the room and took part in discussions on the item.</p> <p>Councillor George Cooper declared a Personal Interest Agenda Item 7 – Deloitte – Annual Audit Letter as Hillingdon House Farm was in his ward. He remained in the room and took part in discussions on the item.</p> <p>Councillor George Cooper declared a Personal Interest in Agenda Item 9 – Internal Audit Progress Report as his wife was a Governor of Charville Foundation Primary School. He remained in the room and took part in discussions on the item.</p>

32.	<p><b>MINUTES OF THE MEETING HELD ON 21 SEPTEMBER 2010</b></p> <p>Agreed as an accurate record.</p>	
33.	<p><b>EXCLUSION OF THE PRESS AND PUBLIC</b></p> <p>It was agreed that Agenda Item 13 – Internal Audit Progress Report be considered in private.</p>	
34.	<p><b>TRAINING AND GUIDANCE ON TREASURY MANAGEMENT STRATEGY</b></p> <p>Mark Pickering and Bridget Scheuber from Arlingclose Limited, the Council’s Treasury Advisors, attended the meeting and provided Members with a training session.</p> <p>The training session covered the interest rate outlook, what is Treasury Management, the roles and responsibilities of Members, managing credit risk, Hillingdon’s approach to Treasury Management and key questions for scrutiny.</p> <p>Members were informed that Arlingclose had a very much “hands on” approach to Treasury Management and any material change or impact which would affect the Council, was immediately communicated to the Council.</p> <p><b>Resolved –</b></p> <ol style="list-style-type: none"> <li>1. That the training and guidance provided by Arlingclose be noted and officers be thanked for their attendance.</li> </ol>	<p><b>Action By:</b></p>
35.	<p><b>TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2011-12 TO 2013-14</b></p> <p>Members were informed that the Treasury Management Strategy was reviewed annually and would be submitted to Council on 24 February 2011 for approval. The strategy for 2011/12 had been written with the assistance of Arlingclose, the Council’s Treasury Advisors, and the strategy had been developed to increase the range of permitted investment vehicles, to allow a greater diversity of investments, whilst maintaining a high degree of caution.</p> <p>Reference was made to Balances and Reserves which were estimated at £11.4m for 2013/14, which was a substantial drop from the £17.4m for 2010/11. Members were informed that the Reserves Policy would be reported to the Committee in March 2011.</p> <p>The Council’s Cumulative Net Borrowing Requirement / Investments may double over the plan period to £93.7m for 2013.</p>	



	<p>statement of assurance to the National Audit Office on the Council's consolidation return for the purposes of the Whole of Government Accounts</p> <ul style="list-style-type: none"> <li>• Grants Certification – no issues were identified in the grants certified to date, however, it was likely that the Housing and Council Tax Benefits grant claim, which had yet to be completed, would be qualified, however that was not unusual for this claim.</li> <li>• Deloitte had 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.</li> </ul> <p>Members were reminded that at the last meeting of this Committee it was agreed to ask the Pensions Committee to consider the recommendation from the external auditors on an issue relating to a Review of Fund Managers' internal control reports. This had been undertaken.</p> <p>The Committee congratulated the Council's finance officers on their excellent performance as detailed in the audit by Deloitte.</p> <p><b>Resolved –</b></p> <ol style="list-style-type: none"> <li>1. That the information contained in the Deloitte Annual Audit Letter be noted.</li> </ol>	
37.	<p><b>INTERNAL AUDIT AND HILLINGDON HOMES TRANSFER BACK TO THE COUNCIL</b></p> <p>Members were provided with the background to the transfer back to the Council and were informed that internal audit services had been provided to Hillingdon Homes by Mazars but this contract had ended in October 2010.</p> <p>The Council had always continued to be accountable for strategic housing activity and Internal Audit within LBH had obtained assurance on the control environment within Hillingdon Homes by relying on Mazars' internal audit work.</p> <p>Hillingdon Housing's Senior Management Team had agreed with Mazars to defer five audits when the housing service was transferred back to the Council. Internal Audit had requested all files produced by Mazars during their course of their audits. Members were informed that some audit files were still being sought from Mazars.</p> <p>It was agreed that if these files had not been received from Mazars by February 2011, Mazars be invited to attend the next meeting of this Committee to provide an explanation.</p>	Helen Taylor

	<p><b>Resolved –</b></p> <p>1. That the information reported be noted.</p>	<p><b>Action By:</b></p>
<p>38.</p>	<p><b>INTERNAL AUDIT PROGRESS REPORT</b></p> <p>The Head of Internal Audit and Enforcement reported that based on the work undertaken from September 2010 to 19 November 2010; there were no significant causes for concern at this time with levels of assurance. 9 audits of which two were schools, received no or limited assurance in the current report, but there were plans in place to address the weaknesses identified.</p> <p><b>Financial Management Standard in Schools (FMSiS) –</b> Members were informed that the implications of the decision that schools were no longer required to meet the Financial Management Standard in Schools was that the work which Internal Audit undertook was no longer required. Members were advised that it was anticipated that Internal Audit would lose around £15,000 a year in income as a result of this. Concern was expressed at the extra responsibility this now placed with School Governors and the potential lack of financial controls which may exist with some schools. The Head of Audit and Enforcement provided assurance that there would still be a high level of Audit and Finance involvement in schools and that the principles of FMSiS were the standards that internal audit had always sought from schools</p> <p><b>Blue Badges –</b> The Head of Internal Audit and Enforcement updated Members on this audit and Members were informed that the objective of the audit was to ensure that the Blue Badge Scheme was administered efficiently, effectively and economically. Details of the control improvements required were reported and Members were assured that most of the recommendations had been actioned.</p> <p>Discussion took place on the service which Internal Audit provided and whether management within Council service areas relied too heavily on Internal Audit for financial controls. Members considered that Heads of Services should take more responsibility for financial controls within their areas.</p> <p><b>Home Care in House Provision –</b> Members noted that there were a number of outstanding recommendations with this audit and it was agreed that the Director of Adult Social Care, Health and Housing be invited to the next meeting of this Committee, should these recommendations not be implemented.</p> <p><b>Resolved-</b></p> <p>1. That the in year progress against the Internal Audit Plan</p>	

	for 2010/11 and the updated position of those audits undertaken in the previous three years be noted.	<b>Action By:</b>
39.	<b>THE PROCESS TAKEN FOR AN AUDIT INVESTIGATION BY INTERNAL AUDIT</b>  This item was deferred to the next meeting of the Committee.	
40.	<b>CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)</b>  Members were provided with a progress report on the implementation of International Financial Reporting Standards. Hillingdon was on track in each key area.  <b>Resolved-</b>  1. That the report be noted.	
41.	<b>WORK PROGRAMME 2010/11</b>  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.	
42.	<b>INTERNAL AUDIT PROGRESS REPORT</b>  The report on this item was included in Part II as it contained information relating to the financial or business affairs of any particular person (including the Authority holding that information) and the public interest in withholding the information outweighed the public interest in disclosing it (exempt information under paragraph 3 of Part 1 of Schedule 12 A to the Local Government (Access to Information) Act 1985 as amended.  <b>Resolved –</b>  1. That the information contained in the report be noted.	
	<b>Meeting closed at: 7.15pm</b> <b>Next meeting: 10 March 2011 at 5.00pm</b>	

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

## DELOITTE - ANNUAL GRANT AUDIT LETTER

**Contact Officer:** Nancy Leroux  
**Telephone:** 01895 250353

### SUMMARY

This report provides a summary of the key findings on the grant work undertaken by Deloitte for the year ended 31 March 2010.

### RECOMMENDATIONS

The committee is asked to note the report.

### INFORMATION

The attached report addressed to the Audit Committee on 2010 Grant Certifications has been completed by the Council's external auditors Deloitte to communicate the key issues arising from their 2009/10 grant certification work.

The key findings of the report were:

1. All grants were submitted and certified by the required deadline.
2. As a result of errors identified during the audit of the grant claims adjustments were made to 4 grant claims prior to certification.
  - NNDR Return
  - Teachers' pension return
  - Hillingdon Workmates
  - Hillingdon Lido

The adjustments all related to compilation errors on the claim forms. Two of these adjustments exceeded £10,000, but neither resulted in a change to the overall entitlement of the claim.

3. A qualification letter was issued in respect of the Housing and Council Tax Benefits Scheme. A high level comparison of the number of errors with 2009/10, when only 2 errors were discovered which did not require further testing, identified 8 errors all of which required some additional testing. The total value of the claim was £150.6m

The total fees charged for the grant certification work was £155,364, compared to £136,768 last year. Of this fee, £100,304 relates to the housing and council tax benefits claim.

Audit Committee 10 March 2011  
PART 1 – MEMBERS, PUBLIC & PRESS

## **LEGAL IMPLICATIONS**

There are no legal implications arising from this report.

## **BACKGROUND PAPERS**

None



**London Borough of Hillingdon**

**Report to the Audit Committee  
on the 2010 Grant Certifications**

**Final Report**

**Issued 14 February 2011**

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# Executive summary

We have pleasure in setting out in this document our key findings from our grant audit work of the London Borough of Hillingdon (“the Council”) for the year ended 31 March 2010. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

<b>Certification deadlines</b>	All of the grants we reported on for the year ended 31 March 2010 were certified by the required deadline.
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<b>Amended/qualified grant claims</b>	<p>As a result of errors identified through the performance of our procedures, adjustments were made to four grant claims prior to certification; these adjustments all related to compilation errors on the claim forms. Only two of these adjustments were greater than £10,000 and none of the adjustments resulted in a change to the overall entitlement of the claim.</p> <p>In addition to the adjustments noted above, a qualification letter was issued in respect of the housing and council tax benefit scheme grant.</p> <p>The Council also requested that we undertake procedures on a grant claim which was outside of our Audit Commission framework contract. We completed the required procedures and issued a modified audit report on this grant.</p> <p>See Section 2 for more details.</p>
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<b>Certification information</b>	Total fees charged in respect of the work performed on the 13 grants (2009: 12 grants) certified by Deloitte were £155,364 (2009: £136,768). Section 3 of this report sets out the fees charged on each of the 13 grants we certified; and summarises the value of the grant and the results of our audit work.
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# 1. Introduction

## **Purpose of this report**

This letter is addressed to the Audit Committee of the Council and is intended to communicate key issues arising from our 2009/10 grant certification work. This Letter will be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and should also be posted on the Council's website.

## **Our responsibilities**

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

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

Auditors presented with any claim or return that is not covered by a certification instruction should refer the matter to the Audit Commission for advice. If the Audit Commission has formally declined to make certification arrangements for a scheme, an auditor cannot act in any capacity. However, if the Audit Commission has not formally declined to make arrangements, the auditor can decide to act as a reporting accountant.

Any claims that we are asked to certify outside of the Audit Commission framework contract will be subject to a separate engagement letter between Deloitte, the Council and any other party who will be relying on the results of our grant audit work. This engagement letter sets out the responsibilities of all parties involved in the engagement, the scope of our work and our terms of business.

## **The scope of our work**

Auditors appointed by the Audit Commission are required to:

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

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

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

## 2. Amended/qualified grant claims

### Amended claims under the Audit Commission framework contract

As a result of errors identified through the performance of procedures agreed between the Audit Commission and the grant paying body, adjustments were made to four grant claims prior to certification. Although two of the adjustments were greater than £10,000, the errors related to form compilation and the errors did not result in a change to the overall entitlement claimed by the Council.

#### LA01 – National non-domestic rates (“NNDR”) return

<p><b>Adjustment details</b></p>	<p>During the audit of the main Council accounts, one test undertaken was to agree the NNDR arrears debtor of £9.2m shown on the grant claim form to the NNDR arrears debtor shown in the accounts.</p> <p>At the date of our grants audit the accounts showed a NNDR arrears debtor of £12.8m which had been audited as part of the main Council accounts audit with no issues noted. We investigated the difference and this indicated that the accounts were correctly stated and that £3.6m of NNDR over payments had been incorrectly deducted from the NNDR arrears debtor on the NNDR grant claim.</p> <p>The NNDR arrears debtor on the grant claim form does not link into any other figures on the grant claim form or affect the amount of grant the Council is able to claim; and the instructions we receive from the Audit Commission do not require us to undertake any work on the NNDR arrears debtor as part of our grant audit. This means that we would have been able to issue an unqualified report on the NNDR grant claim form regardless as to whether the Council amended the NNDR arrears debtor or not.</p>
<p><b>Deloitte response</b></p>	<p>We discussed the error with the Council and the Council chose to amend the grant claim form to reflect the £12.8m NNDR arrears debtor shown in its accounts. In our return submitted to the Audit Commission we reflected the fact that the grant claim form had been amended but that no numerical amendment was made to the overall entitlement on the grant claim form.</p>

#### PEN05 – Teachers’ pension return (“TPR”)

<p><b>Adjustment details</b></p>	<p>Our procedures on the audit of the TPR identified compilation errors on the initial grant claim form that was provided for audit: the original grant claim form included a transposition error and Part C of the grant claim form had not been completed by the Council. Neither of these errors impact on the overall grant entitlement.</p>
<p><b>Deloitte response</b></p>	<p>We discussed the errors with the Council and the Council chose to amend the grant claim form to reflect the errors noted in the audit. In our return submitted to the Audit Commission we reflected the fact that the grant claim form had been amended but that no numerical amendment was made to the overall entitlement on the grant claim form.</p>

## 2. Amended/qualified grant claims (continued)

**RG31 – Workmates – West London working personal advice and outreach (“Hillingdon Workmates”); and**

**RG31 – Hillingdon LIDO/ Hillingdon sports & leisure centre (“Hillingdon LIDO”)**

<p><b>Adjustment details</b></p>	<p>Our procedures on the Hillingdon Workmates statement of grant expenditure (“SGE”) identified that income of £40,000 that had been received by the Council before the Council had signed the SGE, had incorrectly been excluded from the SGE. This error had no effect on the total grant claimed by the Council.</p> <p>Our procedures on the Hillingdon LIDO SGE identified one minor typographical error on the SGE. This error had no effect on the total grant claimed by the Council.</p>
<p><b>Deloitte response</b></p>	<p>We discussed the error on the Hillingdon Workmates grant with the Council and the Council chose to amend the grant claim form to reflect the £40,000 income that had been received.</p> <p>We discussed the error on the Hillingdon LIDO grant with the Council and the Council chose to amend the grant claim form to reflect the minor typographical error.</p> <p>In our return submitted to the Audit Commission we reflected the fact that both grant claim forms had been amended but that no numerical amendments were made to the overall entitlement on either of the grant claim forms.</p>

## 2. Amended/qualified grant claims (continued)

### Qualified claims under the Audit Commission framework contract

In addition to the adjustments noted above, a qualification letter was issued in respect of one grant, BEN01 – Housing and council tax benefits scheme (“BEN01 grant”).

A high level comparison of the number of errors with 2009/10 indicated that, in 2009/10 we only identified 2 errors on the BEN01 grant, neither of which required additional workbook testing or extrapolation. In 2010 we identified 8 errors on the BEN01 grant and 2 of these errors required additional workbook testing and extrapolation calculations.

Additional testing was also required on the other 6 errors to ascertain whether the errors were isolated or would require inclusion in the qualification letter. We undertook additional work on all of these errors and were able to conclude that all but three of the errors were isolated, the details on which have been included in the table below. As a result of these 3 errors a qualification letter was issued highlighting the following issues to the grant paying body in accordance with the grant certification instructions:

#### BEN01 – Housing and council tax benefits scheme

##### Qualification details

- 1) Our testing on private tenants rent allowances identified 4 errors (2008/9: 1 error) where benefit had been underpaid. As the error related to underpaid benefit there is no eligibility to subsidy and no amendment to the claim form was made as the values stated in the BEN01 claim correctly reflect the payments which have been made to the claimant. Where errors are identified in our initial testing we are required by the Audit Commission to undertake prescriptive additional testing; additional testing on 40 cases enabled us to conclude that this type of error was isolated. Discussion with the Council confirmed that this error would be adjusted in the 2010/11 grant return by the Council and hence did not require qualification in 2009/10. However, during the additional testing the Council identified 8 further errors which predominantly related to changes in tax credits not being updated onto the system and the miscoding of backdated expenditure. The result of these errors was an overstatement of the grant of £477.85. The Council informed us of the overall value of these errors but no further testing was undertaken by us on this type of error and we have not corroborated the value of these errors. The Council was not able to demonstrate that these errors were isolated and therefore we extrapolated the error across the rent allowances population of £78,678,281 to give a total extrapolated overstatement of £96,012. Given the nature of the population and the variation in the errors found, it is unlikely that additional work would have resulted in amendments to the BEN01 claim form that would have allowed us to conclude that it was fairly stated.

## 2. Amended/qualified grant claims (continued)

### BEN01 – Housing and council tax benefits scheme (continued)

<p><b>Qualification details (continued)</b></p>	<p>2) Our testing on council tax benefit identified 1 case where benefit had been underpaid by £8.89 due to a software deficiency applying pension credit income from the incorrect date.</p> <p>As the error related to underpaid benefit there is no eligibility to subsidy. There has been no amendment to the BEN01 claim form as the values stated in the BEN01 claim form correctly reflect the payments which have been made to the claimant. We understand that the software deficiency will be corrected by Northgate in 2010/11 although as yet we understand that there is no confirmed date for this.</p> <p>We extended our testing in order to conclude on whether this was an isolated error. The Council produced a report from its Northgate system which indicated that there were 950 cases in the year in which claimants had pension credit changes. The Council reviewed 40 of these cases and this review indicated 7 further cases with a system deficiency with overpayments on 3 of these cases. The Council was unable to quantify the population value of the 950 cases and we therefore used our sample population of £62,730 to extrapolate the overpayment error of £2.04 across the council tax benefit population of £24,665,768 which resulted in an extrapolated error of £802.</p> <p>3) Our testing of non HRA rent rebates identified 1 case where benefit had been underpaid by £166.30 as a result of the Council omitting to include working tax credits and a dependent applicable amount from the benefit calculation. We undertook additional testing but were unable to conclude that the error was isolated.</p> <p>As the error related to underpaid benefit there is no eligibility to subsidy and we have not extrapolated the error. No amendment to the BEN01 claim form was made as the error related to underpaid benefit and the BEN01 claim form correctly reflected the amount paid to the claimant.</p>
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## 2. Amended/qualified grant claims (continued)

### Modified claims outside of the Audit Commission framework contract

In addition to the grants we have certified under our Audit Commission framework contract, the Council requested that we undertake agreed upon procedures on one additional grant, Gateway Heathrow 2012: Local Workforce Recruitment (ESF-2007-2010 Round 2) (“Gateway grant”).

Gateway grant	
<b>Modification details</b>	<p>The Gateway grant is a London Development Agency (“LDA”) single programme grant which aims to assist individuals in finding work around the Heathrow Airport area. As this grant is outside of the Audit Commission framework contract we signed a tripartite agreement with the LDA and the Council setting out the exact procedures that we were required to undertake on the Gateway grant claim form, the Statement of Output Delivery and Expenditure (“SODE”); this agreement also provided the form of our report to the Council and the LDA.</p> <p>The report required us to give an opinion on whether the grant was fairly stated and to include details of any of the agreed upon procedures which we were not able to complete.</p> <p>We reported that the SODE was fairly stated subject to the following observations:</p> <ul style="list-style-type: none"><li>• At the time of testing the expenditure, 2 out of 5 timesheets were not available to view; and</li><li>• Our testing of outputs identified an under claim of £200 in relation to a skills development output for one individual.</li></ul> <p>No amendments were made to the Gateway grant claim form on the basis of materiality.</p>

### 3. Certification information

Our work on the Council grant audits for the year ended 31 March 2010 is now complete and the table below summarises the results of this work and our billings by grant claim. Under the Audit Commission framework agreement we bill our grant work on a time incurred basis. Significant differences on fee when compared to the 2009 are explained beneath the table.

Certification instruction	Claim/ return	2010 value of claim (£)	2010 results of audit work	2010 audit fee (£)	2009 audit fee (£)
BEN01	Housing and council tax benefits scheme	150,612,180	Qualified	100,304 *	55,000
CFB06	Pooling of housing capital receipts	4,951,296	Satisfactory	3,373	3,690
EYC02	Sure start, early years and childcare	9,576,622	Satisfactory	4,460	5,325
HOU01	HRA subsidy	-10,570,548	Satisfactory	2,953 **	13,500
HOU02	HRA subsidy base data return	N/A	Satisfactory	4,213 **	18,400
LA01	National non-domestic rate return	299,056,297	Amended	10,958	13,788
PEN05	Teachers' pension return	18,341,411	Amended	7,655	6,000
RG31	Single programme LDA – Hillingdon LIDO/ Hillingdon sports & leisure centre	525,000	Amended	2,761	2,925
RG31	Single programme LDA – Workmates – West London working persona advice and outreach	40,000	Amended	2,761	2,925
RG31	Single programme LDA – London Youth Offer	219,260	Satisfactory	2,761	2,925
RG31	Single programme LDA – Childcare Affordability Programme 05	117,785	Satisfactory	2,760	2,925
HOU21	Disabled facilities	1,530,000	Satisfactory	3,320 **	9,365
Gateway	Single programme LDA - Gateway Heathrow 2012: Local Workforce Recruitment (ESF-2007-2010 Round 2)	308,609	Modified	7,085 ***	-
<b>TOTAL</b>				<b>155,364</b>	<b>136,768</b>

### 3. Certification information (continued)

\* The audit fee on the BEN01 grant has increased since 2009. The main reasons for this are:

- We received two letters from the Department of Work & Pensions (“DWP”) in 2010 which meant that additional work on the BEN01 grant was required. Although one letter related to 2009, due to the timing of when we received the letter, work on this was included within our 2010 fee. Work on both the letters was completed by a senior manager.
- In 2009 we only identified 2 errors on the BEN01 grant, neither of which required additional workbook testing or extrapolation. In 2010 we identified 8 errors on the BEN01 grant. Under our Audit Commission contract we are required to undertake additional prescriptive testing when we identify errors. 2 of the 8 errors errors required additional workbook testing and extrapolation calculations. Additional testing was also required on the other 6 errors to ascertain whether the errors were isolated or would require inclusion in the qualification letter.
- We have discussed the grant billing with Management at the Council and have agreed to provide monthly cost summaries and progress updates on a grant by grant basis. We believe that this will enable increased efficiencies during 2010/11.

\*\* The audit fee on the HOU01, HOU02 and HOU21 grants has decreased since 2009. The main reasons for this are:

- In accordance with the tests on the certification instructions set out by the Audit Commission, in 2009 we undertook detailed testing on the HOU01, HOU02 and HOU21 grants. Where controls around grant claim form preparation are satisfactory, this detailed testing is done on a rotational basis. Our testing of controls indicated that detailed testing was not required in 2010.
- In 2009 the HOU02 grant was re-certified by the Council which resulted in additional costs being incurred to audit the re-certification.

\*\*\* The Gateway grant is outside of our Audit Commission framework contract and was a grant we were requested to audit for the first time in 2010.

# 4. Independence

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

<b>Confirmation</b>	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised. If the Audit Committee wishes to discuss matters relating to our independence, we would be happy to arrange this.
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<b>Non-audit services</b>	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non audit services or of any apparent breach of that policy.
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## 5. Responsibility statement

This letter has been discussed and agreed with the Chief Executive and Director of Finance of the Council. A copy of the letter will be presented at the Audit Committee on 10 March 2011.

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

### **Deloitte LLP**

Chartered Accountants

Birmingham

14 February 2011

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

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

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

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

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## DELOITTE – 2010/11 ANNUAL AUDIT PLAN

**Contact Officer:** Nancy Leroux  
**Telephone:** 01895 250353

### SUMMARY

The attached document sets out the initial plans for the audit of the Statement of Accounts 2010/11 by Deloitte. The format of the plan follows that prescribed by the Audit Commission for external audit work. The plan sets out the approach to the audit and a broad timetable which should enable the whole process to be completed by early September. A separate audit plan has been produced for the pension fund audit, which is also attached.

### RECOMMENDATIONS

The committee is asked to note the report.

### REASONS FOR OFFICER RECOMMENDATIONS

The Committee needs to be made aware of the plans for the audit of the 2010/11 accounts.

### COMMENT ON THE CONTENT OF THE PLAN

**Materiality:** The expected level of materiality, calculated on the basis of gross expenditure for the full year, will be £7.295m. Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.365m.

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

- Property valuations
- Valuation of Pension liability
- Recognition of revenue grant income
- Bad debt provisions for sundry debt
- IFRS transition risks
  - Capital grants
  - Lease accounting
  - Holiday pay and flexi accounting
  - Segmental reporting

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

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

## **COMMENT ON THE CONTENT OF THE PENSION FUND AUDIT PLAN**

**Materiality:** Materiality is calculated on the basis of the net assets of the fund but is restricted to the materiality established for the audit of the Council's financial statements as a whole, which for 2011 is £7.3m (2010 £6.0m). Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.4m (2010 £0.3m).

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

- Contributions
- Calculation of Benefits
- Unquoted Investment Vehicles
- IFRS implications

## **TIMETABLE**

The main timetable remains unchanged with the deadline for draft accounts being 30 June and the audit opinion due by 30 September 2011.

## **FEES**

The estimated level of fees for the 2010/11 audit is £359,155 for the main audit and £36,500 for the pension fund audit.

## **LEGAL IMPLICATIONS**

There are no legal implications arising from this report.

## **BACKGROUND PAPERS**

None



## London Borough of Hillingdon

Report to the Audit Committee on  
the Audit for the year ending 31  
March 2011

Planning Report

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# Executive summary

We have pleasure in setting out in this document details of our proposed audit scope for London Borough of Hillingdon for the year ending 31 March 2011.

Description	Detail
<p><b>Audit scope</b></p>	<p>Our audit will be carried out in accordance with the Audit Commission's Code of Audit Practice 2008. Our primary audit responsibilities are also summarised in the "Briefing on Audit Matters" paper which was circulated to you with our 2009/10 audit plan issued in February 2010. In summary, under the Audit Commission's Code of Audit Practice we have responsibilities in two main areas:</p> <ul style="list-style-type: none"> <li>• the financial statements and the Annual Governance Statement; and</li> <li>• aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul> <p>The Council will need to prepare accounts under International Financial Reporting Standards ("IFRS") for the first time for the year ended 31 March 2011. A number of the key audit risks we have identified below relate to transition issues.</p> <p>The Audit Commission have made changes to the scope of work to be performed on use of resources following the abolition of the Comprehensive Area Assessment and in response to issues facing local authorities in the current funding environment. The work we are required to perform to support our conclusion in this area will focus on the Council's arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness.</p> <p>The audit of the Council's Local Government Pension Scheme is covered by a separate audit plan and will be issued independently.</p>
<p><b>Materiality</b></p>	<p>Materiality levels are calculated on the basis of gross expenditure. We estimate materiality based on expected results to be £7,295k (2009/10, £7,083k). We will report to the Audit Committee on all individual unadjusted misstatements which are greater than £365k, (2009/10, £354k) or are qualitatively material and in aggregate on all other unadjusted misstatements.</p>

# Executive summary (continued)

<b>Key audit risks</b>	<p>The key audit risks which we have identified as part of our overall audit strategy are:</p> <ol style="list-style-type: none"><li><b>1. Valuation of property</b><p>The Council has a substantial portfolio amounting to £1,312,743k at 31 March 2010. Properties are normally revalued every five years under a rolling programme. The valuation is sensitive to judgements on key assumptions.</p></li><li><b>2. Valuation of the gross pension liability</b><p>This continues to be an audit risk in view of the size of the liability (£414,519k in the prior year) and complexity of judgements in this area. Recent changes to key actuarial assumptions including the move from the use of the Retail Price Index (RPI) to the Consumer Price Index (CPI) as the principal measure of inflation also need to be considered.</p></li><li><b>3. Recognition of revenue grant income</b><p>Accounting for revenue grants can be complex as the timing of recognition will depend on the scheme rules.</p></li><li><b>4. Completeness of bad debt provision for sundry debt</b><p>The sundry debt balance, which was £24,364k at 31 March 2010, includes a number of sub-categories of debt. The bad debt provisions for sub-categories are based on different judgements and assumptions.</p></li></ol> <p>There are a number of key differences between the UK GAAP based Statement of Recommended Practice (SORP) and the International Financial Reporting Standards (IFRS) based Code. We have identified the following as IFRS transition risks:</p> <ol style="list-style-type: none"><li><b>5. IFRS transition risk: accounting for capital grants</b><p>The transition to IFRS will require changes to the accounting for capital grants.</p></li><li><b>6. IFRS transition risk: lease accounting</b><p>This is a key difference both in terms of the identification of leasing arrangements and their classification and consequent accounting treatment.</p></li><li><b>7. IFRS transition risk: holiday pay and other compensated, short-term absences</b><p>The Council did not previously make provision for such absences under the SORP. Some authorities have experienced difficulties in capturing information on utilisation of entitlements needed to estimate the accrual.</p></li><li><b>8. IFRS transition risk: segment reporting</b><p>A number of judgements need to be made in identifying reportable segments. The Council will also need to present information in different formats and disclose reconciliations between these.</p></li></ol>	Page 8
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# Executive summary (continued)

<b>Prior year uncorrected misstatements</b>	<p>The cumulative effect of uncorrected misstatements identified in the 2009/10 audit would have resulted in a £38k credit to the income and expenditure account and a £562k decrease in net assets.</p> <p>These misstatements related to:</p> <ul style="list-style-type: none"> <li>• Pension asset values - the difference between estimated and actual.</li> <li>• Asylum seekers grant - recognition of direct cost recovery.</li> <li>• Housing and Benefit subsidy debtor provision - potential overstatement.</li> </ul>	N/A
<b>Timetable</b>	<p>The main deadlines remain unchanged with 30 June for draft accounts and 30 September for the audit opinion. We will carry out the work on the accounts audit in two main visits. We will carry out our planning and interim audit visit in March 2011 and our final audit visit from the start of July 2011. We will issue our formal report to the Audit Committee on the audit at their meeting in September 2011. We will issue our audit report as soon as practicable following that meeting.</p> <p>We also expect the audit deadline for the Whole of Government return to be close to 30 September 2011.</p>	Page 16
<b>Independence</b>	<p>Deloitte has developed important safeguards and procedures in order to ensure our independence and objectivity.</p> <p>These are set out in the “Independence policies and procedures” section of our Briefing on audit matters document issued in February 2010.</p> <p>We will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2011 in our final report to the Audit Committee.</p>	N/A
<b>Fees</b>	<p>Our proposed fee for the 2010/11 audit (excluding the audit of the pension scheme annual report and fees in connection with the certification of grant claims and including fees in respect of the statement of accounts, the value for money conclusion and the whole of government accounts return) is £359,155 (2009/10, £367,500). This is in line with the Audit Commission’s scale rates.</p> <p>The reduction reflects scope changes which are discussed further in Section 2.</p> <p>We note that an element of the proposed fee takes account of the additional requirements of the first year implementation of International Financial Reporting Standards.</p> <p>The audit of the Council’s Local Government Pension Scheme is covered by a separate audit plan and will be issued independently. Details covering expected grant fees will also be communicated separately.</p>	Page 18
<b>Matters for those charged with governance</b>	<p>We have communicated to you separately in our publication entitled “Briefing on audit matters” those additional items which we are required to report upon in accordance with International Standards on Auditing (UK &amp; Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements.</p>	Publication provided separately.

# 1. Scope of work and approach

## Overall scope and approach

We will conduct our 2010/11 audit in accordance with the Audit Commission's Code of Audit Practice 2008 and other guidance issued by the Audit Commission.

We have responsibilities in two main areas:

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

We are also asked to provide an assurance statement on the Council's consolidation pack for Whole of Government Accounts purposes and to carry out procedures under instruction from the Audit Commission to certify grant claims and other returns on behalf of the Audit Commission.

## Financial statements and statement on corporate governance

We will conduct our work on the accounts in accordance with International Standards on Auditing (UK and Ireland) ("ISA plus") as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts we intend to issue will reflect the financial reporting framework adopted by the Council, being the Code of Practice on Local Authority Accounting ("the Code") which is based on International Financial Reporting Standards ("IFRS"). This is a change from last year when the accounts were required to be prepared in accordance with the Statement of Recommended Practice for Local Authorities 2009 (the "Local Government SORP" or the "SORP") which was based on generally accepted accounting practice in the United Kingdom ("UK GAAP").

For the 2010/11 financial statements, we will use the latest estimates of gross expenditure on services as the benchmark for our materiality assessment as this benchmark is deemed to be a critical component of the financial statements for the Council. We have determined a preliminary materiality of £7,295k (2009/10 £7,083k). This figure takes into account our knowledge of the entity, our assessment of audit risks and the reporting requirements for the financial statements. The concept of materiality and its application to the audit approach are set out in our Briefing on audit matters document.

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

# 1. Scope of work and approach (continued)

## Value for money conclusion

The Audit Commission has advised that in 2011 there will be a new approach to value for money (VFM) work at bodies previously subject to a use of resources (UoR) assessment.

For 2010/11, the auditors' statutory VFM conclusion will be based on the following two criteria:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2011
<b>The organisation has proper arrangements in place for securing financial resilience.</b>	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.
<b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b>	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The extent of the work required will be determined by our VFM risk assessment. We will continue to discuss with officers the detailed approach to the work as the Audit Commission's guidance is published.

## Whole of Government Accounts consolidation pack

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

## 2. Key audit risks

Based upon our initial assessment, we will concentrate specific effort on the significant audit risks set out below:

### Valuation of property

**Properties are normally revalued every five years under a rolling programme. The valuation is sensitive to judgements on key assumptions**

The Council has a substantial portfolio of properties, amounting to £1,312,743k at 31 March 2010, which is subject to a rolling revaluation programme. Some of the properties require the application of specialist valuation assumptions. The credit crunch has affected property values, generally, and the Council has recorded gains and losses over the last three years. We understand the Council will be valuing Council Dwellings and Community assets in the current year as well as a number of completed buildings.

#### Deloitte response

We will evaluate the Council's arrangements for updating market values and the qualifications, relevant experience and independence of specialists utilised to carry out valuations and review the reasonableness of key assumptions.

The accounting treatment for impairment/revaluation losses under the Code differs to past practice under the SORP, with all impairment losses on re-valued assets to be recognised in the Revaluation Reserve up to the amount in the Reserve for each respective asset. We will check compliance with the Code in this respect, including any restatement of prior period amounts.

### Valuation of the gross pension liability

**This continues to be an audit risk in view of the size of the liability and the complexity of judgements in this area**

The pension liability relating to the pension scheme is substantial and its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment. There have also been changes announced by the Government to the key assumptions which need to be considered including the move from the use of the Retail Price Index (RPI) to the Consumer Price Index (CPI) as the principal measure of inflation.

#### Deloitte response

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

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

### Recognition of revenue grant income

**Grant income should be recognised based on the scheme rules**

Accounting for grant income can be complex as the timing for recognising income in the accounts will depend on the scheme rules for each grant. A number of revenue grants which previously had restrictions on use have now been relaxed and so there is a risk that these revised scheme rules have not been taken into account in terms of accounting treatment.

#### Deloitte response

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



## 2. Key audit risks (continued)

### Completeness of bad debt provisions for sundry debt

**Provisions continue to be an area of focus due to their judgemental nature**

The sundry debts balance, which was £24,364k at 31 March 2010, includes a number of different sub-categories of debt, all of which have different methodologies for calculating the level of provision required. By nature, provisions are judgemental but should be based on sound assumptions and robust methodologies.

**Deloitte response**

We will review the Council's methodologies and assumptions used to calculate the sundry debt provision and the evidence collected by officers to support its approach. We will consider whether provisions appropriately reflect the impact of the current economic conditions by reference to recent collection performance and trends.

The risks noted below represent key differences between the UK GAAP based Statement of Recommended Practice (SORP) and the International Financial Reporting Standards (IFRS) based Code in place for the current financial year. We have already performed some testing on this transition and will report to the Audit Committee when our procedures are complete.

We have identified the following as IFRS transition risks where we will perform specific testing:

### IFRS transition risk: accounting for capital grants

**The transition to IFRS will require changes to the accounting for capital grants**

The Code sets out changes to the accounting for grants and contributions related to capital expenditure. As part of the restatement to International Financial Reporting Standards (IFRS) exercise, Management will need to undertake a review of grants and contributions unapplied at 1 April 2009, together with grants received but not applied subsequently, to ascertain whether there are any conditions attached to the grant or contribution.

**Deloitte response**

We will review documentation relating to the process carried out by the Council to review grant offer letters and related records and arrangements over the preparation and review of journals needed to restate the opening balance sheet and comparative information. We will test an extended sample of grants and contributions to check they have been accounted for in accordance with the Code.

### IFRS transition risk: lease accounting

**This is a key area of difference between the SORP and the new IFRS based Code – both in terms of the identification of leasing arrangements and their classification and consequent accounting treatment**

The 2009 SORP amended the previous accounting requirements for the Private Finance Initiative (PFI) and similar contracts to come into line with IFRS in 2009/10.

This year, with full IFRS implementation, the Council is required to review its leases against IFRS criteria and assess whether they should be categorised as operating or finance leases and account for them accordingly.

**Deloitte response**

We will review documentation prepared by officers which shows how they have concluded whether leases are classified as operating or finance leases. We will review accounting analysis papers on the accounting treatment for leases identified.

## 2. Key audit risks (continued)

### IFRS transition risk: holiday pay and other compensated, short-term absences

**The Council did not previously make provision for such absences under the SORP. Some authorities have experienced difficulties in capturing information on utilisation of entitlements needed to estimate the accrual**

Under the Code, the Council will need to make provision for the first time for compensated, short-term absences such as annual leave and flexitime.

This will require the Council to determine the amount and value of individuals' entitlement accrued up to the 31 March each year which has not been used by that date. A number of authorities have experienced difficulties in capturing data needed to estimate the accrual.

**Deloitte response**

We will consider the systems used to collect data to support the calculation. We will also test other assumptions used in the calculation.

### IFRS transition risk: segment reporting

**A number of judgements need to be made in identifying reportable segments. The Council will also need to present information in different formats and disclose reconciliations between these**

Under the Code, the Council will need to disclose an analysis of income and expenditure for each reportable segment (a subjective analysis), with segments drawn up to reflect the structure of financial information reported internally to the "chief operating decision maker".

The Council will also need to disclose:

- a reconciliation between the internal segmental reporting analysis (the subjective analysis) and the net cost of services in the Comprehensive Income and Expenditure Statement, analysed under the Best Value Accounting Code of Practice (BVACOP);
- a reconciliation between the internal segmental reporting analysis and total income and expenditure; and
- an analysis of assets and liabilities by reportable segment, where this information is reported regularly to the "chief operating decision maker".

Under the SORP 2009, the Council was not required to prepare a subjective analysis within the statutory accounts, but was required to do so in its reporting to the Treasury for Whole of Government Accounts purposes.

**Deloitte response**

We will focus our work on reviewing the Council's rationale for the reportable segments it has identified and the reconciliation between the different analyses of its income and expenditure which it is required to prepare and disclose.

# 3. Consideration of fraud

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

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

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

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

We will be seeking representations in this area from the RFO in due course.

# 3. Consideration of fraud (continued)

## Management override of controls

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

- Having understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, test the appropriateness of a sample of such entries and adjustments. We will utilise our computer audit specialists to extract a report of journals posted in 2010/11 and to analyse this information using computer audit techniques to identify journals with features which may be indicative of fraud.
- A review of accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management. We will also perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements.

We will focus on impairment allowances against balances with customers and outstanding statutory charges; and obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Council and its environment.

We are also required to presume that there are risks of fraud in revenue recognition and conduct our audit testing accordingly (unless the presumption is rebutted). For further information see Key audit risks in section 2.

# 4. Internal control

## Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters" circulated to you as part of our prior year audit plan issued in February 2010 for controls considered to be 'relevant to the audit' we are required to evaluate the design of the controls and determine whether they have been implemented ("D & I").

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

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

## Liaison with internal audit

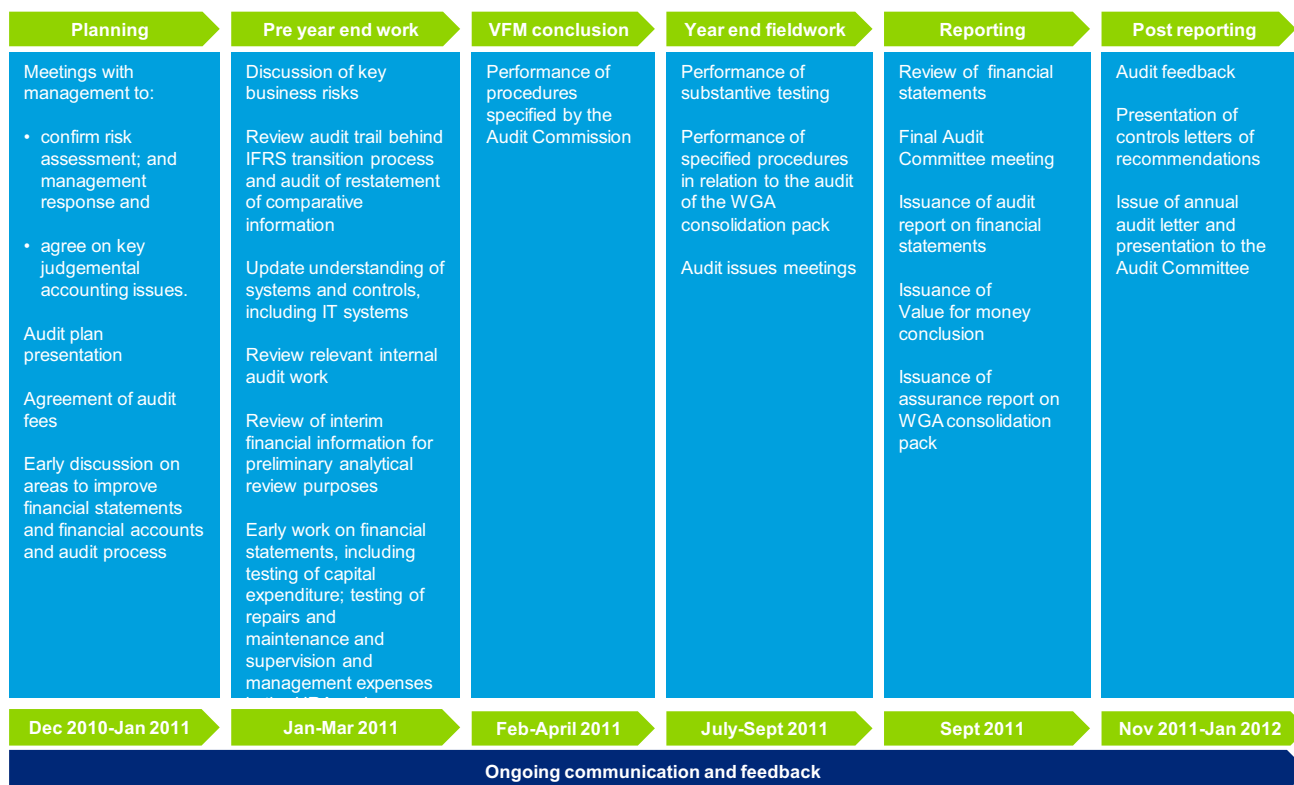
We have agreed with the Council's Chief Internal Auditor, that in the coming year, the external auditors will liaise with the Council's internal audit function on a constructive and complementary basis to maximise our combined effectiveness and eliminate duplication of effort. This co-ordination will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

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

- discussion of the work plan for internal audit; and
- where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work.

# 5. Timetable

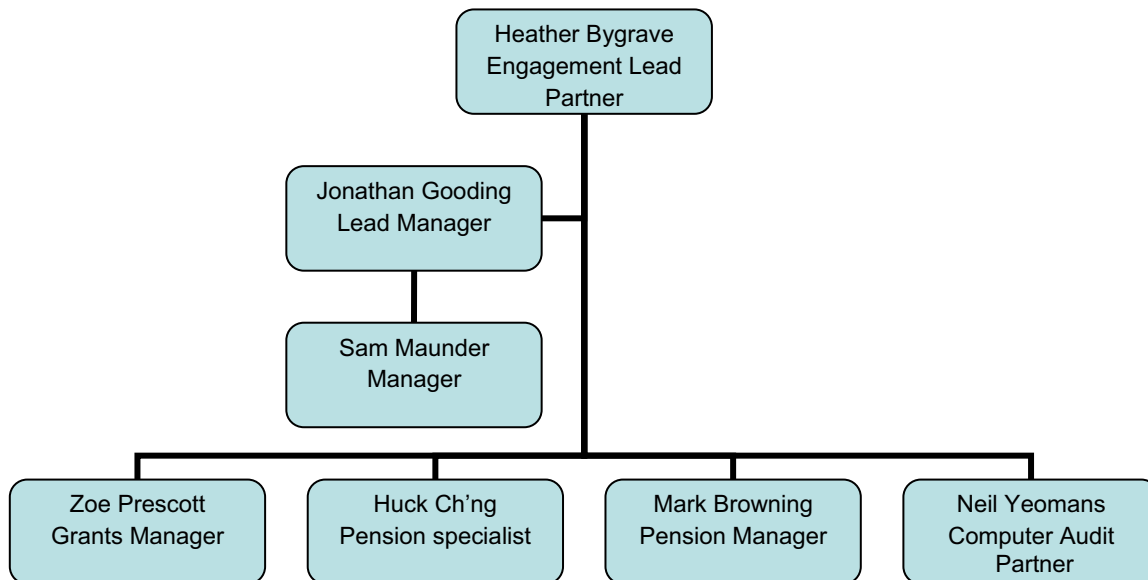
Set out below is the approximate expected timing of our reporting and communication with the Audit Committee.





## 6. Client service team

We set out below our audit engagement team.



Heather Bygrave has replaced Gus Miah as Engagement Lead Partner. Heather has been introduced to the Audit Committee at the meeting in December 2010. Heather has also met with responsible officers and the core finance team.



# 7. Responsibility statement

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

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in February 2010 and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to Members and our final report on the audit will not necessarily be 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 Members of 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

24 February 2011

# Appendix 1: Analysis of professional fees

We summarise below our proposed audit fees as discussed with management, including details of any scope changes:

£	Audit of financial statements	2009/10 VFM conclusion and 2010/11 use of resources work for the CAA (abolished)	2010/11 value for money conclusion	WGA	Total	Pension scheme
2009/10	302,000	60,000	-	5,500	<b>367,500</b>	38,000
<b>2010/11</b>	<b>**324,000</b>	-	29,655	5,500	<b>359,155</b>	36,500

**Note 1** - The Audit Commission publishes a work programme and scales of fees. The scale fee represents the Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and the audited body has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes. The scale fee for Hillingdon Council (excluding pension scheme audit), based on gross cost of services in 2009/10, uplifted for an assumed inflation rate of 1.5% in 2010/11, is £383,500. Our proposed fee is lower than that expected by the Audit Commission.

**Note 2\*\*** - An increment has been added in respect of the implementation of International Financial Reporting Standards is based on the Audit Commission's recommended uplift of 6% of the total audit fee. We note that the Audit Commission has undertaken to pay you a subsidy towards the cost of the increment in respect of IFRS.

**Note 3** – In line with the Audit Commission's recommendation we have not made any adjustment to the fee for inflation.

**Note 4** - In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified in respect of 2009/10.

**Note 5** - In setting the audit fee we have assumed:

- you will inform us of significant developments impacting on our audit;
- there are no additional audit risks to those set out in section 2 of this report;
- Internal Audit meets the appropriate professional standards and undertakes the audits set out in their agreed plan with testing covering the whole of the financial year;
- management will provide good quality working papers and records to support the financial statements by the agreed start date for the audit;
- management will provide draft financial statements for the agreed start date of the audit which are complete and of a good standard;

# Appendix 1: Analysis of professional fees (continued)

- management will provide the draft pension scheme annual report by the agreed start date for the accounts audit to enable the work on that to be carried out contemporaneously with the audit work on the pension scheme information in the statement of accounts;
- management will provide a consolidation pack for WGA purposes which audit trail for mapping to the statutory accounts and is properly prepared in accordance with Treasury guidance;
- management will provide requested information within three working days unless indicated that the request is more complex or time consuming;
- management will provide prompt responses to draft reports;
- management will provide a detailed commentary on status of recommendations together with supporting documentation and
- a self assessment will be prepared for the use of resources assessment, including compilation of supporting documentation.

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

**Note 6** - Our fee in respect of use of resources/value for money conclusion represents fees for the work we expect to carry out to support our 2010/11 value for money conclusion during the current financial year. We have not identified any significant risks in relation to our value for money conclusion.

**Note 7** - The fee for the audit of the pension scheme reflects the Audit Commission's fee scale in respect of 2010/11, uplifted for additional risk.

**Note 8** - Our fee charged in respect of the certification of claims and returns will be based on the time spent on each claim using the fee rates applicable to the certification of grant claims and published by the Audit Commission for different levels of staff. We will provide an estimate once the composition of the grants programme for 2010/11 is known.

**Note 9** – Drivers Jonas Deloitte has submitted a proposal to the Council to monitor the delivery of a building contract for the expansion of six primary schools. If successful in this proposal, we do not consider this to compromise our independence as external auditors to the Council. We have written to the Audit Commission to request approval to undertake this work.

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**London Borough of  
Hillingdon**

**Report to the Audit Committee  
and Pensions Committee**

**Audit Plan for the 31 March 2011  
year end Pension Fund Audit**

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# Executive summary

We have pleasure in setting out in this document details of our proposed audit scope for the London Borough of Hillingdon Pension Fund for the year ending 31 March 2011.

## Audit scope

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

Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Audit Commission in relation to the audit of pension funds.

However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Council and cover issues relating to the pension fund.

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

## Materiality

We calculate materiality on the basis of the net assets of the fund, but have restricted this to the materiality established for the audit of the Council's financial statements as a whole. We estimate materiality for the year to be £7.3 million (2010: £6 million). We will report to the Pensions Committee on all unadjusted misstatements greater than £0.4 million (2010: £0.3 million) unless they are qualitatively material. Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Council's financial statements.

# Executive summary (continued)

<b>Key audit risks</b>	<p>The key audit risks which we have identified as part of our overall audit strategy are:</p> <ol style="list-style-type: none"><li>1. Unlike the position in the private sector, we are not required to issue a separate statement on contributions. Nevertheless, in view of the complexity arising from the participation of different admitted bodies within the fund, together with changes to the fund introduced from April 2008 which mean that members may pay different rates depending on their pensionable pay, we have included the identification, calculation and payment of contributions as areas of specific risk.</li><li>2. There are a number of complexities to the calculation of both benefits in retirement and ill health and death benefits introduced by changes to the local government pension fund last year. We will perform testing to verify that the calculation of benefits is in accordance with the Scheme rules.</li><li>3. The pension fund in the past has made some use of investments in unquoted investment vehicles which can give rise to complexities in accounting, disclosure and measurement. There are four new fund managers in the year and the transfer of fund and transition will be an area of focus. We will review the internal control reports of the fund managers and verify how the Pensions Committee has satisfied itself of the controls at the fund manager.</li><li>4. The Code of Practice on Local Authority Accounting sets out how Local Government Pension Schemes should be applying International Financial Reporting Standard (IFRS). This has some application for the Fund.</li></ol>
<b>Prior year uncorrected misstatements and disclosure deficiencies</b>	<p>There were no significant unadjusted misstatements or uncorrected disclosure deficiencies reported to you in respect of the 2009/10 accounts.</p>
<b>Timetable</b>	<p>The timetable is set out in Section 5. The fieldwork will be carried out at the same time as our work on the Council's financial statements. We plan to finalise our audit report included within the Pension Fund Annual Report at the same time as that included in the Council's accounts.</p>



# Executive summary (continued)

<b>Independence</b>	<p>Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity.</p> <p>These are set out in the “Independence policies and procedures” section included at Appendix 1.</p> <p>We will reconfirm our independence and objectivity to the Audit Committee and Pensions Committee for the year ending 31 March 2011 in our final report to the Audit Committee and Pensions Committee. We have discussed our relationships with the Council in our separate audit plan for the audit of the Council’s financial statements.</p>
<b>Fees</b>	<p>We set out an estimate of our fees in a letter to the Council issued in July 2010. Since then we have agreed the fee estimate of £36,500 (2010: £38,000), this is accordance with the Audit Commission guidance.</p>
<b>Matters for those charged with governance</b>	<p>The “Briefing on audit matters”, previously circulated to you, includes those additional items which we are required to report upon in accordance with International Standards on Auditing (UK &amp; Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements.</p>
<b>Engagement Team</b>	<p>Heather Bygrave will lead the audit and will be supported by Mark Browning. Heather is also the lead audit partner for London Borough of Hillingdon. Both Heather and Mark have significant experience in the audit of pension schemes.</p>

# 1. Scope of work and approach

## **Overall scope and approach**

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

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

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

Our audit objectives are set out in our “Briefing on audit matters” document, as previously circulated to you.

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

For pension fund statements, we have initially considered the net assets of the fund as the benchmark for our materiality assessment as this benchmark is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. However, we have restricted our estimate of materiality to the amount set for the Council’s financial statements as a whole, which is £7.3 million. Our separate audit plan for the audit of the Council’s financial statements includes further information on how we derived this estimate. The concept of materiality and its application to the audit approach are set out in our Briefing on audit matters document.

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

# 1. Scope of work and approach (continued)

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

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

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

Our audit objectives are set out and explained in more detail in our “Briefing on audit matters” document, as previously circulated to you.

## 2. Key audit risks

Based upon our initial assessment we will concentrate specific audit effort in 2010/11 on the following areas:

### Contributions

#### **Audit Risk**

Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS. However, this remains a material income stream for the pension fund and in view of the complexity introduced by the participation of more than one employer in the fund, together with the introduction of the new benefit structure with its tiered contribution rates; we have identified this as a specific risk.

#### **Deloitte response**

We will perform tests of controls in this area in order to take a controls reliance approach for our substantive audit testing. We will perform procedures to ascertain whether employer and employee contributions have been calculated, scheduled and paid in accordance with the schedule.

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## 2. Key audit risks (continued)

### Benefits

#### Audit Risk

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

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

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

#### Deloitte response

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

## 2. Key audit risks (continued)

### Investment Assets

#### Audit Risk

- The pension fund makes some use of investments in unquoted investment vehicles, like private equity houses. Nationally, a number of such investment vehicles have suffered significant losses over the last two years. Private equity funds are complex to value and include an element of judgement on the part of the investment manager. Given that these funds form a material balance within the pension fund accounts, we have identified the valuation of these funds as a specific risk.
- There are four new investment managers in the year and the transition of fund and management of these funds from one to the other is identified as a specific risk.

#### Deloitte response

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

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

- As there are four new fund managers in the year we will need to verify the correct transfer of funds between the fund managers to ensure there were no errors in the transition.

We will perform standard procedures like obtaining direct investment confirmations and reviewing the internal control reports of these fund managers. We will also gain an understanding of the Pension Committee review over these internal control reports to verify how it satisfies itself over the controls in place at the fund managers.

We will also review the updated Statement of Investment Principles (SIP) to ensure investments have been made in line with these.

## 2. Key audit risks (continued)

### International Financial Reporting Statements (IFRS)

#### Audit Risk

The Code of Practice on Local Authority Accounting sets out how Local Government Pension Schemes should be applying International Financial Reporting Statements (IFRS). The main implications for the Hillingdon Pension Fund are as follows:

- requirement for actuarial present value of promised retirement benefits to be disclosed – with three options for disclosure:
  - Option A - in the Net Asset Statement disclosing the resulting deficit or surplus;
  - Option B – in the notes to the Financial Statements; or
  - Option C – by referring to the actuarial information in an accompanying actuarial report.
- additional note disclosures required around the actuarial position of the fund and the significant actuarial assumptions made; and
- additional note disclosure requirements in IFRS 7, in relation to financial instruments disclosures, to report on the risks to which financial instruments expose the entity.

#### Deloitte response

We will review the additional disclosures in the Pension Fund accounts for compliance with the Code of Practice on Local Authority Accounting.

### 3. Consideration of fraud

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

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

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

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

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



# 3. Consideration of fraud (continued)

## **Management override of controls**

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

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

## 4. Internal control

### **Obtaining an understanding of internal control relevant to the audit**

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

### **Liaison with internal audit**

We will be meeting with Helen Taylor, the Council's Head of Internal Audit and Corporate Governance, and agree on a constructive and complementary liaison between the external auditors and the Council's internal audit function, to maximise the combined effectiveness and eliminate duplication of effort. This co-ordination will enable us to derive full benefit from the Council's internal audit functions, their systems documentation and risk identification during the planning of the external audit.

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

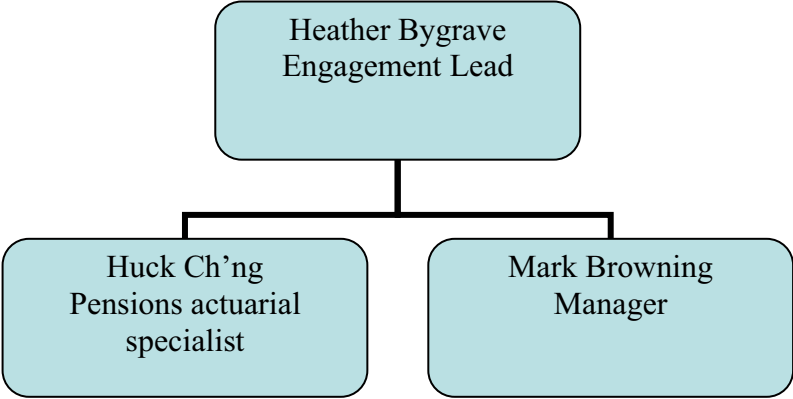
## 5. Timetable

		2010		2011											
		Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
<b>Management</b>	Prepare plan based on discussions with management														
	Early discussion of Council's approach to risks areas														
	Performance of detailed planning and controls work														
	Feedback on outcome of interim procedures														
	Audit fieldwork/audit issues meetings														
	Review of pension fund annual report														
	Preparation of our report on the 2010/11 audit														
<b>Audit Committee and Pensions Committee</b>	Audit plan														
	Report to the Audit Committee & Pensions Committee on the 2010/11 accounts audit														

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

# 6. Client service team

We set out below our Pension scheme audit engagement team.



# 7. Responsibility statement

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

This report should be read in conjunction with the “Briefing on audit matters” and sets out those audit matters of governance interest which came to our attention during the audit to date. Our audit was not designed to identify all matters that may be relevant to members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

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

**Deloitte LLP**  
Chartered Accountants

St Albans  
February 2011

# Appendix 1: Analysis of professional fees

We summarise below our proposed audit fees as discussed with management, including details of any scope changes:

	Pension scheme Audit
2009/10	£38,000
<b>2010/11</b>	<b>£36,500</b>

**Note 1** - We have not made any adjustment to the fee for inflation in line with the Audit Commission's recommendation.

**Note 2** - In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified in respect of 2009/10.



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## **Delivering the Annual Governance Statement (AGS) 2010-11**

Contact Officer: Rob Mackenzie-Wilson  
Telephone: 01895 277830

### **SUMMARY**

1. The London Borough of Hillingdon is required to prepare an Annual Governance Statement (AGS) to meet its responsibilities for safeguarding public money and managing business functions in accordance with the Accounts and Audit Regulations 2011. The Council also has a duty under the Local Government Act 2003 to conduct a continuous assessment and improvement of business functions and demonstrate Economy Efficiency and Effectiveness.
2. The council is utilising the existing framework developed over the past three years to evaluate the management of internal controls, risk and control assurances across all services. This will conclude with a formal statement outlining overall performance and any measures needed to address identified weaknesses as part of the Statement of Accounts. The Corporate Governance Working Group (CGWG) will provide leadership and support to compile the 2010-11 AGS

### **REASON FOR REPORT**

3. This report sets out the statutory requirements for publishing an Annual Governance Statement and the management information used to review the control environment.

### **RECOMMENDATION**

4. Members are invited to note the sources of management information and assurance used to produce the AGS.

### **BACKGROUND INFORMATION**

#### AGS Requirements

5. Under regulation 4(2) of the Accounts and Audit Regulations 2011 the London Borough of Hillingdon is required to review and report annually on the effectiveness of its systems of internal control. Following the review the relevant body or committee must approve the statement
6. The AGS is the process for self-assessing the council's management of internal controls systems across all services, with the publication a formal statement outlining overall performance and measures needed to address any identified risks. This framework combines assessment of governance arrangements and risk controls, making it a holistic approach towards conducting an annual internal review that relates to the whole organisation.

Audit Committee 10 March 2011  
PART 1 – MEMBERS, PUBLIC & PRESS

## Progress on the AGS 2010-11

7. The AGS will combine a broad range of management information and assurances from across the council and external sources. The key sources contributing to the AGS include:
  - Performance management & data quality information
  - Risk Management processes
  - Legal and regulatory assurance
  - Financial control assurances
  - Service delivery assurances from directors and Heads of service
  - Annual Internal Audit report and assurance
  - External inspection reports and assurances
8. The Corporate Governance Working Group will guide and oversee to guide delivery of the AGS. The group will ensure that key changes to governance arrangements and control systems are reported, review actions against control weaknesses identified in the AGS 2009-10 and highlight cross-council assurance sources.
9. Cross-council assurance statements are a central component of the AGS. In discharging this accountability senior officers are responsible for putting in place proper risk management processes and internal controls to ensure proper stewardship of resources. Group Directors and Heads of Service are required to submit assurance statements by the 1<sup>st</sup> April 2011.
10. The 2010-11 AGS will be presented to the Audit Committee in June 2011 for comments and approval.

## Internal Audit Progress Report

**Contact Officer:** Helen Taylor  
**Telephone:** 01895 556132

### REASON FOR ITEM

This report provides the Audit Committee with a summary of Internal Audit (IA) activity in the period from 20 November 2010 to 31 January 2011. 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. There are no significant causes for concern at this time with the levels of assurance being reported to the committee. Only one audit, a junior school, received Limited assurance in the current report and plans are in place to address the weaknesses identified. All other audits had Satisfactory assurance with one audit having Full Assurance.

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.

**Healthy Hillingdon** – The Health and Social Care Bill is currently passing through Parliament and this legislation intends to abolish Primary Care Trusts (PCTs) and transfer local health improvement functions from PCTs to local authorities. It would also give local authorities responsibilities for coordinating the commissioning of local NHS services, social care and health improvement. With these major changes coming in, the audit has been deferred until 2011/12.

**Carbon Reduction Strategy** –The Government has announced changes to the Carbon Reduction Commitment Scheme (CRC) which will delay implementation until 2012.

**Utilities – Water** – This audit was included in the 2010/11 plan as it was anticipated that management would have implemented an action plan that had a dedicated focus on reducing water usage within the borough agreed following the 2009-10 audit. In planning the 2010-11, it became clear that the recommended actions would not be fully in place until March 2010. The audit has therefore been deferred until 2011-12.

**Primary Schools** – 5 schools, Belmore Primary, Charville Primary, Harlyn Primary, Field End Junior and Hillside Junior were audited in 2009-10 and were erroneously included in the plan reported to audit Committee in March 2010. Time allocated was utilised in a major investigation.

**Taxes Management Act** – Generally Her Majesty's Revenues and Customs request certain information from local authorities under the Taxes Management Act 1970 on an annual basis. However, no information was requested in 2010-11. We have had no indication that HMRC will require this information in future years and have therefore removed it from the audit universe.

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

**Agency Car Mileage** – Added as there were concerns over how agency car mileage claims were checked and authorised.

**Estate Services Contracts** – This audit was included in the Hillingdon Homes plan by their internal auditors but was outstanding when Housing Management returned to the Council.

**Court Costs** – Added as there were concerns about the receipt of legal costs.

**Building Control and Land Charges** – The Head of ICT and Business Services requested a review of key processes within both Building Control and Land Charges. The information will be used as an input into the service's BID process.

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

2.8. Summaries of the outcomes of the audits completed in the period are provided below.

**Audit Title: Extended Schools****Assurance level:** Satisfactory

Extended Services are organised directly by the school, in partnership with private or voluntary sector providers, to meet the needs of children, families and the local community. All schools within London Borough of Hillingdon (LBH) are required to provide access to a 'core offer' of Extended Services. The core offer is made up of five elements: childcare, a varied menu of activities, swift and easy access to targeted and specialist services, parenting support and community access to facilities (adult learning, ICT and sports facilities).

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

- All extended services collaboratives are governed by a Steering Group;
- All collaboratives have produced a delivery plan which details the impact of each activity provided by each partner school within the collaborative;
- All partner schools have demonstrated there is an accurate audit trail for requesting, banking and recording funds received from the collaborative;
- All partner schools maintain accurate records of expenditure.

Improvements are needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed Target Date</b>
Approval of delivery plans should be discussed and minuted by the Steering Group to ensure the needs of pupils are met.	High	31/12/10
Progress reports should be formulated by the Extended School Co-ordinator to inform Governors about the ongoing costs of providing Extended Services activities.	Medium	31/12/10
Staff supervising Extended Services activities should complete and sign an 'hour's worked form' to ensure the hours claimed are correct and necessary. If claim forms are not completed it would be difficult to hold persons accountable for duties which have not been performed.	Medium	31/12/10

**Audit Title: Children's Centres****Assurance level:** Satisfactory

Children's Centres are funded by the Sure Start grant. To receive funding, each Children's Centre Manager (CCM) is required to complete a quarterly financial return which details forecasted expenditure, this is then approved by the Extended Services Team. There is uncertainty as to whether the council will receive the Sure Start grant for 2011/12 or whether this funding will be sent directly to schools within the Borough.

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

- All children's centres are governed by an advisory board;
- All children's centres have produced a delivery plan which details each activity provided and how it will benefit the local community;
- Petty cash systems in place were effective and accurate;
- Income is collected and recorded accurately.

Improvements are needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed Target Date</b>
Approval of delivery plans should be discussed and minuted by the Advisory Board to ensure the needs of residents are met.	High	31/12/10

#### **Audit Title: Street Cleansing**

**Assurance level:** Satisfactory

Local authorities have a statutory duty under Section 89 of the Environmental Protection Act 1990 to ensure that any relevant highway or land for which they are responsible is kept clear of litter and refuse.

The service uses a combination of both mechanical and manual sweepers to clean the highways and major shopping areas and empty litter and dog fouling bins across the borough. In addition, it provides a 24 hour emergency service to remove debris following road traffic accidents and a rapid response for the removal of reported drug related litter.

The objective of the audit was to ensure streets are cleaned efficiently, effectively and economically.

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

- Cleansing regime of scheduled roads
- Roles and responsibilities of cleansing service team
- Cleaning code of practice
- Benchmarking
- Training

Improvements are needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed Target Date</b>
--------------------------------------	-------------	---------------------------

The Supervisors should record all the daily inspections carried out as documentary evidence. This will confirm inspections are being carried out to ensure the cleaning meets the required standard.	High	31/01/11
A formal systematic approach should be employed when assessing and implementing the street cleansing needs of the borough land to ensure efficient, effective and economical use of resources.	Medium	31/03/11
A Street Cleansing Strategy should be produced to ensure the council's stated priorities and objectives are met in an efficient and effective manner.	Medium	31/03/11

**Audit Title: McMillan Early Childhood Centre**

**Assurance level:** Satisfactory

We identified some additional control issues specific to McMillan Early Childhood Centre and our findings and recommendations were outlined in a separate report to them.

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

- McMillan Early Childhood Centre have produced a delivery plan which details each activity provided and how it will benefit the local community
- Overtime claims were reasonable and authorised appropriately

Improvements are needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed Target Date</b>
The advisory board for McMillan Early Childhood Centre should meet termly to ensure progression and development of the centre continues to be reviewed and challenged.	High	30/06/11
McMillan Early Childhood Centre should complete and update their delegation mandate to ensure there is a clear segregation of duties and the potential risk of fraud is decreased.	Medium	31/01/11
The new Children's Centre Manager at McMillan Early Childhood Centre should ensure that all expired and overdue staff CRB certificates are renewed.	Medium	31/03/11
Official order forms should be used for all purchases to ensure only valid purchases are being made and the commitments are captured and recorded against the budget	Medium	31/12/10

at the earliest opportunity.

**Audit Title: Information Assurance and Security**

**Assurance level:** Satisfactory

A vast amount of data is stored within and flows into or out of LBH and it should be handled securely, legally and in accordance with council policies. In the absence of robust information security arrangements confidential information could be lost exposing the council to, financial penalties and loss to reputation.

The objective of the audit was to evaluate the adequacy of risk management and control within the system and the extent to which controls had been applied.

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

- The council has developed a range of information security related policies which have been published and made available on horizon.
- The council has employed a number of means to promote the information security awareness amongst its staff, including: polices on horizon, verbal advice form ICT, council wide emails, and information within the induction pack for new staff.
- A documented process is in place for reporting actual or potential information security breaches.

Improvements are needed to address risks in the following areas:

<b>Control improvements required</b>	<b>Risk</b>	<b>Agreed Target Date</b>
Management should ensure that the process for reviewing and updating the councils' information security policies is documented. A control document or matrix should be established recording the complete range of information security policies in existence, their owners and the precise date of the update and when the next review is due. This should ensure all information security policy documents will be reviewed and updated in a timely manner, so that they do not become out of date or out of step with the latest business and technological developments affecting the council.	Medium	March 2011
Management should consider undertaking a comprehensive data mapping exercise to identify confidential or sensitive data to ensure all threats and vulnerabilities to council handled data have been adequately identified and addressed.	Medium	June 2011
Management should ensure that a central register of	Medium	March 2011



information/data security breaches is maintained, including non-compliance with the policy. It should be reviewed regularly for particular patterns of risk exposure that could indicate recurring weaknesses in the Councils systems or a lack of staff awareness of security matters. This will ensure that all recurring weaknesses, lack of awareness of information security threats and staff responsibilities are identified and dealt with effectively.

**Audit Title:** HR Payroll – Starters and Leavers  
**Assurance level:** Full Assurance

**The London Borough of Hillingdon has a large number of starters and leavers each year and it is essential that adequate and effective processes are in place to manage changes to the workforce.**

The overall objective of the audit is to ensure that starters and leavers are processed efficiently and effectively.

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

- Salary information on the new starters form reconciled to that on ResourceLink.
- All information required for new starters was present in the respective personnel files.
- Leaving dates on the leaver forms reconciled to the dates on ResourceLink.
- Salary Payments ceased on the last day of service for leavers.
- HR notified Payroll of starters and leavers via the “People’s Payroll” email to ensure timely communication and processing of information.

**Agency Car Mileage** – We checked a sample of car mileage claims submitted by agency staff and were pleased to report that the controls in place were satisfactory. The only area for improvement that was recommended was for HR to consider providing formal, written guidance on agency staff mileage and expense claims.

**Children’s Performance Licence Review** – The Council received a formal complaint from a resident. We were asked to review a specific case and the general processes. We did not find any officer error and no major control weaknesses were identified, but we have made some minor recommendations to improve processes.

**Engineering Consultancy Fees** - This review was carried out at the request of the Corporate Director for Planning, Environment and Community Services following concerns about the high costs of these fees for a zebra crossing scheme. Our review found that there was a calculation error in one of the cost elements which meant it was estimated at around 3 times its real value. Management have checked the rest of

the projects for the current year and confirm that this was a one-off error. However, we are currently planning an audit in this area and will be evaluating the adequacy of the controls I place to ensure that fees are correct.

### Schools' Audits

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

2010/11	Assurance Level
<b>Schools - Primary</b>	
Minet Junior	Limited
Rabbs Farm Primary	Satisfactory
Brookside Primary	Satisfactory
Lady Bankes Junior	Satisfactory
St Andrew's Primary	Satisfactory
West Drayton Primary	Satisfactory
<b>Schools - Special</b>	
Grangewood	Satisfactory

### 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 from 79% to 73%.

AUDIT TITLE	DATE ORIGINAL REPORT ISSUED	HIGH	MEDIUM	LOW		IMPLEMENTED - HIGH	IMPLEMENTED MEDIUM	IMPLEMENTED - LOW		NOT IMPLEMENTED HIGH	NOT IMPLEMENTED MEDIUM	NOT IMPLEMENTED LOW	REVISIED DATE	TARGET DATE
Remote Access (ICT)	Jul-09	0	2	0		0	0	0		0	2	0		Jun-11
Disposal of IT Hardware Assets (ICT)	Sep-10	0	3	1		0	1	0		0	2	1		Mar-11
Asylum Accommodation	Apr-10	2	8	1		2	5	1		0	3	0		Mar-11
Data Protection & Freedom of Information	Jun-10	1	8	1		0	4	0		1	4	1		Mar-11
Private Sector Leasing 07/08	May-08	1	0	0		0	0	0		1	0	0		Jun-11

AUDIT TITLE	DATE ORIGINAL REPORT ISSUED	HIGH	MEDIUM	LOW		IMPLEMENTED - HIGH	IMPLEMENTED MEDIUM	IMPLEMENTED - LOW		NOT IMPLEMENTED - HIGH	NOT IMPLEMENTED MEDIUM	NOT IMPLEMENTED - LOW	TARGET
													REVISED DATE
Private Sector Leasing 09/10	Jun-10	0	3	0		0	1	0		0	2	0	Mar-11
Commercial Properties	Sep-08	0	2	0		0	0	0		0	2	0	Mar-11
Domestic Waste – Civic Amenity Sites	Jun-10	4	3	3		2	0	3		2	3	0	Apr-11
Pension Administration	Jan-09	0	1	0		0	0	0		0	1	0	Mar-11
Payroll Expenses	Dec-08	1	0	0		1	0	0		0	0	0	N/A
Grants to Voluntary Organisations	Jun-10	0	4	1		0	4	1		0	0	0	N/A
Housing Benefit Subsidy	Apr-09	0	1	0		0	1	0		0	0	0	N/A
MCP Contracts Pre-Tender	Oct-09	1	0	0		1	0	0		0	0	0	N/A
Business Con & Civil Emergency Audit	Jun-09	6	3	1		4	2	1		2	1	0	May-11
Nursery Education - Private Provision	Jul-10	11	6	1		11	1	1		0	5	0	Mar-11
Business Continuity (ICT)	Jul-08	0	2	0		0	0	0		0	2	0	May-11
Asylum Finance	Apr-10	0	2	1		0	2	1		0	0	0	N/A
Grounds Maintenance - Parks & Open Spaces	Feb-10	0	4	0		0	3	0		0	1	0	Mar-11
Environmental Services Application (M3)	Aug-09	3	5	1		2	4	0		1	1	1	Apr-11
Email Security & Management	May-09	0	1	0		0	0	0		0	1	0	Aug-11
Major Planning Applications	Apr-10	2	2	1		1	1	1		1	1	0	Mar-11
Ocella Application (ICT)	Feb-09	0	4	0		0	3	0		0	1	0	Apr-11
Private Sector Renewal & Disabled Facilities Grants	Sep-10	3	4	2		2	4	2		1	0	0	Apr-11
Flexi Leave Scheme	Jul-10	7	0	0		5	0	0		2	0	0	Mar-11
Breakspear Crematorium	May-09	2	6	0		2	6	0		0	0	0	N/A
Stray Dog Service	Sep-10	2	7	2		2	2	0		0	5	2	Jun-11
Payroll 08/09	Aug-09	0	1	0		0	1	0		0	0	0	N/A
William Byrd Primary	Apr-10	1	0	0		1	0	0		0	0	0	N/A
Charville Primary	Nov-09	1	0	0		1	0	0		0	0	0	N/A
Cowley St Laurence	May-10	2	5	5		2	5	5		0	0	0	N/A
Cherry Lane	Sep-10	6	6	3		5	6	3		1	0	0	May-11
Research & Statistics	Jan-11	0	0	1		0	0	1		0	0	0	N/A
Abandoned & Untaxed Vehicles	Sep-10	0	0	1		0	0	1		0	0	0	N/A
Coteford Infants	Jun-10	0	6	3		0	6	3		0	0	0	N/A
HR Payroll Changes	Jul-10	4	4	0		2	3	0		2	1	0	May-11

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AUDIT TITLE	DATE ORIGINAL REPORT ISSUED				IMPLEMENTS - HIGH	IMPLEMENTS - MEDIUM	IMPLEMENTS - LOW				REVISOR DATE
		HIGH	MEDIUM	LOW				NOT IMPLEMENTED - HIGH	NOT IMPLEMENTED - MEDIUM	NOT IMPLEMENTED - LOW	
Ruislip High Secondary School	Mar-10	4	5	2	3	3	2	1	2	0	May-11
Blue Badges	Nov 10	9	8	4	9	7	4	0	1	0	Mar-11
Pool Car Usage Audit	Nov-11	1	3	0	1	3	0	0	0	0	N/A
Hillingdon Grid for Learning	Dec-09	0	1	0	0	0	0	0	1	0	May-11
Northgate Application Review	Mar-09	0	2	0	0	1	0	0	1	0	Apr-11
S106 Audit	Jul-09	1	2	2	1	2	2	0	0	0	N/A
Home Care In-House Provision	May-10	3	1	1	3	1	1	0	0	0	N/A
Highways Reactive Maintenance	Sep-10	3	1	0	1	0	0	2	1	0	Jul-11
		<b>81</b>	<b>126</b>	<b>38</b>	<b>64</b>	<b>82</b>	<b>33</b>	<b>17</b>	<b>44</b>	<b>5</b>	
	% Implemented by Risk				79%	65%	87%				
	Overall % Implemented							73%			
	Overall % Not Implemented							27%			

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	1	Apr 2011	
Carefirst Debtors- 2009/10 Review	1	Mar 2011	
Environmental Services Application (M3) 09/10	3	Apr 2011	Includes 1 Low
Remote Access(ICT)	2	Jun 2011	
Hillingdon Grid for Learning	1	May 2011	
Business Continuity Management & Civil Emergency	3	May 2011	

<b>Audit Title</b>	<b>No. of Outstanding Recommendations</b>	<b>Revised Target Date</b>	<b>Comment</b>
Pension Administration	1	Mar 2011	
Data Security and Transfer	1	Feb 2011	
Debt Recovery Processes - 2009/10 Review	3	Mar 2011	
Subsistence	2	Sep 2011	
Wood End Park	1	Mar 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 – Follow up in progress
Commercial Properties	2	Mar 2011	
Private Sector Leasing 07/08	1	Jun 2011	
Private Sector Leasing 09/10	2	Mar 2011	
Major Planning Applications	2	Mar 2011	
Helpdesk Review	1	Apr 2011	
ICT - Business Continuity Management	2	May 2011	
Northgate Application Review	1	Apr 2011	
Payroll 09/10	3	Mar 2011	
Securicor	1	Apr 2011	
Email Security and Management	1	Aug 2011	
IT Physical and Environmental Security	1	Mar 2011	
Domestic Waste - Civic Amenity sites	5	May 2011	
Highways - Planned	3	Mar 2012	
MCP – Contracts Current	4	Dec 2010	Follow up in progress
AXXIA System	6	Jan 2011	Includes 5 Low – Follow up in progress
HR Payroll Changes & Trigger Dates	3	May 2011	
Performance Management	2	Feb 2011	Includes 1 Low

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<b>Audit Title</b>	<b>No. of Outstanding Recommendations</b>	<b>Revised Target Date</b>	<b>Comment</b>
Ruislip High Secondary School	3	Apr 2011	
Cherry Lane Primary	1	May 2011	
Stray Dogs	7	Jun 2011	Includes 2 Low
Asylum Accommodation	3	Mar 2011	
Freedom of Information/Data Protection	6	Mar 2011	Includes 1 Low
Flexi Leave Scheme	2	Mar 2011	
ICT Disposals	3	Mar 2011	
Blue Badges	1	Apr 2011	
Private Sector Renewal Grants & Disabled Facilities Grants	1	Apr 2011	
Grounds Maintenance	1	Mar 2011	
Nursery Education – Private Provision	5	Mar 2011	
Highways Reactive Maintenance	3	Jul 2011	

#### **4. Advice Guidance and Consultancy**

Management continue to request ad hoc advice from us on operational issues within their service area and we now have a representative on the Pre-Loaded Cards Working Group.

#### **5. Anti Fraud Work**

##### **Fraud Awareness**

5.1. It is anticipated that the new e-Learning Pool module on Fraud will replace the old e-learning module in April 2011. Learning and Development have included the requirement for all staff to complete this module in the Corporate Induction Toolkit.

5.2. Learning and Development have also included in the Corporate Induction, the requirement for all new managers to attend a Fraud Awareness Bitesize session and new managers will be booked on the next available session when they commence employment.

##### **National Fraud Initiative**

5.3. The data match output from the NFI has been received from the Audit Commission and all key contacts in the directorates have been notified and will be starting their respective investigations into the matches.

5.4. We will monitor progress on the investigations to ensure that they are being investigated promptly and properly.

**Other work**

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

5.6. The outcomes of the confidential investigations that we have completed are in Part II of this report.

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
<b>CROSS CUTTING CORPORATE ISSUES</b>							
<b>Anti Fraud and Investigation</b>							
Taxes Management Act	No Returns Requested	-	N/A	N/A	0	0	0
National Fraud Initiative (NFI)	Ongoing						
Anti Fraud Promotion	Ongoing						
Fraud/Irregularity Investigations	Ongoing	See below					
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 – revised date Sep 2011	2	0	0
- Council Tax Student Exemptions	Finalised	15/6/10	Full	N/A	0	0	0
- Agency/Consultancy Staff	Drafting						
- Pooled Car Usage	Finalised	19/11/10	N/A	Feb 2011	0	0	0
- VDA Cancellations	Finalised	15/09/10	N/A	N/A	0	0	0
- Increases in Pay Rate	In Progress						
- Overtime	HR reviewing findings	-	N/A	N/A	0	0	0
<b>Other Cross-Cutting</b>							
Annual Governance Statement - Audit	Completed			N/A			
Annual Governance Statement - Input	Ongoing						
Advice and Information (Ad hoc)	Ongoing						
Consultancy Advice - Specific Projects	Ongoing						
Carbon Reduction Strategy	Deleted						
IT Policy Compliance							



Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
Records Management	Draft Issued						
Healthy Hillingdon	Deleted						
Compliance with Driving Policy	In Progress						
<b>Misc Audit Tasks</b>							
Follow ups	Ongoing						
Brought forward Audits	Completed						
<b>FINANCE &amp; RESOURCES</b>							
Risk Management	Drafting						
Payroll - Starter & Leaver testing	Finalised	16/12/10	Full	N/A	0	0	0
Debtors	Drafting						
Debtors - ASC Protocol	Planning						
CT/NNDR - Contractor visit	Finalised		N/A				
CT/NNDR - System	Planning						
LG Pension Scheme - Governance	Finalised	30/09/10	Satisfactory		0	5	1
Online Payment Management Project							
Creditors	Planning						
Creditors - Protocol	Planning						
General Ledger	In Progress						
Blue Badges	Finalised	9/11/10	No Assurance	Jan 2011 – revised date Apr 2011	0	1	0
<b>DCEO</b>							
Risk Management	Drafting						
Performance Reward Grant (LAA)	Completed						
Economic Development							
Grants to Voluntary Organisations	Finalised	9/6/10	Satisfactory	Dec 2010	0	0	0

<b>Internal Audit Plan 2010-11 Progress</b>							
<b>Audit Title</b>	<b>Status</b>	<b>Date Finalised</b>	<b>Assurance Level</b>	<b>Date of Last Follow Up</b>	<b>Number of outstanding recommendations</b>		
Learning & Development	In Progress						
Establishment Control and Authorisation	Drafting						
<b>EDUCATION &amp; CHILDREN'S SERVICES</b>							
Risk Management	Drafting						
<b>Schools - Primary</b>							
Cowley St Laurence	Finalised	21/5/10	Satisfactory	Jan 2011	0	0	0
Harefield Infants	Finalised	18/10/10	Satisfactory		1	0	0
Cherry Lane Primary	Finalised	02/09/10	Limited	Jan 2011 – revised date May 2011	1	0	0
Glebe Primary	Finalised	19/7/10	Satisfactory	Follow up in progress	1	5	0
Coteford Infants	Finalised	26/6/10	Satisfactory	Jan 2011	0	0	0
Botwell House	Finalised	03/09/10	Satisfactory		2	1	0
Breakspear Junior	Finalised	17/09/10	Full	N/A	0	0	0
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	Finalised	26/01/2011	Satisfactory		3	6	1
Guru Nanak Sikh Primary							
Lady Bankes Junior	Finalised	26/01/2011	Satisfactory		1	5	2
St Andrew's CE Primary	Finalised	02/12/10	Satisfactory		2	2	0
Brookside Primary	Finalised	20/01/11	Satisfactory		2	4	1

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
Warrender Primary							
Harefield Junior							
Laural Lane Primary	Draft Issued						
Whiteheath Junior							
Heathrow Primary							
Lady Bankes Infants							
Minet Junior School	Finalised	9/12/2010	Limited		5	2	2
Oak Farm Junior							
Newnham Infants	Draft Issued						
Grange Park Junior							
Sacred Heart RC							
<del>Belmore Primary</del>	Deleted	N/A	N/A	N/A	N/A	N/A	N/A
<del>Charville Primary</del>	Deleted	N/A	N/A	N/A	N/A	N/A	N/A
<del>Field End Junior</del>	Deleted	N/A	N/A	N/A	N/A	N/A	N/A
<del>Harlyn Primary</del>	Deleted	N/A	N/A	N/A	N/A	N/A	N/A
<del>Hillside Junior</del>	Deleted	N/A	N/A	N/A	N/A	N/A	N/A
Wood End Park Primary							
<b>Secondary</b>							
Swakeleys	Finalised	18/6/10	Satisfactory		3	3	1
<b>Special</b>							
Chantry School	Finalised	11/11/10	No Assurance		17	11	0
Grangewood School	Finalised	18/10/10	Satisfactory		3	2	2
<b>Other School Related</b>							
FMSIS Certification	Finalised	N/A	N/A	N/A	N/A	N/A	N/A
School Liaison/Newsletter/briefings	Ongoing						
BS21	No longer	N/A	N/A	N/A	N/A	N/A	N/A

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
	applicable						
Pupil Transport	Deferred to 11/12	N/A	N/A	N/A	N/A	N/A	N/A
Education - Looked After Children	Drafting						
Section 52	Draft Issued						
Overpayments	Draft Issued						
<b>CHILDREN'S SERVICES</b>							
Contact Point	Completed	N/A	N/A	N/A	N/A	N/A	N/A
Child Protection and Reviewing	Planning						
Referral and Assessments	In Progress						
Placements							
Research and Statistics	Finalised	03/09/10	Full	Jan 2011	0	0	0
Target Youth Support	Planning						
Children's Centre's	Finalised	16/12/10	Satisfactory		1	0	3
Children's Centre's – McMillan Early Childhood Centre	Finalised	16/12/10	Satisfactory		1	3	0
Extended Schools	Finalised	30/11/10	Satisfactory		1	5	1
EMAS	Deleted	N/A	N/A	N/A	N/A	N/A	
Youth Offending Service	Finalised	6/8/10	Full	Follow up in progress	0	3	0
<b>ADULT SOCIAL CARE HEALTH &amp; HOUSING</b>							
Risk Management	Drafting						
Community Transport	Deferred to 11/12						
Equipment and Adaptations (All client groups)	Draft Issued						
Financial Assessments	In Progress						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
Self Directed Support	In Progress						
<b>Housing</b>							
Estate Services Contracts	In progress						
Hillingdon Homes Dissolution	Completed	31/10/10	N/A				
Supporting People	Drafting						
Housing & Council Tax Benefit	Drafting						
Private Sector Renewal & Disability Grant	Finalised	30/09/10	Limited	Jan 2011	1	0	0
<b>Older People's Care</b>							
Homecare - Contract Provision	Planning						
Residential Block Contracts							
Residential Spot Contracts							
Residential to Independent living	Planning						
<b>People with Physical and Sensory Disability</b>							
Children with Disabilities - Transition	In Progress						
Stroke Care Grant	Completed	15/6/10	Full		0	0	0
<b>Other Adult Services</b>							
Safeguarding Adults	Drafting						
<b>ENVIRONMENT AND CONSUMER PROTECTION</b>							
Risk Management	Planning						
Street Cleaning	Finalised	13/12/10	Satisfactory		1	3	0

<b>Internal Audit Plan 2010-11 Progress</b>							
<b>Audit Title</b>	<b>Status</b>	<b>Date Finalised</b>	<b>Assurance Level</b>	<b>Date of Last Follow Up</b>	<b>Number of outstanding recommendations</b>		
Improvement Projects	Planning						
Parking Cash Collection	Planning						
Parking Permits (Residents, Visitors & Brown Badges)	Finalised	12/10/10	Limited		1	4	1
Stray Dog Service	Finalised	14/09/10	Satisfactory	Feb 2011	0	5	2
Abandoned & Untaxed Vehicles	Finalised	09/09/10	Full	Jan 2011	0	0	0
<b>PLANNING AND COMMUNITY SERVICES</b>							
Risk Management	In progress						
<b>Major Construction Projects</b>							
Individual Project Management x 2	In progress						
<b>Property</b>							
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	In progress						
Utilities - Water	Deleted						
<b>Arts, Culture, Libraries &amp; Adult Education</b>							
Adult Education	Planning						
Culture and Arts Strategy	Finalised	11/11/10	Satisfactory		4	3	0
<b>Sport and Leisure</b>							
Fusion Management Contract	In Progress						
Leisure Facilities Management	Deferred to						

Internal Audit Plan 2010-11 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of Last Follow Up	Number of outstanding recommendations		
Contract	11/12						
<b>Contingency</b>							
<b>Audits</b>							
S31/1717 NEW BURDENS (EFFICIENCY INFORMATION AND COUNCIL TAX DEMAND)	Completed						
Conflicts of Interest	Completed	N/A	N/A	N/A	N/A	N/A	N/A
Higher Mileage User Status	Finalised	17/11/10	Limited		2	2	1
Engineering Consultancy	Completed	31/1/11	N/A	N/A	N/A	N/A	N/A
Payment Vouchers - Non-Invoice Payments	Completed	07/09/10	N/A	N/A	N/A	N/A	N/A
Investigation 028	Completed	2/12/10	N/A	N/A	N/A	N/A	N/A
Investigation 029	Completed	30/11/10	N/A	N/A	N/A	N/A	N/A
Investigation 030	Completed	1/10/2010	N/A	N/A	N/A	N/A	N/A
Investigation 031	In Progress						
Investigation 032	Completed	30/11/10	N/A	N/A	N/A	N/A	N/A
Entertainment License Review	Completed	8/12/10	N/A		0	0	5
Investigation 033	Completed	1/10/2010	N/A	N/A	N/A	N/A	N/A
Football Foundation Grant	Completed	19/10/10	N/A	N/A	N/A	N/A	N/A
Hayes and Harlington Association	In Progress						
Investigation 034	Deleted						
Investigation 035	In Progress						
Agency Car Mileage	Completed	17/12/10	N/A	N/A	0	0	0
Estate Services Contracts	Planning						
Court Costs	Planning						
Investigation 036	completed	7/1/11	N/A	N/A	N/A	N/A	N/A
Investigation 037	In Progress						

<b>Internal Audit Plan 2010-11 Progress</b>							
<b>Audit Title</b>	<b>Status</b>	<b>Date Finalised</b>	<b>Assurance Level</b>	<b>Date of Last Follow Up</b>	<b>Number of outstanding recommendations</b>		
Investigation 038	In Progress						
Investigation 039	In Progress						
Investigation 040	In Progress						
Building Control	In Progress						
Land Charges	In Progress						
<b>ICT audit contract</b>							
Disposals	Finalised	25/08/10	Satisfactory	November 2010 - revised date March 2011.	0	2	1
Liquid Logic	In Progress						
Software Licensing	Finalised	06/10/10	Limited		1	11	2
Oracle Financials- Debtors	Planning						
E-Payments Project	Planning						
Information Assurance & Security	Finalised	31/1/11	Satisfactory		0	3	1



Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
<b>CROSS CUTTING CORPORATE ISSUES</b>							
Budgetary control	Finalised	02/03/10	Satisfactory	Nov 2010 – revised date Mar 2011	0	4	2
Performance Management	Finalised	29/03/10	Satisfactory	Aug 2010 – revised date Feb 2011	1	1	0
Flexi Leave - Monitoring, Approval and Control	Finalised	15/7/10	Limited	Dec 2010 – revised date Mar 2011	2	0	0
<b>DEPUTY CHIEF EXECUTIVE/FINANCE &amp; RESOURCES</b>							
HR Payroll changes and trigger dates	Finalised	29/6/10	Limited	Feb 2011 – revised date May 2011	1	2	0
Payroll	Finalised	17/08/10	Limited	Nov 2010 - revised date Mar 2011	1	2	0
<b>Corporate Property</b>							
Estate and Valuation Service	Finalised	19/7/10	Satisfactory	Nov 2010 - revised date Mar 2011	1	3	0
Utilities Contracts Gas & Electricity	Finalised	26/03/10	Satisfactory	Nov 2010 - revised date Mar 2011	0	1	1
<b>Legal</b>							
Freedom of Information /Data Protection	Finalised	11/06/10	Satisfactory	Jan 2011 – revised date Mar 2011	1	4	1
AXXIA System	Finalised	16/04/10	Satisfactory	Follow up in progress	0	1	5
Debt Recovery Processes	Finalised	10/5/10	Satisfactory	Nov 2010 – revised date Mar 2011	0	3	0
<b>Major Construction Projects</b>							
Contracts - Pre Tender	Finalised	30/10/09	Satisfactory	Dec 2010	0	0	0
Contracts - Current	Finalised	25/05/10	Limited	Follow up in progress	3	0	1
<b>ENVIRONMENT &amp; CONSUMER PROTECTION</b>							
Grounds Maintenance Contracts - Parks and Open spaces	Finalised	23/02/10	Satisfactory	Jan 2011 – revised date Mar 2011	0	1	0
Highways Reactive Maintenance	Finalised	7/9/10	Limited	Feb 2011 – revised date Jul 2011	2	1	0
Highways Planned Maintenance	Finalised	26/01/10	Satisfactory	Nov 2010 – revised date Mar 2012	0	3	0

Internal Audit Plan 2009-10 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
Breakspear Crematorium	Finalised	06/05/10	Satisfactory	Feb 2011	0	0	0
Domestic Waste Collection & Disposal –Civic Amenity Sites	Finalised	3/6/10	Limited	Nov 2010 – revised date May 2011	2	3	0
<b>PLANNING AND COMMUNITY SERVICES</b>							
Major Applications	Finalised	15/04/10	Satisfactory	Jan 2011 – revised date Mar 2011	1	1	0
<b>CHILDREN'S SERVICES</b>							
Nursery Education - Private Provision	Finalised	15/7/10	Satisfactory	Nov 2010 – 2 <sup>nd</sup> Follow up in progress	0	5	0
Asylum Accommodation	Finalised	23/04/10	Satisfactory	Dec 10 – revised date Mar 2011	0	3	0
Asylum Finance	Finalised	23/04/10	Full	Dec 10	0	0	0
<b>Schools - Primary</b>							
Charville Primary	Finalised	12/11/09	Satisfactory	Jan 2011	0	0	0
Pinkwell Primary	Finalised	21/05/10	Satisfactory	Oct 2010	0	0	0
William Byrd Primary	Finalised	30/4/10	Satisfactory	Dec 2010	0	0	0
Wood End Park	Finalised	11/2/10	Satisfactory	Nov 2010 – revised date Mar 2011	1	0	0
<b>Schools - Secondary</b>							
Barnhill Community High	Finalised	09/10/09	Limited	Nov 2010 – revised date Mar 2011	0	1	0
Ruislip High Secondary School	Finalised	25/03/10	Satisfactory	Jan 2011 – revised date Apr 2011	1	2	0
<b>Other School Related</b>							
Primary Sickness Scheme	Finalised	29/01/10	Satisfactory	Sep 2010 – 2 <sup>nd</sup> Follow up in progress	1	0	1
Hillingdon Grid for Learning	Finalised	2/12/09	No Assurance	Nov 2010 – revised date May 2011	0	1	0
<b>ASCHH</b>							
<b>Finance systems</b>							
Carefirst Debtors	Finalised	12/2/10	Satisfactory	Jun 2010 – revised date Mar 2011	1	0	0
<b>Housing</b>							
Private Sector Leasing	Finalised	23/06/10	Satisfactory	Jan 2011 - revised date Mar 2011	0	2	0

<b>Internal Audit Plan 2009-10 Progress</b>							
<b>Audit Title</b>	<b>Status</b>	<b>Date Finalised</b>	<b>Assurance Level</b>	<b>Date of last Follow up</b>	<b>Number of outstanding recommendations</b>		
Temporary Accommodation (formerly B&B)	Finalised	26/08/10	Limited	Follow up in progress	0	2	1
Housing Benefit Subsidy	Finalised	28/10/09	Full	Jan 11	0	0	0
<b>Older People's Care</b>							
Homecare In-House Provision	Finalised	13/05/10	Satisfactory	Feb 11	0	0	1
<b>Learning Disabilities</b>							
Sec 75 Agreement (Funding of LD Services)	Finalised	6/10/10	Satisfactory	Follow up in progress	0	2	0
<b>Mental Health Service</b>							
Mental Health Service	Finalised	29/06/10	Limited	Follow up in progress	0	8	1
<b>ICT Contracted Days</b>							
IT Disaster Recovery	Finalised	14/04/10	Limited	Follow up in progress	1	3	0
Environmental Services Application	Finalised	25/08/09	Limited	Dec 2010 - revised date Apr 2011	1	1	1

Internal Audit Plan 2008-9 Progress							
Audit Title	Status	Date Finalised	Assurance Level	Date of last Follow up	Number of outstanding recommendations		
					H	M	L
<b>FINANCE &amp; RESOURCES</b>							
Payroll	Finalised	06/08/09	Satisfactory	Feb 2011	0	0	0
Payroll Expenses Procedures	Finalised	23/12/08	Limited	Jan 2011	0	0	0
Pensions Admin	Finalised	07/01/09	Satisfactory	Jan 2011 -revised date Mar 2011	0	1	0
Commercial Properties	Finalised	11/09/08	Satisfactory	Jan 2011 -revised date Mar 2011	0	2	0
<b>ENVIRONMENT &amp; CONSUMER PROTECTION</b>							
Business Continuity & Emergency Planning	Finalised	08/06/09	Limited	Dec 2010 - revised date May 2011	2	1	0
<b>PLANNING &amp; COMMUNITY SERVICES</b>							
S106 Planning Gain	Finalised	15/06/09	Satisfactory	Feb 2011	0	0	0
<b>IT Audits</b>							
IT Physical and Environmental Security	Finalised	25/03/09	Satisfactory	Nov 2010 - revised date Mar 2011	0	1	0
Helpdesk Application	Finalised	05/03/09	Satisfactory	Aug 2010 - revised date Mar 2011	0	1	0
Remote Access (ICT)	Finalised	29/7/09	Satisfactory	Jan 2011 - revised date Jun 2011	0	2	0
Northgate Application Review	Finalised	25/03/09	Satisfactory	Feb 2011 – revised date Apr 2011	0	1	0
Ocella Application Review	Finalised	Feb 09	Limited	Jan 2011 - revised date Apr 2011	0	1	0
IT Data Security and Transfer (from Contingency)	Finalised	26/03/09	Limited	Aug 2010 - revised date Feb 11	0	1	0
Email Security and Management	Finalised	27/05/09	Limited	Feb 2011 – revised date Aug 2011	0	1	0

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

Key

Number of outstanding  
recommendations

Comments

## PLAN 2007-8

Assurance

Audit Title

Status

Level

High

Med

Low

**ADULT SOCIAL CARE, HEALTH &  
HOUSING**

Private Sector Leasing

✓

✓

1

0

0

Followed up in January 2011 revised date  
March 2011 given.

**FINANCE & RESOURCES**

**ICT**

Business Continuity Planning

✓

✓

0

2

0

2<sup>nd</sup> follow up in December 2010 - revised  
date May 2011 given.

**FINANCE AND RESOURCES**

Securicor Collection

✓

↓

1

0

0

Follow up November 2010 – revised date  
April 2011



## Internal Audit Strategy

**Contact Officer:** Helen Taylor  
**Telephone:** 01895 556132

### REASON FOR ITEM

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

This report sets out the strategy for delivery and development of the Internal Audit Service 2011-12 and the associated Annual Internal Audit Operational Plan. It details how the service will be delivered, the assurance that it will provide and how the Head of Audit will contribute to corporate governance arrangements, risk management processes and key internal control systems.

The Internal Audit Strategy underpins the assurance the Head of Audit provides for the Annual Governance Statement.

### OPTIONS AVAILABLE TO THE COMMITTEE

**The Audit Committee should review and approve the audit strategy.**

### INFORMATION

#### 1. INTERNAL AUDIT STRATEGY 2011/12

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

#### 2. OBJECTIVES AND OUTCOMES

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

2.2. Auditing standards recognise that its remit extends to the whole control environment of the organisation, including the systems of governance, risk management and internal control. A fuller expansion of this definition and the roles and responsibilities of Hillingdon Internal Audit is contained in the Terms of Reference for the service, which is available on the Council's website.

2.3. Audits will be carried out using a risk-based methodology, which looks at the objectives of an identified area as set out in service, group and team plans and

assesses how far the controls in place will assist in addressing the risks to the objectives.

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

### **3. EVIDENCE FOR THE OPINION**

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

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

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

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

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

### **4. IDENTIFYING AND ADDRESSING SIGNIFICANT LOCAL AND NATIONAL ISSUES**

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

### **5. HOW THE SERVICE WILL BE PROVIDED**

5.1. The in-house team will carry out most audits, the exception being the audit of some IT systems, particularly where a high level of technical skill is required. A contract for 50



days of audit is in place with RSM Tenon. Less technical aspects of IT audit are incorporated into the general audit work when systems are under review.

5.2. We have a dedicated schools' auditor, which allows delivery of a service that not only provides audit to schools but also adds value by providing advice, guidance and a regular newsletter. We continue to work closely with Schools Finance, HR and Governors' Services to provide support to schools that reflects a more coherent approach.

5.3. The coalition government abolished the need for schools to be certified as meeting the Financial Management in Schools Standard (FMSiS) so we will not charge schools for this certification in 2011-12. However, our audit incorporates the testing of schools systems to the standards established under FMSiS, which was in any case a good practice guide for schools.

5.4. The hours of the dedicated schools' auditor were reduced to address the changed need as a result of the demise of FMSiS.

5.5. Anti-fraud awareness training and proactive detection will continue to be delivered by the Audit team as will preliminary investigation of suspected or alleged fraud and corruption. Since October 2011, the Housing Benefit Fraud team has come under the remit of the Head of Audit and Enforcement and we continue to work to develop innovative ways of preventing and detecting fraud with the now renamed Corporate Fraud Team.

5.6. During 2010, a business case was made to purchase some data analysis software, IDEA, which is used to data match systems in house. We will continue to use this in 2011-12 to identify a range of possible irregularities.

5.7. The team has been fully staffed throughout the year and the complement will be 11 FTE in 2011-12, which takes account of the reduced Schools' Auditor days and a reduction in the dedicated Head of Audit days as a consequence of her responsibilities for Corporate Fraud and Planning Enforcement.

## **6. RESOURCES AND SKILLS REQUIRED TO DELIVER THE STRATEGY**

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

Four trainees are pursuing professional training, supported by the Council. Three, including two graduates, are studying for the Institute of Internal Auditors (IIA) and one for the Association of Accounting Technicians, (AAT).

The qualifications status for the whole team is as follows:

Audit Committee 10 March 2011  
PART 1 – MEMBERS, PUBLIC & PRESS

Qualified Accountants	5
Member of the Institute of Internal Auditors	1
Studying for IIA	3
Studying for Association of Accounting Technicians	1
Unqualified but very experienced	2

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

## **BACKGROUND PAPERS**

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

## Internal Audit Operational Plan 2011-12

**Contact Officer:** Helen Taylor  
**Telephone:** 01895 556132

### REASON FOR ITEM

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

### OPTIONS AVAILABLE TO THE COMMITTEE

*To approve and comment on the operational plan for 2011-12*

### INFORMATION

#### **1. Development of the Internal Audit Operational Plan 2011-12**

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

1.2. Housing Management is now reintegrated into the council and our risk methodology has been applied to the service to incorporate it into our risk model. High risk audits have been included in this plan.

1.3. In addition to proactive anti-fraud awareness and detection initiatives, Internal Audit investigates specific areas of concern or irregularity as and when they arise. Allowances for this type of investigation, as well as for pro-active investigation and other areas of anti-fraud work, such as training have been included within the plan.

1.4. Work is planned for the year, but changes in service delivery during the year or newly emerging risks mean that there will be occasions when audits need to be added or deleted. This was a challenge in 2010-11 and the 2011-12 planning year presents a similar challenge;

- The Business Improvement Delivery (BID) process continues to challenging service delivery models. This has already led to fundamental changes in the structure of service delivery across the council.
- Procedural changes, service mergers and reorganisations present a risk to the existing control framework.

- The coalition government continues to bring forward changes in policy which have a direct effect on Local Government services and service delivery.
- The demise of the Primary Care Trusts and the move to GP fund holding is likely to affect some of our joint services.

1.5. The financial challenge facing the council in 2011-12 means there is a high likelihood that we will have to be responsive to changes.

1.6. To allow flexibility, I have increased the contingency allowance to 15% of chargeable days. This should allow the service to respond to changes while allowing the delivery of the planned work.

1.7. Specialist IT audit will be no more than 50 days in-year. We have firmed up some audits but are having on-going discussions around some of the changing IT systems before we finalise the plan for this time. A full plan will be brought to the June Audit Committee.

1.8. Table 1 identifies the internal resources available for 2011-12, based on all positions being filled on 1 April 2011. Productive days are calculated by deducting from the total available days - annual and other leave and a sickness allowance (set at the corporate target) and non-audit duties carried out by the Head of Audit. The total of 2,329 days is then adjusted for controllable time such as training, planning, reporting and management time to arrive at days directly available for specific audits.

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

**Table 1 – Utilisation of Productive days In-house**

<b>Productive Days Available</b>	2,329	100%
<b>Less</b>		
Controllable overheads e.g. risk assessment, planning, management time, service development and training.*	726	31%
<b>Chargeable days</b>	1,603	69%

\* Four members of staff are being supported with professional training.

1.10. Table 2 is the list of identified audits for 2011-12 including the expected number of days for each. Some activity does not necessarily generate a report with recommendations, for example anti-fraud training, which forms part of the anti-fraud strategy or providing information for other regulators in pursuit of their fraud work, e.g. some NFI activity. I have therefore indicated what I anticipate the outcome of each piece of work to be by assigning them a category. The categories are as follows;

- RR – Standard report with recommendations.
- TPA – Third party assurance – e.g. Assurance provided for other regulators or bodies.

- INV – Investigation work. Outcomes will be reported but not necessarily with recommendations.
- PRO – Proactive work or promotion of good practice.
- ADV – advice on specific queries or participation in corporate working groups

**Table 2 Identified audits 2011-12**

<b>AUDIT TITLE</b>	<b>Expected Number of Days</b>	<b>Report type</b>
<b>CROSS CUTTING CORPORATE ISSUES</b>		
<b>Anti Fraud and Investigation</b>		
National Fraud Initiative (NFI)	30	TPA/INV
Anti Fraud Promotion	15	PRO
Fraud/Irregularity Investigations	80	INV
Planned proactive (see table 3)	70	INV
<b>Other Cross-Cutting</b>		
Annual Governance Statement - Audit	15	RR
Advice and Information (Ad hoc)	30	ADV
Consultancy Advice - Specific Projects	15	ADV
Pre-Loaded Cards	15	RR
Employee Expenses - Automated Payments	15	RR
Establishment Audits - to be determined	20	RR
<b>Misc Audit tasks</b>		
Follow ups	90	RR
Brought forward Audits	40	RR
<b>DCEO</b>		
<b>Finance</b>		
Creditors	25	RR
Debtors	25	RR
Budgetary Control	20	RR
Capita On-Line Payments	10	RR
<b>Human Resources</b>		
Agency & Interim Approvals	10	RR
CRB Checks	10	RR
Employability Status - Permanent Staff	10	RR
HR Payroll Changes & Trigger Dates	10	RR
<b>Audit &amp; Enforcement</b>		
Planning Enforcement	15	RR
<b>ADULT SOCIAL CARE HEALTH &amp; HOUSING</b>		

<b>AUDIT TITLE</b>	<b>Expected Number of Days</b>	<b>Report type</b>
<b>Adult &amp; Older People Services</b>		
Critical Team	15	RR
Mental Health	20	RR
Assessment & Care Management - LD & PD	15	RR
Self Directed Support	25	RR
Stroke Care Grant Certification	5	TPA
<b>Children's Social Services</b>		
Play Capital Grant Certification	5	TPA
Fostering	20	RR
Adoption	20	RR
Psychology Service	10	RR
Emergency Duty Team	15	RR
Behaviour Support - Financial Systems	10	RR
<b>Hillingdon Housing Services</b>		
Housing Repairs & Maintenance - Responsive	25	RR
Housing Repairs & Maintenance - Planned, including Major Works	20	RR
Housing Rents	20	RR
Empty Property Management	15	RR
Leasehold Management & Service Charges	15	RR
Tenancy Management	15	RR
<b>Housing</b>		
Housing Needs	20	RR
Private Sector Housing	15	RR
Housing Supply	15	RR
<b>Public Health</b>		
Public Health	20	RR
<b>PLANNING AND COMMUNITY SERVICES</b>		
<b>Street Environment</b>		
Street Lighting	15	RR
Highways - Reactive Maintenance	20	RR
<b>Corporate Construction</b>		
School Building Programme - Permanent	15	RR
School Building Programme - Temporary	15	RR
Construction Contracts - Final Accounts	10	RR
<b>Green Spaces, Sport &amp; Leisure</b>		
Greenwich Leisure Ltd Contract	20	RR

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<b>AUDIT TITLE</b>	<b>Expected Number of Days</b>	<b>Report type</b>
<b>Parking Services</b>		
Penalty Charge Notices and Appeals	10	RR
<b>Transport Services</b>		
Fleet Management	20	RR
Harlington Road Depot Stores, including Fuel	15	RR
<b>Property Services</b>		
Utilities Contracts - Water	10	RR
<b>Public Safety</b>		
Investigations Team	15	RR
<b>Consumer Protection</b>		
Food Health & Safety Services	15	RR
<b>Business Services</b>		
Mortuary	5	RR
Heathrow Imported Food Unit	15	RR
Passenger Services	20	RR
Cemeteries	10	RR
<b>Youth Services</b>		
Youth Services	20	RR
<b>Schools - Primary</b>		
Bourne Primary	4	RR
Minet Infants	4	RR
Firthwood Primary	4	RR
Holy Trinity Primary	4	RR
Hillside Infants	4	RR
Hermitage Primary	4	RR
Whiteheath Infants	4	RR
Ryefield Primary	4	RR
Grange Park Infants	4	RR
Harmondsworth Primary	4	RR
Newham Junior	4	RR
Whitehall Junior	4	RR
Yeading Inf	4	RR
Yeading Jnr	4	RR
Breakespear infants	4	RR
Bishop Winnington Ingram	4	RR
Coteford Junior	4	RR
Deansfield	4	RR
Ruislip Gardens	4	RR

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<b>AUDIT TITLE</b>	<b>Expected Number of Days</b>	<b>Report type</b>
St Bernadettes	4	RR
St Marys	4	RR
St Matthews	4	RR
St Swithun wells	4	RR
Whitehall Infants	4	RR
<b>Special</b>		
Meadow	4	RR
Moorcroft	4	RR
The Willows	4	RR
Hedgewood	4	RR
<b>Nursery Schools</b>		
Mcmillan Nursery	4	RR
<b>Other Education</b>		
Pupil Referral Unit	10	RR
Education Welfare	10	RR
Early Years Centres	20	RR
School Admissions Service	15	RR
<b>ICT</b>		
Customer Contact Centre	20	RR
<b>ICT audit contract</b>	50	RR
<b>Contingency</b>	252	
<b>TOTAL</b>	1,653	

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

**Table 3 Pro-Active Anti-Fraud**

<b>DESCRIPTION</b>	<b>DAYS</b>	<b>RISKS/POSSIBLE LOSSES</b>
Compliance with Driving Policy - Non-Council Vehicle Drivers	10	Inadequate checks by management could lead to staff driving cars when they do not have a valid licence, where their vision is not to the legal standard and/or where they are not fully insured for business purposes
<b>Payments/Creditors</b>		
Imprest Accounts	10	Unauthorised expenditure being incurred

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DESCRIPTION	DAYS	RISKS/POSSIBLE LOSSES
<b>Income - Cash and Credit</b>		
Write-Offs	10	Write-offs not authorised at an appropriate level
<b>Leisure</b>		
Leisure Link Card - over 60 and other specific categories	10	Setting up false memberships
<b>Parking</b>		
Disabled Parking Bays	5	Fraudulent applications for bays and continued use when no longer applicable because of address change or improved mobility.
<b>Mayoral Services</b>		
Expenditure and Income	5	Unauthorised expenditure, misuse of mayoral car, theft of mayoral regalia and donations not properly accounted for
<b>Data Matches</b>	20	
<b>Annual Plan Total</b>	<b>70</b>	

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## **Review of Internal Audit Terms of Reference**

**Contact Officer:** Helen Taylor  
**Telephone:** 01895 556132

### **REASON FOR ITEM**

The Code of Practice for Internal Audit in Local Government requires a periodic review of the Terms of Reference of Internal Audit. The Terms of Reference were last reviewed in March 2010, when minor textual amendments were made.

### **OPTIONS AVAILABLE TO THE COMMITTEE**

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

### **INFORMATION**

*The Terms of Reference is attached to this report. Changes have been made at parts 5 and 8 to reflect the fact that the Head of Audit now reports to the Deputy Chief Executive.*

*A new paragraph, 5.4, has been added to reflect the fact that the Head of Audit now has some operational duties. The committee needs to satisfy itself that it is content that this paragraph, as worded, provides sufficient independence.*

# **London Borough of Hillingdon**

## **Internal Audit Charter & Terms of Reference**

### **1..PURPOSE**

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

### **2.DEFINITION OF INTERNAL AUDIT**

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

### **3. PURPOSE**

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

### **4. AUTHORITY**

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

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

### **5. INDEPENDENCE**

5.1. The Head of Internal Audit reports to the Deputy Chief Executive and has unrestricted access to the Chief Executive, the S151 Officer, Leader of the Council and to members through the Audit Committee. Internal Audit's authority is derived from policies, procedures, rules and regulations established by the Council. These include Financial Regulations, Conditions of Service, and Code of Conduct.

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

Revised March 2010

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

5.4. The Head of Audit now has operational duties in respect of Corporate Fraud and Planning Enforcement. Where audits are required in these areas the Terms of Reference for the audits will be discussed with and all findings will be reported directly to the Deputy Chief Executive, prior to the implementation by the Head of Audit.

## **6. ACCESS**

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

## **7. RESPONSIBILITIES**

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

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

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

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

Revised March 2010

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

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

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

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

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

## **8 RESOURCES**

Revised March 2010

8.1 Internal Audit resources will be determined by the Deputy Chief Executive and S151 Officer acting on behalf of the members of the Audit Committee and will reflect the corporate needs of the council. Resources will also reflect the need to allow the S151 Officer to discharge his obligations.

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

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## **BALANCES AND RESERVES STATEMENT 2011/12**

**Contact Officer:** Paul Whaymand

**Telephone:** 01895 566071

### **SUMMARY**

The budget reported to Cabinet and Council in February contained an extract from the Balances and Reserves Statement 2011/12 which summarised the recommended range for unallocated balances. The Balances and Reserves Statement contains more detail on the Council's approach to management and measurement of the requirement to hold balances and reserves than is currently in the public domain. The report explains the technical accounting guidance used to assist this process, and enables Members to scrutinise the detailed background to the core assessment for General Fund balances supporting the Budget Report 2011/12.

### **RECOMMENDATIONS**

That the contents of the report are noted.

### **REASONS FOR OFFICER RECOMMENDATIONS**

The balances and reserves statement has been produced based on a professional assessment of key risks and requirements for which balances and reserves need to be held by the Council, as part of exercising the Section 151 officer's professional duties with regard to budget setting. Appropriate Member scrutiny of this assessment will add weight to authority of the policy in external assessments.

### **INFORMATION**

- 1 The Chief Finance Officer, as the Council's Section 151 officer has a legal duty to comment on the robustness of the budget estimates for the forthcoming year and the adequacy of the Council's reserves as part of the statutory annual budget setting process. This duty stems from the financial governance framework established under the Local Government Act 2003 that also brought into being other reforms such as the introduction of the Prudential Code.
- 2 For Hillingdon, this duty is exercised through an extract of the Budget Report to Cabinet and Council in February of each year. This statement summarises the approach taken to the professional assessment, and expresses a prudent level of unallocated General Fund balances that the Council should hold as a range based on the assessment of the key strategic, operational and financial risks faced by the Council. Where this range has changed from the previous year's assessment, the main material issues that have influenced such change are described, reflecting both positive and negative developments.
- 3 In the 2011/12 budget report, the recommended range for unallocated General Fund balances is £12m to £24m. This range is based on a professional

assessment separate to the Administration's political target to maintain unallocated balances at £12m. The professional assessment is based on the guidance set out in Local Authority Accounting Panel (LAAP) Bulletin 77 – Local Authority Reserves and Balances (dated November 2008). This arranges the assessment to cover consideration of:

- the general financial climate to which the Council is subject and its track record in budget and financial management
  - the treatment of planned efficiency savings / productivity gains
  - the robustness of the financial planning process (including the treatment of inflation and interest rates and the timing of capital receipts)
  - how the Council manages demand led service pressures
  - the financial risks inherent in any major capital projects, outsourcing arrangements or significant new funding partnerships the strength of the financial monitoring and reporting arrangements
  - cashflow management and the need for short term borrowing
  - the availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions
- 4 The attached Balances and Reserves Statement contains an underlying assessment against these criteria that identified the recommended range for unallocated balances contained within the Budget Report. In addition the policy document sets out the range of earmarked balances and reserves that the Council holds, the reasons for these and the relevant processes that apply to their management.

## **LEGAL IMPLICATIONS**

Decisions made by the Cabinet or a Cabinet Member must be 'Wednesbury' reasonable, i.e. Council officers need to present all the facts that are relevant to Members before they make a decision - otherwise decisions can be open to legal challenge.

## **BACKGROUND PAPERS**

General Fund Revenue Budget and Capital Programme 2011/12 - report to Cabinet and Council February 2011

Local Authority Accounting Panel (LAAP) Bulletin 77 –Local Authority Reserves and Balances (November 2008)

# STATEMENT ON 2011 ANNUAL REVIEW OF RESERVES

## SUMMARY

The Council's Chief Finance Officer has a duty under the Local Government Act 2003 to comment on the robustness of the Council's budget for the coming year. This comment is also required to discuss the adequacy of the Council's reserves. The Chief Finance Officer has recommended that based on the 2011/12 budget an appropriate level of unallocated balances for the authority is in the range from £12m to £24m.

## 1. BACKGROUND

1.1 Under the Local Government Act 2003 the Chief Finance Officer has a duty to recommend to Cabinet the level of reserves and balances required by the Council. This requirement is met through the inclusion each year in the Budget Report to Cabinet and Council the results of a review of reserves and balances. This is done in line with current CIPFA guidance. This states that when reviewing the Medium Term Financial Forecast and budget the Council should consider the establishment and maintenance of reserves. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements – earmarked reserves are accounted for separately but remain legally part of the General Fund.

1.2 To assess the adequacy of general reserves the Chief Finance Officer has taken into account the strategic, operational and financial risks facing the Council. The Council should retain adequate reserves to cover unexpected expenditure and avoid costly short-term borrowing. Equally the Council should seek to utilise the maximum resources available to achieve its objectives and to ensure that current resources are used for the benefit of the current tax payer. It should therefore plan to maintain reserves at the lowest prudent level. CIPFA guidance states that a well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed authority will ensure that reserves are not only of an adequate amount but are also necessary for the Council to meet its objectives. There is a broad range within which authorities might reasonably operate depending on their particular circumstances.

1.3 Over the years, the Council has improved its level of reserves to an appropriate level. However it still has a relatively low level of total reserves due to the relatively limited number and value of earmarked reserves. The level of General Fund reserves has also been negatively impacted by the shortfall in central government funding of asylum services.

1.4 This statement analyses the review of adequacy of reserves, in particular General reserves.

1.5 Each earmarked reserve is subject to its own review of adequacy and a summary of earmarked reserves is provided in Section 3.

## **2. ADEQUATE LEVEL OF UNALLOCATED GENERAL FUND RESERVES**

2.1 To determine the recommended level of reserves the Council has assessed risks it currently faces. Criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 77 (November 2008) have been followed for this purpose, the details of which are shown in Appendix 1 and include the following:

- The robustness of the financial planning process (including treatment of inflation and interest rates and timing of capital receipts)
- How the Council manages demand led service pressures
- The treatment of planned efficiency savings / productivity gains
- The financial risks inherent in any major capital project, outsourcing arrangements or significant new funding partnerships
- The strength of the financial monitoring and reporting processes
- Cashflow management and the need for short term borrowing
- The availability of reserves, Government grants and other funds to deal with major contingencies
- The general financial climate to which the Council is subject to and its previous record in budget and financial management.

2.2 The assessment, although based on the Council's procedures and structures, does necessarily have an element of subjectivity. In acknowledging this, the optimum level of reserves incorporates a range. The recommended range for 2011/12 is £12m to £24m. The upper end of this range represents the highest level of unallocated balances that the Council could reasonably justify holding (were it in a position of having available balances at this level). If balances were above the upper level, the Chief Finance Officer would recommend that plans were developed to use the excess balances towards enhancing the delivery of the Council's strategic objectives in the current year. The equivalent figures recommended at the time of budget setting for 2010/11 were £12m to £23m.

The array of risk factors that determine the need to hold balances and reserves has changed very slightly since last year's budget setting process. However this review has resulted in an increased assessment of the maximum level of

balances. Table 1 shows the adjustments in the level of General Fund reserves from 2010/11 to 2011/12, analysed across the criteria detailed above. The principle determining factor for the change is the general financial climate and the need to hold balances to manage the impact of significantly reduced Government grants.

**Table 1: Assessment of Unallocated General Fund Reserves**

<b>Assessment of Unallocated General Fund Reserves</b>	<b>Minimum Level 2011/12 (£ million)</b>	<b>Maximum Level 2011/12 (£ million)</b>	<i>Minimum Level 2010/11 (£ million)</i>	<i>Maximum Level 2010/11 (£ million)</i>	<b>Change in Minimum Level (£ million)</b>	<b>Principal Reasons for Changes</b>
The general financial climate to which the Council is subject	2.0	4.0	3.0	6.0	-1.0	Most funding streams now fairly certain but some issues on capitalisation
The overall financial standing of the authority	1.5	4.0	1.5	4.0	0.0	Slightly higher forecast balances, but higher contingency in 2011/12
The treatment of planned efficiency savings / productivity gains	2.5	5.0	1.5	3.0	+1.0	Front loading of CSR cuts requires £25m of savings in 2011/12, significantly higher than last year
The treatment of inflation and interest rates	1.0	2.0	1.0	2.0	0.0	Inflation remains a risk
The financial risk inherent in major outsourcing arrangements	1.0	2.0	1.0	2.0	0.0	
The treatment of demand led pressures	1.0	2.0	1.0	2.0	0.0	Degree of uncertainty on demographic pressures
The financial risks inherent in any major capital developments	1.0	1.0	1.0	1.0	0.0	Potential for capital programme of works to transfer to revenue funded
Estimates of the level and timing of capital receipts	1.0	1.0	1.0	1.0	0.0	Impact on MRP reduce through lower receipts
The availability of reserves and other funds to deal with major contingencies	0.0	1.0	0.5	1.0	-0.5	£4.8m of unallocated contingency built into the 2011/12 budget
The Council's capacity to manage in year budget	1.0	2.0	0.5	1.0	+0.5	Potential impact of uncertain economic climate

pressures						
<b>Total</b>	<b>12.0</b>	<b>24.0</b>	<i>12.0</i>	<i>23.0</i>	<b>0</b>	

2.3 In summary, there is a broad spread of balances held against the key issues listed in paragraph 2.1. Therefore most of the Council's balances are held to deal with the common risks that virtually all multi-purpose local authorities need to manage on an ongoing basis. However there are two key issues for Hillingdon that drive the need to hold additional balances. Firstly, the unique circumstances surrounding the presence of Heathrow Airport within the boundaries of the Council. In particular this is the driver of the Council's exceptional asylum caseload, which has a fragile, unpredictable and inadequate funding stream attached to the support for care leavers, resulting in recurring funding shortfalls that require additional balances to be held. Secondly, along with all other local authorities, the Council is facing a significant reduction to its funding in 2011/12 as a result of the Comprehensive Spending Review announced in October 2010. Overall formula grant funding was cut by £11.2m in 2011/12, along with several other grants, predominantly education. As a result, the budget for 2011/12 contains savings proposals of £26m, more than double the savings level of previous years.

2.4 Detailed explanation of the range of balances recommended is contained in the annex below.

The upper end of the recommended range of balances of £24m represents just 3% of the overall gross expenditure of the Council as a whole. This is increased to 5% of gross expenditure if Schools budgets and Housing Revenue Account are excluded, on the basis that these functions have their own reserves.

2.5 In the budget report for 2010/11 approved by Cabinet and Council in February 2010, the drawing down of balances of £1.5m was included in the original budget for 2011/12. This has since increased to £1.8m in the final report presented to Cabinet in February 2011.

2.6 The level of unallocated General Fund reserves as at 31 March 2010 was £17.7m. In 2011/12 by Month 9 the Council is forecasting an overall overspend against budget of £0.45m (an underspend of £1.26m on normal activities and a £1.71m overspend on exceptional items). The draw down of balances in year of £1.5m and a transfer from earmarked reserves of £0.7m will leave projected balances at £16.5m at 31 March 2011

- However, the projected balances of £16.5m do not include an £2.5m Icelandic Banks impairment and also assume that £1m priority growth and £0.5m HIP contingency are both fully spent. Currently £0.9m of the £1m priority growth and £0.15m of the £0.5m HIP Contingency remain uncommitted. If no further commitments are made to priority growth or HIP contingency then balances are projected to be £15.1m.
- But there are still a number of outstanding issues to be resolved with central government that may mitigate the £2.5m impairment:



- The government is still considering the Council's application in respect of capitalising redundancy costs. They have already agreed other authorities redundancy capitalisation bids at 38% of the sum requested. If they do the same for Hillingdon then this would enable up to £0.95m of redundancy costs to be capitalised in the current year and improve balances by an equivalent sum.
- A request to central government has been submitted to pay the LAA reward grant as 100% revenue grant rather than 50% revenue/50% capital or, failing that, at as high a percentage as possible in revenue grant. If agreed, this would increase revenue balances by £1.8m.
- If the government rejects these applications then balances at the year end would be around £15.1m after absorbing the impact of the impairment. However, if our redundancy capitalisation bid is treated the same way as other authorities then balances would increase to around £16m. If the revised revenue/capital split for the LAA reward were also agreed then balances would increase to around £17.8m.

2.7 The General Fund revenue budget proposals for 2011/12 include a contingency of £11.8m which is identified against specific risks that are funded within the budget. Many of these risks have a high degree of certainty that they will be called upon in the year. However, the expected total of unallocated balances at 31 March 2011 plus the revenue contingency for 2011/12 is £26.6m, 3.7% of gross expenditure.

### 3. EARMARKED RESERVES

3.1 The Council has ring fenced earmarked reserves, detailed in Table 2 with balances as at 31 March 2010. Original forecasts for projected outturn positions are included. These are currently being updated (except for the Housing Revenue Account which is taken from the budget report for 2011/12).

Table 2: Earmarked Reserves

<b>Reserve</b>	<b>Balance as at 31 March 2010</b>	<b>Forecast Balance as at 31 March 2011</b>	<b>Forecast Balance as at 31 March 2012</b>
Housing Revenue Account	£6.0m	£10.6m	£8.5m
Schools Delegated Funds	£11.9m	£6.9m	£6.2m
Schools Earmarked Reserves	£1.8m	£0.1m	£0.1m
Parking Reserve Account	£0.8m	£0.8m	£0.8m
New Roads and Street works Act	£0.2m	£0.2m	£0.2m
Elections Reserve	£0.2m	£0m	£0.1m
Insurance Risk Management	£0.03m	£0.03m	£0.03m
Imported Food Service	£0.2m	£0	£0
Grant Funded Reserves	£1.8m	£0.7m	£0.3m
Library Book Fund and Coffee	£0	£0.1m	£0

Surplus			
Highways Reactive Maintenance	£0	£0.1m	£0
Social Care Development and Integrated Working Grant	£0	£0.3m	£0
Local Safeguarding Children Board	£0	£0.1m	£0
<b>Total</b>	<b>£22.93m</b>	<b>£19.93m</b>	<b>£16.23m</b>

### 3.2 Housing Revenue Account (HRA)

The Council has a statutory duty to maintain a separate revenue account for the provision of Council Housing. Any surplus on the HRA is accounted for in a separate ring fenced reserve and is managed independently to general reserves.

### 3.3 Schools Delegated Budgets

It is a requirement of the Schools Standards and Framework Act 1998 that any unspent balances of schools delegated budgets are ring fenced to be spent by the schools concerned and are not available to the Council for general use. The projected balance as at 31 March 2011 of £6.9m represents the aggregate of all school balances.

The regulations controlling the management of these reserves are detailed in section 4 of the Scheme for Financing Schools. The policy on schools balances was revised in January 2007 when the Balance Control Mechanism (BCM) was introduced with effect from 2007/08 in order to implement guidance from the Department for Children Families & Schools (DCSF) as follows:

Surplus balances held by schools as permitted under this scheme are subject to the following restrictions with effect from 1 April 2007:

- a. the authority shall calculate by 31 May each year the surplus balance, if any, held by each school as at the preceding 31 March. For this purpose the balance will be the recurrent balance as defined in the Consistent Financial Reporting Framework;
- b. the authority shall deduct from the calculated balance any amounts for which the school has a prior year commitment to pay from the surplus balance and any unspent Standards Fund grant for the previous financial year;
- c. the authority shall then deduct from the resulting sum any amounts which the governing body of the school has declared to be assigned for specific purposes permitted by the authority, and which the authority is satisfied are properly assigned. To count as properly assigned, amounts must not be retained beyond the period stipulated for the purpose in question, without the consent of the Council. In considering whether any sums are properly assigned, the Council may also take into account any previously declared assignment of such sums. However it may not take any change in planned

assignments to be the sole reason for considering that a sum is not properly assigned.

- d. if the result of steps a-c is a sum greater than 5% of the current year's budget share for secondary schools, 8% for primary and special schools, or £10k (where that is greater than either percentage threshold), then the Council shall deduct from the current year's budget share an amount equal to the excess.

Funds deriving from sources other than the Council will be taken into account in this calculation if paid into the budget share account of the school, whether under provisions of this scheme or otherwise.

Funds held in relation to a school's exercise of powers under Section 27 of the Education Act 2002 (community facilities) will not be taken into account unless added to the budget share surplus by the school as permitted by the Council.

The total of any amounts deducted from schools' budget shares by the Council under this provision are to be applied to the Schools Budget.

### **3.4 Schools Earmarked Reserves**

Funds are set aside to meet insurance, sickness cover and other schools related expenditure

### **3.5 Parking Reserve Account**

The parking fund reserve represents surpluses from on-street parking income used to fund traffic management and transport initiatives as defined by statute. The Cabinet Member for Planning and Transportation approves all new schemes that are financed from the fund. Usually schemes to the value of the uncommitted surplus are considered however a prudent approach is taken to avoid a deficit occurring.

### **3.6 New Roads and Street Acts**

Income raised under section 74 of the New Roads & Street works Act is required by statute to be ring-fenced for maintaining the highway. Income not spent within the year is set aside in the New Roads and Street works Act Fund. The Cabinet Member for Planning and Transportation approves new schemes to be financed from this fund.

### **3.7 Elections Reserve**

The Council has opted to smooth the impact of the four-yearly cycle of local elections by holding a reserve with a fixed contribution each year to cover the cost of holding local elections.

### **3.8 Insurance Risk Management Reserve**

Exceptional items related to insurance transactions are set aside to finance risk reduction measures with the aim of reducing future insurance costs.

### **3.9 Imported Food Service**

Funds have been set aside to meet fluctuations of income from the Imported Food Service (for example during times of reduced economic activity), in order to mitigate any potential impacts on the Council's General Fund.

### **3.10 Grant Funded Reserves**

Grant income paid in advance of expenditure.

### **3.11 Library Book Fund**

Funds set aside for the Libraries Service.

### **3.12 Highways Reactive Maintenance**

Funds set aside for works on Highways.

### **3.13 Social Care Development and Integrated Care Grant**

This is specific grant funding set aside to support and develop integrated working in Hillingdon and to implement the recommendations from the Munro report.

### **3.14 Local Safeguarding Children Board**

These represent funds set aside from a multi-agency pooled budget managed by but not owned by the Council.

## **4. UNFUNDED RESERVES**

4.1 Local authorities also hold other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves, which are not resource-backed and can not be used for any other purpose, are described below:

### **4.2 Pensions Reserve**

This is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes. These are done in accordance with those schemes' requirements and the net change in the authority's recognised liability under FRS 17 – Retirement Benefits, for the same period. An appropriation is made to or from the pensions reserve to ensure that the charge to the General Fund reflects the amount required to be raised in taxation. The amount of this reserve was a liability of £414.5m as at 31 March 2010.

### **4.3 Revaluation Reserve**

This is a reserve that records unrealised gains in the value of fixed assets. The reserve increases when assets are revalued upwards. It decreases as assets are depreciated or when assets are revalued downwards or are sold. The amount of this reserve was £31.2m as at 31 March 2010.

#### **4.4 Capital Adjustment Account**

This is a specific accounting mechanism. It is used to reconcile the different rates at which assets are depreciated under proper accounting practice and financed through the capital controls system. Statute requires that the charge to the General Fund is determined by the capital controls system. The amount of this reserve was £992m as at 31 March 2010.

#### **4.5 Available-for-Sale Financial Instruments Reserve**

This is a reserve that records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from the impairment of the assets. The amount of this reserve was £15k as at 31 March 2010.

#### **4.6 Financial Instruments Adjustment Account**

This is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund. The amount of this reserve was a liability of £4m as at 31 March 2010.

#### **4.7 Unequal Pay Back Pay Account**

This is a specific accounting mechanism used to reconcile the different rates at which payments in relation to compensation for previous unequal pay are recognised under proper accounting practice and are required to be met from the General Fund. The amount of this reserve was a liability of £0.04m as at 31 March 2010.

#### **4.8 Major Repairs Reserve**

This reserve records the unspent balance of HRA subsidy paid to housing authorities in the form of Major Repairs Allowance. The amount of this reserve was nil as at 31 March 2010.

### **Risk Management**

5.1 The Code of Audit Practice makes it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks need to be assessed in the context of the Council's overall approach to risk management.

5.2 The process by which the contingency budget is constructed links directly into the Council's risk management process. Significant risks are identified and recorded in risk registers which are regularly reviewed and updated as part of the risk management process. The process provides for review by senior officers, Group Directors, Cabinet Members and the Audit Committee addressing both executive functions and governance requirements. This

process is integral to ensuring the effectiveness of the budget strategy. The key financial risks identified in corporate risk register are reflected either directly in the budget strategy or are covered by the retained level of unallocated balances and reserves.

**Further detail on Assessment of Required General Fund Revenue Balances**

<b>Area of Risk</b>	<b>Details</b>	<b>Risk</b>	<b>Reserves Required 2011/12 (£m)</b>	<b>Reserves Required 2010/11 (£m)</b>
The general financial climate to which the Council is subject	a) Applications to the government to capitalise the costs of redundancy payments and the abortive costs of BS21 remain outstanding which could impact on the level of balances at the start of the year. b) A new funding regime for asylum began part way through 2010/11, which now gives greater certainty over this funding although a small risk does remain.	a) £1.5m to cover the risk these applications being rejected. b) £0.5m to cover the remaining uncertainty over asylum funding	2.0 – 4.0	3.0 – 6.0
The overall financial standing of the authority	The financial strength of the council continues to improve with strengthened treasury management, a smaller major capital programme, a prudent projected increase in council tax base and adequate bad debt provision. Financing costs are well managed through effective borrowing strategies and provided for in the MTF.	Slightly higher balances are forecast at the end on 2010/11, although the contingency include in the 2011/12 budget has also increased to £11.8m. £1.5m is proposed to cover the residual risk.	1.5 – 4.0	1.5 – 4.0
The treatment of planned efficiency savings / productivity gains	The budget for 2011/12 contains £26m of new savings, as a result of the front loading of the cuts in the CSR 2010. This is more than double the amount of savings included in previous years' budgets. Savings proposals have been developed through the council's transformation programme and strong project management and	Whilst the governance arrangements on transformation have been strengthened, there remains a risk due to the volume of savings. £2.5m is recommended to cover	2.5 – 50.	1.5 - 3.0

	monitoring arrangements have been put in place.	this risk.		
The treatment of inflation and interest rates	Very limited amounts of inflation have been included in the 2011/12 budget however, the underlying rate of inflation continues to rise as does the price of commodities. The low interest rate environment continues and this has been factored into the budget.	Based on assumptions regarding the level of inflation in the economy and the potential impact on costs to the Council £1.0m is proposed to cover this risk.	1.0 – 2.0	1.0 – 2.0
The financial risk inherent in any significant new funding partnerships or major outsourcing arrangements	The Council is reliant on external providers for a range of key services. This is especially in social care for residential and nursing care provision, and housing providers for temporary accommodation. Some of these suppliers are reliant on private finance linked to asset values for their viability. In the current financial climate this poses an increased risk of service failure to the Council.  The Council has outsourced facilities management, leisure management and revenues services, and these contracts create residual risks remaining to be managed by the Council.	The risks around these arrangements although well managed, are not fully mitigated and it is proposed that £1.0m is required to cover these.	1.0 – 2.0	1.0 – 2.0
The treatment of demand led pressures	The Council has a robust financial planning process (MTFF) that embedded across the organisation. As part of the MTFF service managers have made reasonable assumptions about demand and funding pressures and taken a prudent view of volatile areas. This process has identified all known pressures across the Council	This risk area is being managed through the MTFF and by including a £10 million contingency within the budget. Even taking this into account it is prudent to have	1.0 – 2.0	1.0 – 2.0



	and has included them as funded items in the MTFF, with additional funding in future years linked to forecast demand. The budget includes a contingency of over £11 million largely to take account of potential demand led pressures on key expenditure and income streams.	additional cover of £1.0m in reserves in order to mitigate the uncertainty over these pressures.		
The financial risks inherent in any major capital developments	The Capital Programme contains fewer large projects than in recent years, but continues to include a significant volume of programme of works projects. Uncertainty remains over the timing and volume of capital receipts and with the cost of borrowing set to increase, a risk remains that some capital expenditure may be transferred to revenue funded.	£1.0m is proposed to be held in reserves to cover the impact of this risk.	1.0	1.0
Estimates of the level and timing of capital receipts	The estimate of the capital receipts in the 2011/12 - 2014/15 Capital Programme is based on a schedule of assets that have been identified for sale. Before assets are included on the disposal schedule there has to be political commitment to the sale, plus a realistic prospect of selling. Performance on disposing of these assets is monitored monthly through the Land Sales & Implementation Team. Performance is also reported to the Strategic Property Group (SPG). If disposals are lower than projected the SPG will consider alternative options to achieve disposals or compensatory improvements to asset utilisation. The Council in addition has flexibility to borrow or use accumulated cash balances to cover such timing differences. The capital	Risk has been minimised by only including receipts from identified surplus sites. The monitoring structure in place ensures that if receipts are lower than projected the impact on the capital programme is managed. However, the timing of receipts can have a significant impact on financing arrangements especially Minimum Revenue Provision (MRP) (typically 4% of the historic net capital financing	1.0	1.0

	programme assumes General Fund capital receipts of £21.3m in 2011/12 and £32.6m over the following two years.	requirement). For this reason £1.0m should be held in balances.		
The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions	There is £4.8m of unallocated contingency built into the 2011/12 budget.	Low risk	0.0 – 1.0	0.5 – 1.0
The Council's capacity to manage in year budget pressures, and its strategy for managing both demand and service delivery in the longer term	There is a well-developed monthly budget monitoring process in place, ensuring adverse variations are identified promptly by service managers. The monthly challenge and review process ensures the early identification and resolution of issues. In the longer term, the Council's transformation programme is addressing service delivery in the longer term.	Although risk has been reduced by robust monitoring procedures an amount for this area is still included.	1.0 – 2.0	0.5 – 1.0

## **REPORT ON THE REVISIONS TO THE TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2011/12 TO 2013/14**

**Contact Officer:** Nancy Leroux  
**Telephone:** 01895 250353

### **SUMMARY**

Audit Committee considered the draft Annual Treasury Management Strategy Statement and Investment Strategy for 2011/12 to 2013/14 at the December 2010 meeting. This was in advance of the final Statement being presented to Cabinet and Council in February 2011.

As part of the scrutiny process members requested that a further report should be brought to the March Audit Committee detailing the changes from the draft to the final version of the Statement.

### **RECOMMENDATIONS**

That the contents of the report are noted.

### **INFORMATION – Amendments to the Annual Treasury Management Strategy Statement and Investment Strategy for 2011/12 to 2013/14**

Throughout the report there are various presentational changes and rephrasing of several sections, which should have been done prior to Audit Committee receiving the report in December. Officers will ensure better management of this report in 2011.

The figures in all the tables have been updated in line with the final capital programme for 2011/12 and beyond, and the most recent estimates as at the end of January.

A summary has been added to the start of the Statement to assist in the understanding of the purpose of the report.

### **Section 2: Balance Sheet and Treasury Position**

2.4: Additional paragraph to explain the variance in capital expenditure figures quoted in the treasury statement compared to the Council budget.

2.7: Additional paragraph which explains that the incremental impact on Council Tax figures quoted for 2010/11 and 2011/12 have been offset by savings and efficiencies.

2.8 (previously 2.6): Update of text following the publication of the Localism Bill to better explain the implications of the Council House reform during 2011/12 and to include contingency amounts for Authorised Limit and Operational Boundary.

2.9 (previously 2.7): Reduction in estimated interest payments in 2011/12 from £6.9m to £6.7m.

### **Section 3: Borrowing and Rescheduling Strategy**

3.2 & 3.3: Tables updated to include Housing Subsidy Reform Funding in Authorised Limit and Operational Boundary.

3.5: Local Authority Bills added as a potential source of borrowing.

3.13: Explanation included about net interest rate exposure totals and about the new individual limits for 2011/12 with variable and fixed interest rate exposure for debt and investment. The presentation of the table has been revised and to include benchmarks.

3.14: Table change: Increase in the 5–10 year maturity limit from 50% to 75% to allow greater capacity for more cost effective borrowing at the shorter end of the maturity curve.

### **Section 4: Investment Policy and Strategy**

4.4: Local Authority Bills added to the list of amendments to the 2011/12 Annual Investment Strategy. Explanatory text included to provide the rationale for all of the amendments.

Old 4.5 removed.

4.12 (previously 4.13): Estimated limits for principal sums invested for over 364 days for future years changed - 11/12 from £35m to £17m, 12/13 from £33m to £28m, and 13/14 from £31m to £35m. The changes reflect revised Capital Financing Requirements and subsequent net borrowing figures, resulting from alterations in expenditure profiles on Council resourced projects and further capital programme development.

4.13: merger of previous 4.14 and 4.15 and reworded.

4.15 (previously 4.17): Updated wording from “SORP” to “IFRS based Code of Practice”.

**Appendix A:** Table updated to show figures as at 31 January 2011, previously 30 November 2010.

**Appendix B:** Updated Arlingclose Economic and Interest Rate Forecast.

**Appendix C Specified Investments:** now includes Local Authority Bills as an investment option. Market Funds and other MMF's and CIS's limits now show "per fund" rather than "per institution"

**Appendix D Non Specified Investments:** Adjustment made to Money Market Fund aggregate limit to separate out a specific limit for funds included under Non Specified Investments from funds included within Specified Investments. The entry relating to 'Pooled Funds which are not Capital Expenditure' has been removed.

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## **BREIFING NOTE ON THE CONSULTATION ON THE REVISION AND CONSOLIDATION OF THE ACCOUNTS AND AUDIT REGULATIONS 2003 (SI 2003 NO 533) AS AMENDED**

**Contact Officer:** Nancy Leroux  
**Telephone:** 01895 250353

### **SUMMARY**

This briefing note provides a summary of the key issues contained within the consultation to revise and consolidate the Accounts and Audit Regulations 2003 as amended. The consultation runs until 4 March 2011 with the new regulations expected to come into force on 31 March 2011, allowing the changes to impact on the accounts for the 2010/11 financial year.

### **INFORMATION**

The aim of the consolidation is to make the regulations easier to understand and to simplify parts of the regulations which have been impacted by several amendments. There are several wording changes which clarify the intention of the regulations, such as that relating to the statement of internal control which should accompany the published accounts and not form part of the accounts. Additionally, the wording on remuneration reporting has been changed to clarify the meaning of the regulations and remove doubt.

The key issue which impacts on Hillingdon, and in particular on the work of the Audit Committee, is in relation to approval and publication of the accounts.

Current regulations require members to approve the annual accounts before they have been reviewed by the external auditor, which is out of step with private sector practice. The consultation proposes that the Chief Finance Officer will certify the presentation of the annual accounts by 30 June and release to external audit. By 30 September the final accounts must be published with the audit opinion and certificate and before that must have been approved by Members.

### **IMPLICATIONS FOR AUDIT COMMITTEE**

Audit Committee normally review the accounts at their June meeting, so this amendment would delay the review until the September meeting. Also, this year is the first year in which the accounts are presented under International Financial Reporting Standards (IFRS) and training had been planned for the March meeting, in advance of the review of the accounts. As a result of this proposed change, IFRS training will now be delayed until the June meeting.

One negative impact of this delay is that, in past years, Officers have found the Chairman's thorough review of the accounts prior to them being released to external audit to be of significant value. However, the Chairman has very kindly agreed to

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continue undertake a review of the accounts during June. The unaudited accounts will also be available to any other member of Audit Committee who wishes to review them.



# Agenda Item 16

## 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**

<b>Meetings</b>	<b>Room</b>
<b>28 June 2010</b>	<b>CR 3</b>
<b>21 September 2010</b>	<b>CR 3A</b>
<b>15 December 2010</b>	<b>CR 3</b>
<b>10 March 2011</b>	<b>CR 3</b>

## AUDIT COMMITTEE

### 2010/11 DRAFT Work Programme

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

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

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

<b>15 December 2010</b>		
	<b>Internal Audit Progress Report and plan amendments</b>	<b>Head of Audit</b>
	<b>Conversion to International Financial Reporting Standards (IFRS) - update</b>	<b>Director of Finance</b>
	<b>Treasury Management Strategy 20010/11</b>	<b>Director of Finance</b>
	<b>Training and Guidance on Treasury Management Strategy</b>	<b>Arlinglcose</b>
	<b>Deloitte – Annual Audit Letter</b>	<b>Deloitte</b>
	<b>Internal Audit and Hillingdon Homes Transfer Back to the Council</b>	<b>Head of Audit</b>
	<b>Audit Committee Work Programme</b>	<b>Democratic Services Manager</b>

<b>10 March 2011</b>	<b>Internal Audit Progress Report</b>	<b>Head of Audit</b>
	<b>Internal Audit Strategy</b>	<b>Head of Audit</b>
	<b>Internal Audit Operational Plan</b>	<b>Head of Audit</b>
	<b>Review of Internal Audit Terms of Reference,</b>	<b>Head of Audit</b>
	<b>Annual Governance Statement – Interim Report</b>	<b>Head of Policy</b>
	<b>Proposal to hold a Training Session to Review the Effectiveness of Internal Audit and other Training Matters</b>	<b>Head of Audit</b>
	<b>Report on the Revisions to the Treasury Management Strategy Statement and Investment Strategy</b>	<b>Director of Finance</b>

	<b>The Role of the Head of Internal Audit in Public Service Organisations</b>	<b>Head of Audit</b>
	<b>Balances and Reserves Statement</b>	<b>Director of Finance</b>
	<b>Deloitte Annual Grant Audit Letter</b>	<b>Director of Finance/Deloitte</b>
	<b>Deloitte – 2010/11 Annual Audit Plan</b>	<b>Director of Finance/Deloitte</b>
	<b>Revisions to Accounts and Audit Regulations 2003</b>	<b>Director of Finance</b>
	<b>Risk Management report Part II</b>	<b>Head of Policy</b>

For Members information, the dates of Audit Committee for the 2011/12 Municipal year are :

**27 June 2011**  
**20 September 2011**  
**2 February 2012**  
**15 March 2012**

<b>27 June 2011</b>		
	<b>Fraud Awareness Survey</b>	<b>Head of Audit</b>
	<b>Consolidated Fraud Report</b>	<b>Head of Audit</b>
	<b>Review of the systems of Internal Audit – Head of Audit.</b>	<b>Head of Audit</b>
	<b>Approval of Accounts, including Annual Governance Statement</b>	<b>Director of Finance</b>
	<b>Update on IFRS and Training</b>	<b>Director of Finance</b>
	<b>Head of Audit Annual Assurance Statement and opinion</b>	<b>Head of Audit</b>
	<b>Interim Use of Resources Assessment</b>	<b>Director of Finance/Deloitte</b>
	<b>Audit Committee Work Programme</b>	<b>Democratic Services Manager</b>
	<b>Audit committee Annual Report to full council</b>	<b>Head of Audit</b>

**NB:** The Process Taken for an Audit Investigation by Internal Audit will be taken as a separate training day

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