
Audit Committee

THURSDAY, 3RD FEBRUARY, 2011 at 19:30 HRS - CIVIC CENTRE, HIGH ROAD, WOOD GREEN, N22 8LE.

MEMBERS: Councillors Khan (Chair), Amin (Vice-Chair), Diakides, Meehan, Bloch, Butcher and Gorrie

AGENDA

1. APOLOGIES

To note any apologies for absence.

2. URGENT BUSINESS

The Chair will consider the admission of any late items of urgent business. (Late items will be considered under the agenda item where they appear. New items will be dealt with at item 15 below).

3. DECLARATIONS OF INTEREST

A member with a personal interest in a matter who attends a meeting of the authority at which the matter is considered must disclose to that meeting the existence and nature of that interest at the commencement of that consideration, or when the matter becomes apparent.

A member with a personal interest in a matter also has a prejudicial interest in that matter if the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the member's judgement of the public interest **and** if this interest affects their financial position or the financial position of a person or body as described in paragraph 8 of the Code of Conduct **and/or** if it relates to the determining of any approval, consent, licence, permission or registration in relation to them or any person or body described in paragraph 8 of the Code of Conduct.

4. MINUTES (PAGES 1 - 10)

To confirm and sign the minutes of the Audit Committee held on the 2 November 2010.

5. DEPUTATIONS AND PETITIONS

6. HOUSING ALLOCATIONS, LETTINGS AND HOMELESSNESS SERVICES RE-INSPECTION - UPDATE

Report of the Assistant Director, Strategic and Community Housing Service, to comply with the Audit Committee request from November 2010 which requested an action plan which shows how the Strategic and Community Housing Service will be taking the recommendations of the Audit Commission's re-inspection of the Council's Housing Allocations, Lettings and Homelessness services which took place in the summer of 2010 and to present the updated action plan that has been put into place to ensure the Council meets the Audit Commission's recommendations and findings.

TO FOLLOW

7. TREASURY MANAGEMENT STRATEGY STATEMENT 2011/12 TO 2013/14 (PAGES 11 - 38)

Report of the Director of Corporate Resources to present the proposed Treasury Management Strategy Statement for 2011/12 to 2013/14 for scrutiny prior to it being presented to Council for final approval.

8. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) - PROGRESS REPORT (PAGES 39 - 44)

Report of the Director of Corporate Resources to inform the Committee on the progress made in respect of the implementation of International Financial Reporting Standards (IFRS) and to note the ongoing actions to secure full implementation.

9. EXTERNAL AUDIT PROGRESS REPORT (PAGES 45 - 46)

Report of Grant Thornton.

10. EXTERNAL AUDIT PLAN 2010/11 (PAGES 47 - 66)

Report of the Director of Corporate Resources to inform the Committee of the external audit plan for 2010/11 proposed by Grant Thornton and to agree the audit fees.

11. ANNUAL AUDIT LETTER (PAGES 67 - 86)

Report of the Director of Corporate resources to receive the Annual Audit Letter for 2009/10 from the Council's external auditors, Grant Thornton and to note the issues raised and actions being taken.

12. INTERNAL AUDIT PROGRESS REPORT - 2010/11 QUARTER 3 (PAGES 87 - 124)

Report of the Head of Audit and Risk Management to inform the Audit Committee of the work undertaken during the third quarter by the Internal Audit Service in completing the 2010/11 annual audit plan and reports issued for outstanding 2009/10 audits together with the responsive and housing benefit fraud investigation work. In addition, to provide details of the work the Council's personnel division has undertaken in supporting disciplinary action taken across all departments by respective council managers.

13. RISK MANAGEMENT UPDATE - QUARTER 3 2010/11 (PAGES 125 - 130)

Report of the Head of Audit and Risk Management to inform the Audit Committee of the current position on compliance with the corporate risk management policy for the management of risk registers across the Council.

14. OFFICE OF THE SURVEILLANCE COMMISSIONERS (OSC) INSPECTION (PAGES 131 - 144)

Report of the Head of Audit and Risk Management to inform Members of the inspection visit made to Haringey by the Assistant Surveillance Commissioner in November 2010 and to inform Members of the recommendations made by the OSC and the Council's response in order to ensure these are appropriately addressed.

15. NEW ITEMS OF URGENT BUSINESS

To consider any new items of urgent business admitted at item 2 above.

16. DATE OF NEXT MEETING

Tuesday, 19th April, at 7.30pm.

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Wednesday, 26th January 2011

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Councillors Khan (Chair), Amin (Vice-Chair), Diakides, Meehan, Butcher and Gorrie

Apologies Councillor Bloch

MINUTE NO.	SUBJECT/DECISION	ACTION BY
PRAC45.	APOLOGIES Apologies for absence were received from Cllr Bloch. Apologies for lateness were received from Cllr Amin.	
PRAC46.	URGENT BUSINESS There were no items of urgent business.	
PRAC47.	DECLARATIONS OF INTEREST There were no declarations of interest.	
PRAC48.	MINUTES RESOLVED That the minutes of the meeting held on 14 September 2010 be approved and signed by the Chair.	
PRAC49.	DEPUTATIONS AND PETITIONS There were no deputations or petitions.	
PRAC50.	AUDIT PROGRESS REPORT Paul Hughes, Grant Thornton, presented the audit progress report and highlighted the key issues. It was reported that the accounts had been signed off and an unqualified opinion had been given. A review of the restated balance sheet under IFRS had been agreed as preparation for the IFRS accounts 2010/11 and the auditors were working with management on areas of focus for Value for Money audit work in 2010/11, following the cessation of the CAA regime. RESOLVED That the content of the report be noted.	
PRAC51.	VALUE FOR MONEY REPORT Paul Hughes, Grant Thornton, introduced the report on Value for Money 2009/10. With the abolition of the CAA regime, scores were no longer	

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provided in respect of value for money; the report set out the auditor's findings. The auditor's view was that improvements had been made in a number of areas, including data quality which was now felt to be adequate after extensive work during the year. It was reported that the value for money conclusion was therefore unqualified for 2009/10. It was reported that workforce management arrangements were felt to be robust, and that these arrangements would continue to be monitored as this became an increasingly challenging area. An area identified for improvement was the need to demonstrate a fully embedded approach towards value for money, but Grant Thornton understood that work was ongoing to address this. Key issues were set out at paragraph 1.5 of the report, namely the Council's response to funding pressures, the need to address in-year challenges, the need for continued focus on the production of the IFRS accounts and the continued emphasis on the importance of data quality.

A question was raised about the generally positive assessment of the Council's financial planning arrangements, as the report did not seem to foresee the budgetary pressures occurring in-year for 2010/11. Paul Dossett, Grant Thornton, advised that they assessed the outcomes and processes and that while there had been financial pressures, these had been managed with no significant impact on the Council's overall financial health. It was reported that there were continued financial pressures, but that these were recognised and assessed against the relevant criteria; in 2010/11 there would be a significantly increased focus on the Council's financial resilience. Some Committee Members noted that while there had been pressures, specifically in demand-led budgets, it was positive to note that reserves had been reasonable to accommodate these and issues had been identified at a very early stage.

The Committee expressed some concern regarding procurement processes, as Members were aware of examples where complying in full with procurement processes appeared to lead to less value for money for the Council. It was reported that the Council must aim to obtain the best value for money in all its activities, and that how to manage such situations depended on local judgement and the Council's appetite for risk.

Concern was expressed regarding the value of the report, and some Members felt that the report contained little of actual substance; questions were asked regarding why the report stated that the governance systems were robust, when a review of governance was being undertaken, and how workforce management could be assessed as good, when 91 days was the average suspension period. Mr Dossett reported that the report had been undertaken in line with requirements at the time, and that more robust recommendations would have been made had significant problems been identified. In response to the question regarding the governance arrangements, it was reported that these had been identified as positive overall, and that the subsequent decision to undertake a review of the arrangements did not negate that finding. It was also reported that while the average length of suspension may not

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	<p>be positive, it formed only one of a number of aspects of the workforce management arrangements which were assessed.</p> <p>The Committee questioned the positive findings regarding sustainability, in response to which Mr Hughes advised that sustainability had been assessed in great detail in the previous year, and that Haringey had compared favourably with other London boroughs in this regard; Grant Thornton confirmed that they were comfortable with that assessment. In response to a question regarding benefits administration and whether further improvement was needed in this area, Mr Hughes advised that benefits was a technical and complex area, and that there were issues regarding data quality and processing of benefits nationally. It was reported that since the previous year's findings, which had contributed to a qualified opinion, work was ongoing to improve this area, but there was a time lag between the implementation of these improvements and the results coming into effect.</p> <p>The Chair advised that, subject to the comments made by the Committee, his personal view was that Grant Thornton was an impartial organisation, and that their findings were that significant improvements had been made since the previous year in areas including data quality, safeguarding and the Children's Service. The Chair noted that despite the CAA regime being abolished, there was still a requirement for good audit practices and that it was a source of satisfaction that the Council had this year received an unqualified value for money conclusion. It was also noted that the auditor's report referred to the judgements on the Council by other bodies, and the Chair highlighted the positive findings of the report in respect of the strength of the Council's financial planning, the incorporation of the anticipated cuts into the revised budget, the preparation for IFRS, the national recognition of the Council's customer services and pensions service, the commendation for its procurement practices, the Council's acknowledged leadership in sustainability, the Carbon Trust Standard award, development of the data quality strategy, positive feedback from the JAR safeguarding follow-up report and unannounced inspection, the sustainable community strategy, the best practice work on Councillor Call for Action, the adequate challenge and control provided by the Audit Committee and the awards for Human Capital management, the Leadership Programme, WOW awards and National Customer Service awards. While the Council should be proud of these achievements, it was reported that areas for improvement had been identified and needed to be worked on, in accordance with the action plan attached. The Chair also noted the recommendation that the AGS should be presented to Members by someone from outside of audit, to ensure independence.</p> <p>Taking into account the comments made by the Committee, it was</p> <p>RESOLVED</p> <p>That the content of the report be noted.</p>	
PRAC52.	HOUSING ALLOCATIONS, LETTINGS AND HOMELESSNESS	

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SERVICES RE-INSPECTION - FINAL REPORT

Phil Harris, Assistant Director of Strategic and Community Housing, presented the report on the Housing Allocations, Lettings and Homelessness Service Re-inspection. Further to the poor inspection rating received in 2007, a re-inspection had been undertaken in May 2010, the conclusion from which was that the Service was delivering a 1-star, "fair" service, with excellent prospects for improvement. Engagement with service users was seen to have improved, and the temporary accommodation forum and multi-agency approach were identified as strengths of the service. A number of areas for further improvement had been identified, including monitoring, obtaining feedback and diversity. A requirement for benchmarking data in respect of temporary accommodation had been identified to ensure that value for money was being achieved, and further improvement was necessary in managing the performance of the lettings policy. It was reported that the re-inspection had been of great benefit to the service in working out its priorities and recognising where improvements had been made, and that an action plan had been produced to take this work forward.

The Committee expressed concern that the report did not give a clear sense of direction and did not include the action plan, as this limited the ability of the Committee Members to monitor progress. Mr Harris agreed that the action plan could be circulated to the Committee, and advised that the content of the action plan closely reflected what had been published in the Housing Improvement Plan.

In response to a question from the Committee about the voids process, Mr Harris responded that the approval of Full Council was required for the proposal that there should be a single point of responsibility for voids. The Committee expressed concern that this had not been agreed yet, as the issue of voids had cost implications and needed to be addressed. Mr Harris advised that performance in respect of vacant properties had improved significantly; turnaround times had decreased, acceptance rates for sheltered housing had increased and the number of empty properties had reduced from 60 to 5, some of which had been vacant for just a month or two.

The Committee acknowledged the progress that had been made, but noted that it was important for the Committee to see how the fundamental systems in place were being improved, and this report did not give a sense of this. The Committee expressed concern with the amount of progress made, given the significant amount of resources dedicated to improving the service since 2007. The Committee also expressed concern that the report did not include any figures relating to cost implications, and requested that these be provided.

The Committee asked which other committees were considering this report, and where responsibility lay for holding it to account. It was reported that the report was also going to Overview and Scrutiny for consideration. The Committee agreed that it was essential for there to be clarity regarding accountability. In response to the points raised by the Committee, Julie Parker, Director of Corporate Resources, stated that

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	<p>the best place for the report to be held accountable was the Audit Committee. The Chair emphasised that under the Audit Committee's terms of reference, it was essential for the Committee to see these reports in order to fulfil its responsibility to provide independent assurance of the Council's financial and non-financial affairs. The Committee stated that it was also essential for them to receive the relevant action plans, in order to fulfil its duties. The Committee suggested that it be fed into the ongoing review of the Council's governance arrangements that Audit Committee should be identified as the appropriate body for receiving and monitoring such reports.</p> <p>RESOLVED</p> <p>That the content of the report be noted and that the report be brought back for consideration by the Committee, including the action plan.</p>	
PRAC53.	<p>ANNUAL STATEMENT OF ACCOUNTS - OUTCOME OF THE ANNUAL AUDIT FOR 2009/10 AND REVIEW OF THE ANNUAL GOVERNANCE STATEMENT</p> <p>Kevin Bartle, Lead Finance Officer, presented the report on the final outcome of the annual audit for 2009/10, the action plan from the external auditor Grant Thornton, and the management responses to the action plan. The Committee was asked to note that the accounts were signed off by the appropriate deadline and that an unqualified audit opinion had been provided. Paul Hughes, Grant Thornton, reported that the audit of the accounts had gone well in terms of the information being provided in good time and officers fully cooperating with the audit process. It was reported that some medium priority issues had been identified, and that these were set out in the action plan. It was reported that Grant Thornton were satisfied with the management responses provided, and would work with management to monitor the implementation of the recommendations.</p> <p>In response to a question from the Committee regarding the significance of items such as Hostel Valuations, for example, Mr Hughes advised that where accounting practice in this area was found to deviate from standard practice, this was flagged up.</p> <p>The Chair reported that the accounts had already been considered and approved by the General Purposes Committee, and noted the unqualified audit opinion from the auditor. The Chair accepted the priorities outlined in the action plan by Grant Thornton, however gave his opinion that the items on the balance due from the DCLG and the reconciliation between rent and financial accounting systems should be considered a high priority by officers, in order for the Council to discharge its duties effectively.</p> <p>RESOLVED</p> <p>That the management responses contained in the action plan be agreed, and that the Committee receive an update on agreed actions at a future</p>	

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	meeting of the Audit Committee.	
PRAC54.	<p>TREASURY MANAGEMENT PRACTICES DOCUMENT</p> <p>Kevin Bartle, Lead Finance Officer, presented the report on the Treasury Management Practices document. It was reported that this had been approved by the General Purposes Committee, and that under the CIPFA Treasury Management Code of Practice, the Audit Committee was required to scrutinise the document.</p> <p>In response to a question from the Committee, Mr Bartle confirmed that members who had attended the sessions had received the appropriate training.</p> <p>The Chair asked for clarification of the separation of functions as set out in Treasury Management Practice 5, in response to which Mr Bartle advised that there were separate teams for policy and operations, which reported directly to the Section 151 Officer and Lead Finance Officer. It was confirmed that these arrangements were audited on an annual basis by both internal and external audit. The Chair expressed concern that staff costs for treasury management were shown in the Corporate Finance budget, while interest earned and payable was shown in the Non Service Revenue budget. Mr Bartle advised that this was so that staff costs were accounted for in line with all other staff costs, and the interest earned and payable was accounted for on a 'council-wide' basis, as it was not as such allocated to a specific service. The Chair accepted the view of officers in this regard, however gave his opinion that it did not lead to a true picture for the purposes of budget planning and accounting.</p> <p>The Chair asked whether officers could confirm whether the Council was fully compliant with all the 12 treasury management practices as set out by CIPFA, and whether officers were confident that a situation such as that in Iceland could not happen again. Mr Bartle confirmed that the Council was fully compliant with the 12 treasury management practices. Julie Parker, Director of Corporate Resources, advised the Committee that the Council was taking into account all of the guidance available in this area, including the CIPFA guidance which had been revised to prevent a similar occurrence such as the Iceland situation, and that while there could be no absolute assurance that the same thing would not happen again, a reasonable assurance could be provided, because the Council was following as many examples of best practice as possible.</p> <p>RESOLVED</p> <p>That the Treasury Management Practices document be approved.</p>	
PRAC55.	<p>HOUSING BENEFITS - 2ND QUARTER PROGRESS REPORT ON COUNTER FRAUD ACTIVITY</p> <p>Anne Woods, Head of Audit and Risk Management, presented the report on the quarterly counter fraud performance of the Benefits and Local Taxation Service. The Committee noted that sanctions for quarters 1 and</p>	

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	<p>2 were three short of the target for this period, and that £631k in overpaid benefits had been identified. The report also included details of prosecutions undertaken in 2010/11 to date and the new corporate anti-fraud team.</p> <p>The Committee discussed the central government subsidy paid in relation to overpayments. It was noted that recovery of overpayments identified had increased. The Committee asked whether fraud was not being pursued as effectively as it could be by the Council, in response to which Ms Woods reported that new means of addressing fraud had become available during the past year which were not previously open to the Council, which could now be taken on board and could improve recovery rates.</p> <p>The Committee noted that there had never been a 100% recovery rate for overpaid benefits, and so the Council had yet to fully benefit from the potential profit available from the government subsidy. The Committee asked what the actual amount recovered was, in response to which Ms Woods reported that software problems at a national level meant that it was not currently possible to calculate and report this amount, however it was anticipated that this would be corrected and that an accurate recovery figure could be reported at the next Committee. The Committee requested that the list of successful prosecutions for 2010/11 be annotated for the Committee, to show the likelihood of recovery in each instance.</p> <p>In response to a question from the Committee, Ms Woods reported that the Council had a duty to look closely at suspected fraud, as this was often linked to wider criminality, and could lead to those in genuine need of financial assistance being disadvantaged.</p> <p>RESOLVED</p> <p>That the content of the report and the work being carried out by the Benefits and Local Taxation Service in relation to Counter Fraud activity be noted.</p>	
PRAC56.	<p>INTERNAL AUDIT - 2ND QUARTER PROGRESS REPORT</p> <p>Anne Woods, Head of Audit and Risk Management, presented the report on the work undertaken during the second quarter by the internal audit service. It was reported that, as a result of the Committee's continued focus on ensuring the implementation of all audit recommendations, only 1 recommendation was outstanding from 2008/09 and 2009/10, and this was in the process of being implemented. It was reported that the in-house team continued to meet turnaround targets for fraud investigations, and were working to reduce the length of suspensions as far as possible. In response to a request at the previous meeting of the Committee for information on why there was a need for a corporate anti fraud resource, this had been set out in the report.</p> <p>In response to a question from the Committee regarding whether it</p>	

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	<p>would be possible to promote the outcome of fraud investigations to staff as a deterrent, it was reported that there needed to be a balance between the benefits of disclosure and the need to protect sensitive information, and that this was being looked into. The Committee suggested that staff induction would be an appropriate place to emphasise the action taken by the Council in response to fraud, and it was confirmed that this did form part of the current staff induction.</p> <p>The Chair highlighted areas identified in the audits which were unacceptable, namely that the Safeguarding Adults Prevention Strategy was still in draft form and that guidelines in respect of unaccompanied asylum seeking children have not been reviewed and updated in the last 12 months.</p> <p>RESOLVED</p> <ul style="list-style-type: none"> i) That the audit coverage and progress during the second quarter 2010/11. ii) That progress and responses received in respect of outstanding audit recommendations be noted. iii) That the actions taken during Quarter 2 to address the outstanding recommendations be confirmed as appropriate. 	
PRAC57.	<p>RISK MANAGEMENT - UPDATE</p> <p>Anne Woods, Head of Audit and Risk Management, presented the report on the current position on compliance with the corporate risk management policy for the management of risk registers. It was reported that, subsequent to the publication of the report, the final risk register had been updated and there was now 100% compliance with the corporate risk management policy.</p> <p>RESOLVED</p> <p>That compliance with the risk management strategy for the completion of risk registers across the Council be noted.</p>	
PRAC58.	<p>NATIONAL FRAUD INITIATIVE 2010/11 - CORPORATE ARRANGEMENTS AND REQUIREMENTS</p> <p>Anne Woods, Head of Audit and Risk Management, presented the report on the 2010/11 National Fraud Initiative data matching exercise. It was reported that as any change to the Audit Commission Act, under which the NFI was carried out, would require primary legislation, the NFI data matching exercise for 2010/11 would be going ahead, and the Council had submitted the information required for this.</p> <p>In response to a question from the Committee, Ms Woods confirmed that cross-reference was made between the electoral register and council tax lists and that there was a specific focus on single person council tax discounts. The Committee suggested that there should be a system of</p>	

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	<p>checking council tax registrations in connection with the planning system, for example where properties were converted into a number of flats or bedsits; it was reported that more proactive approaches to anti fraud work in relation to housing and planning issues such as this were being looked at as part of the work of the corporate anti fraud team. It was reported that, as a recommendation of a previous audit, certificates of lawfulness were now cross-referenced with all available data. The Committee asked whether the Council used private sector organisations such as Experian as part of its checks, in response to which Ms Woods advised that checks were done using private sector organisations as part of investigations that were felt to be high risk, and in reactive fraud investigations. Use of private firms was limited to higher risk areas, as there were cost implications. Julie Parker, Director of Corporate Resources, advised the Committee that there were minimal resource implications arising from the data matching work, but that where cases went to investigations, these did lead to costs.</p> <p>RESOLVED</p> <p>That the content of the report be noted.</p>	
PRAC59.	NEW ITEMS OF URGENT BUSINESS	
	There were no new items of urgent business.	
PRAC60.	DATE OF NEXT MEETING	
	3 February 2011, at 7.30pm.	
	The meeting closed at 21:10hrs.	

COUNCILLOR GMMH RAHMAN KHAN

Chair



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Haringey Council

Agenda item:

Audit Committee**On 3rd February 2011**

Report Title.	Treasury Management Strategy Statement 2011/12 to 2013/14		
Report of:	Director of Corporate Resources		
Signed :	 		
Contact Officer :	Nicola Webb, Head of Finance: Treasury & Pensions Telephone 020 8489 3726		
Wards(s) affected: All	Report for: Non Key Decision		
1. Purpose of the report 1.1 To present the proposed Treasury Management Strategy Statement for 2011/12 to 2013/14 for scrutiny prior to it being presented to Council for final approval.			
2. Recommendation 2.1 That the proposed Treasury Management Strategy Statement for 2011/12 to 2013/14 at Appendix A is scrutinised and comments made prior to its presentation to Council for approval.			
3. Reason for recommendation 3.1 To ensure the Treasury Management Strategy is scrutinised in advance of Council approval as required by the CIPFA Treasury Management Code of Practice.			
4. Summary 4.1 This report sets out the proposed Treasury Management Strategy Statement for financial years 2011/12 to 2013/14 in accordance with the CIPFA Treasury Management Code of Practice. The strategy was considered by General Purposes Committee on 11 th January 2011 and by Cabinet on 25 th January 2011			

and they have recommended that it is approved by Council.

- 4.2 The proposed borrowing strategy is to keep borrowing to a minimum due to the “cost of carry” resulting from the difference in short term and medium/long term interest rates.
- 4.3 Some limited additions to the Council’s lending list are proposed in order to provide some further capacity. These proposals are put forward having taken advice from the Council’s treasury management advisers and are considered to be prudent enough to ensure the credit quality of the Council’s investment portfolio remains high.

5. Head of Legal Services Comments

- 5.1 The Head of Legal Services has been consulted on the content of this report and comments that its content and recommendation are within the policy agreed by Council and consistent with the purposes of Financial Regulations. In considering the report Members must take into account the expert financial advice available in the report and any further advice given at the meeting in relation to the level of risk inherent in the proposals.

6. Use of appendices

- 6.1 Appendix A: Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14.

7. Local Government (Access to Information) Act 1985

- 7.1 The following background papers were used in the preparation of this report:

- Financial Planning report for 2010/11 to 2012/13 reported to Council and agreed on 22nd February 2010.
- Treasury Management reports to General Purposes Committee 28th June 2010, 23rd September 2010 and 11th January 2011.

For access to the background papers or any further information please contact Nicola Webb, Head of Finance: Treasury & Pensions, on 0208 489 3726.

8. Background

- 8.1 The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council’s prudential indicators for the three forthcoming financial years.

- 8.2 Following the publication of the revised CIPFA Treasury Management Code of Practice in 2009, the Council's constitution was amended to incorporate treasury management reporting requirements. General Purposes Committee are required to receive the Treasury Management Strategy Statement in advance of it being submitted to Cabinet and Council for final approval. The strategy was considered by General Purposes Committee on 11th January 2011 and by Cabinet on 25th January 2011 and they have recommended that it is approved by Council.
- 8.3 A further requirement is for the strategy to be scrutinised by Audit Committee in advance of approval by Council. This report is being presented to this meeting for that purpose.

9. Proposed Treasury Management Strategy Statement

- 9.1 The proposed Treasury Management Strategy Statement is set out in Appendix A to this report. The document includes the following:
- Borrowing (section 3)
 - Investments (section 4)
 - Monitoring (section 8)
- 9.2 The key factor to note in considering the strategy for 2011/12 is that short term interest rates are expected to remain very low throughout the year in contrast to medium and long term rates. This means that there will be a "cost of carry" if funds are borrowed in advance of capital expenditure being incurred. Therefore the Council anticipates continuing to run a strategy of keeping cash balances low and invested short term and to borrow only when required.
- 9.3 The proposed prudential indicators set out in the report do not reflect the funding of Decent Homes. The government have not yet made clear how much will be allocated to the Council or how it will be funded. Once this is clear, the prudential indicators will need to be revisited and if necessary revised. Any revisions to the indicators will need to be approved by full Council.

10. Proposed additions to approved Investment counterparties and instruments

- 10.1 The proposed investment strategy for 2011/12 is set out in section 4 and annexes 4 and 5 of Appendix A. There are two proposed additions to the existing approved lending list:
- Addition of Nat West and Standard Chartered to the list of UK banks
 - Deposits with non UK banks
- There is also a proposed addition to the types of instruments which can be used:
- UK Treasury Bills issued by the Debt Management Office

- 10.2 The Council's treasury management advisers have recommended the addition of UK banks Standard Chartered and Nat West. The long term credit rating of Standard Chartered has been upgraded following an improvement in the level of its balances. It is now clear that Nat West has a long term future within the RBS Group and with stable ratings, it is recommended that it is added to the lending list.
- 10.3 UK Treasury Bills are issued by HM Treasury's Debt Management Office and so are guaranteed by the UK government. They are proposed for inclusion as they offer a better rate of return than the Debt Management Account Deposit Facility, albeit with less flexibility on term (they are only available for periods of 1 month, 3 months and 6 months) with the same level of security.
- 10.4 In order to provide a wider range of creditworthy counterparties for the Council to invest with, it is proposed to add a limited range of non-UK banks to the Council's lending list. The banks it is proposed to add are all based in AAA rated European countries and have minimum long term credit ratings of A+ and in fact many are more highly rated than the UK banks already on the list. The table below demonstrates this as it lists the banks in descending order of their current lowest long term rating.

UK Banks – Long term ratings		Non UK Banks – Long term ratings	
		Rabobank	AA+
HSBC	AA		
Barclays Bank	AA-	Nordea Bank	AA-
Santander UK	AA-	BNP Paribas	AA-
		Credit Agricole CIB	AA-
		Credit Agricole SA	AA-
		Svenska Handelsbanken	AA-
Bank of Scotland	A+	Deutsche Bank	A+
Lloyds TSB	A+	Credit Suisse	A+
Clydesdale Bank	A+	Societe Generale	A+
Nationwide Building Soc	A+	ING Bank	A+
Royal Bank of Scotland	A+		
Nat West	A+		
Standard Chartered	A+		

- 10.5 It is proposed that these banks have a lower credit limit than the UK banks - £15m compared to £20m and there is a maximum period of investment of 6 months. It is also proposed that investments in any one country's banks are limited to a maximum of 10% at the time of investment, excluding the UK.

- 10.6 All counterparties, and the countries in which they are based, are kept under continual review by officers and the Council's treasury management advisers, Arlingclose Ltd. In the event any information reveals a concern about a counterparty's creditworthiness or the country in which it is based, it will be removed from the lending list with immediate effect and no new investments entered into. Sections 4.4 and 4.5 of Appendix A set out the range of information monitored.

11. Recommendation

- 11.1 That the proposed Treasury Management Strategy Statement for 2011/12 to 21013/14 at Appendix A is scrutinised and comments made prior to it's presentation to Council for approval.

APPENDIX A

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

Contents

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2. Balance Sheet and Treasury Position
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1. Background

- 1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the Communities and Local Government (CLG) Department's Investment Guidance.
- 1.2 CIPFA has defined Treasury Management as:
"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.3 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral elements of treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.
- 1.4 The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.
- 1.5 The purpose of this report is to propose:
 - Treasury Management Strategy - Borrowing in Section 3, Investments in Section 4
 - Prudential Indicators – these are detailed throughout the report and summarised in Annex 2
 - MRP Statement – Section 7
- 1.6 The Council originally adopted the CIPFA Code of Practice for Treasury Management in May 2002. At its meeting on 22nd February 2010 the Council adopted the revised CIPFA Code of Practice for Treasury Management. The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices. All treasury activity will comply with relevant statute, guidance and accounting standards. Adoption of the Code is one of the Prudential Indicators.

2. Balance Sheet and Treasury Position

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

Table 1: Treasury Position

	31/03/2011 Estimate £000	31/03/2012 Estimate £000	31/03/2013 Estimate £000	31/03/2014 Estimate £000
General Fund CFR	281,164	268,465	261,365	252,521
HRA CFR	488,046	488,046	488,046	488,046
Total CFR	769,210	756,511	749,411	740,567
Less: Existing Profile of Borrowing & Other Long Term Liabilities	(713,976)	(667,476)	(625,476)	(578,780)
Cumulative Maximum External Borrowing Requirement	55,234	89,035	123,935	161,787
Unearmarked Balances & Reserves	(17,822)	(17,873)	(17,873)	(17,873)
Cumulative Net Borrowing Requirement /(Investments)	37,412	71,162	106,062	143,914

- 2.2 The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Annex 1. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.
- 2.3 Estimates of Capital Expenditure:
It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Table 2: Capital Expenditure

	2010/11 Approved £000	2010/11 Projected Actuals £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
Non-HRA	95,956	99,115	42,671	40,000	30,426
HRA	52,642	55,033	17,526	14,843	13,543
Total	148,598	154,148	60,197	54,843	43,969

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

Table 3: Capital Financing

	2010/11 Approved £000	2010/11 Projected Actuals £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
Capital receipts	5,520	3,566	13,444	9,277	5,650
Other grants & contributions	4,943	10,166	7,786	12,977	14,088
Government Grants	67,160	69,766	24,724	12,008	6,966
Major Repairs Allowance	12,909	14,137	13,543	13,543	13,543
Revenue contributions	7,757	7,877	400	1,700	200
Total Financing	98,289	105,512	59,897	49,505	40,447
Borrowing	50,309	48,636	300	5,338	3,522
Total	148,598	154,148	60,197	54,843	43,969

- 2.5 Incremental Impact of Capital Investment Decisions:

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

- 2.6 As reported in the treasury monitoring reports during 2010/11 the indicators set in February 2010 are actually the total of Band D council tax and housing rent, rather than the incremental impact relating to capital decisions. This is the reason the approved figures for 2010/11 are much higher than future years. The reduction between 2010/11 and 2011/12 onwards is due to the reduction in the amount of capital expenditure being funded through borrowing shown in Table 3 above.

Table 4: Incremental Impact of Capital Investment Decisions

	2010/11 Approved £	2010/11 Projected Actual £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Increase in Band D Council Tax	1,184.32	9.96	1.00	1.88	1.95
Increase in Average Weekly Housing Rents	83.20	0.01	0.02	0.00	0.00

- 2.7 Reform to the Council Housing Subsidy System: CLG consulted on proposals to reform the council housing subsidy system in July 2010. The consultation proposed a removal of the subsidy system by offering a one-off reallocation of debt. Details of the new system will be announced in January 2011, and will be introduced in the Localism Bill to enable the new system to start in 2012. For the Council, this is expected to equate to a reduction in debt of £236m. CLG proposes to settle this by repaying a proportion of each of the Council's PWLB loans.
- 2.8 The estimate for interest payments in 2011/12 is £41.3m and for interest receipts is £0.28m. The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income.

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2010/11 Approved %	2010/11 Projected Actual %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Non-HRA	4.67	5.52	4.95	4.04	3.72
HRA	33.39	31.36	31.90	29.87	28.84

3. Borrowing Strategy

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

Table 6: Authorised Limit for External Debt

	2010/11 Approved £000	2010/11 Projected Actual £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
Borrowing	860,455	663,811	861,544	857,239	851,332
Other Long-term Liabilities	39,545	50,165	85,335	80,110	74,606
Total	900,000	713,976	946,879	937,349	925,938

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

Table 7: Operational Boundary for External Debt

	2010/11 Approved £000	2010/11 Projected Actual £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
Borrowing	835,455	663,811	761,544	757,239	751,332
Other Long-term Liabilities	39,545	50,165	56,890	53,407	49,737
Total	875,000	713,976	818,434	810,646	801,069

- 3.4 The Director of Corporate Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the General Purposes Committee.
- 3.5 In conjunction with advice from its treasury management adviser, Arlingclose Ltd, the Council will keep under review the following borrowing options:
- PWLB loans
 - Borrowing from other local authorities
 - Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
 - Borrowing from the Money Markets
 - Local authority stock issues
 - Structured finance

- 3.6 The PWLB issued a new set of lending arrangements on 20th October 2010, following the Spending Review announcement, which increase the cost of new local authority fixed rate loans to 1% above the cost of the Government's borrowing. Despite this, the PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:
- Variable rate borrowing
 - Medium-term Equal Instalments of Principal (EIP) or Annuity Loans
 - Long-term Maturity loans, where affordable.
- 3.7 Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and to maintain stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2011/12. The "cost of carry" associated with medium and long term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs. The continued use of internal resources in lieu of borrowing is likely to remain the most cost effective means of financing capital expenditure during 2011/12.
- 3.8 PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. Exposure to variable interest rates will be kept under regular review. Each time the spread between long-term rates and variable rates narrows by 0.50%, this will trigger a formal review point and options will be considered in conjunction with the Council's treasury management adviser and decisions taken on whether to retain the same exposure or change from variable to fixed rate debt. The Council's existing PWLB variable rate loan borrowed prior to 20th October 2010 will be maintained on its initial terms and is not subject to the additional increased margin for new variable rate loans.
- 3.9 The Council has £125m of loans which are LOBO loans (Lender's Options Borrower's Option) of which £75m of loans are currently in or will be in their call period in 2011/12. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan(s) by borrowing from the PWLB. The default response will however be early repayment without penalty.
- 3.10 The rationale for considering any possible rescheduling opportunities during the year would be one or more of the following:
- Savings in interest costs with minimal risk
 - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
 - Amending the profile of maturing debt to reduce any inherent refinancing risks.

As opportunities arise, they will be identified by Arlingclose and discussed with the Council's officers. Borrowing and rescheduling activity will be reported to General Purposes Committee as part of the quarterly monitor reports.

- 3.11 The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.
- 3.12 The Council's existing level of fixed interest rate exposure is 98.5% and variable rate exposure is 1.5%, however it is recommended that the limits in place for 2010/11 are maintained in future to retain flexibility.

Table 8: Fixed and Variable Interest Rate Exposure

	2010/11 Approved %	2010/11 Actual %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	98.5	100	100	100
Upper Limit for Variable Interest Rate Exposure	40	1.5	40	40	40

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

Table 9: Maturity Structure of fixed rate borrowing

	Lower Limit %	Upper Limit %
under 12 months	0	25
12 months & within 2 years	0	25
2 years & within 5 years	0	50
5 years & within 10 years	0	60
10 years & within 20 years	0	60
20 years & within 30 years	0	60
30 years & within 40 years	0	60
40 years & within 50 years	0	60
50 years & above	0	60

4. Investment Policy and Strategy

- 4.1 Guidance from the Communities and Local Government Department (CLG) on Local Government Investments in England requires that an Annual Investment Strategy be set.
- 4.2 The Council's investment priorities are, in this order:
- security of the invested capital;
 - liquidity of the invested capital;
 - an optimum yield which is commensurate with security and liquidity.
- 4.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Instruments proposed for the Council's use within its investment strategy are contained in Annex 4 and the list of proposed counterparties is shown in Annex 5. The Director of Corporate Resources, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Investment activity will be reported to General Purposes Committee as part of the quarterly reports.
- 4.4 With all investments the Council makes there is a risk of default, so the proposed list of investments is prepared to minimise this risk by being selective about the counterparties to be used. They are then subjected to continual monitoring, in conjunction with the Council's treasury management advisers, to ensure that they continue to meet the high standard set. The range of information used to determine creditworthiness is:
- Credit Ratings (minimum long-term A+ for counterparties; AAA for countries)
 - Credit Default Swaps (where quoted)
 - Net Debt as a Percentage of GDP for countries
 - Sovereign Support Mechanisms/potential support from a well-resourced parent institution
 - Share Prices
 - Macro-economic indicators
 - Corporate developments, news and articles, market sentiment.
- 4.5 If the monitoring reveals any concern about a counterparty's creditworthiness, it will be removed from the lending list with immediate effect. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office – either in the Debt Management Account Deposit Facility (DMADF) or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)

- 4.6 The changes to the list of specified counterparties proposed for 2011/12 are:
- Addition of Nat West and Standard Chartered to the list of UK banks
 - Deposits with non UK banks
- There is also a proposed addition to the list of instruments which can be used:
- UK Treasury Bills issued by the Debt Management Office
- 4.7 The Council's treasury management advisers have recommended the addition of UK banks Standard Chartered and Nat West following an improvement in the ratings of the former and the confirmation of the long term future of the latter within the RBS Group. UK Treasury Bills are issued by HM Treasury's Debt Management Office and so are guaranteed by the UK government. They are proposed for inclusion as they offer a better rate of return than the DMADF, albeit with less flexibility on term, with the same level of security.
- 4.8 In order to provide a wider range of creditworthy counterparties for the Council to invest with, it is proposed to add a limited range of non-UK banks to the Council's lending list. The banks it is proposed to add are all based in AAA rated European countries and have minimum long term credit ratings of A+ and in fact many are more highly rated than the UK banks already on the list.
- 4.9 The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.
- 4.10 To protect against a prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments may be considered within the limits proposed for Non-Specified Investments (see Annex 4). If longer-term investments are considered they would include:
- Term Deposits with counterparties rated at least A+ (or equivalent)
 - Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.
- 4.11 The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Table 10: Upper Limit for total principal sums invested over 364 days

	2010/11 Approved	2010/11 Projected Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
	£000	£000	£000	£000	£000
Principal	60,000	0	20,000	20,000	20,000

5. Outlook for Interest Rates

- 5.1 The economic interest rate outlook provided by the Council's treasury management adviser, Arlingclose Ltd, is attached at Annex 3. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.
- 5.2 The interest rate outlook shows that short term rates are expected to remain significantly lower than long term rates throughout 2011/12. For this reason it is anticipated that cash balances will be kept at a minimum throughout the financial year as the "cost of carry" will be significant for any borrowing taken before capital expenditure is incurred.

6. Balanced Budget Requirement

- 6.1 The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

7. MRP Statement

- 7.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.
- 7.2 The four MRP options available are:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method
- 7.3 MRP in 2011/12: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

- 7.4 It is a requirement for Council to approve the MRP statement before the start of the financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.
- 7.5 It is proposed the Council will apply Option 1 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure. This is a continuation of current practice. MRP in respect of leases brought onto the Balance Sheet under the IFRS-based Code of Practice will match the annual principal repayment for the associated deferred liability.

8. Monitoring and Reporting

- 8.1 General Purposes Committee will receive a quarterly report on treasury management activity and performance. This will include monitoring of the prudential indicators.
- 8.2 It is a requirement of the Treasury Management Code of Practice that an outturn report on treasury activity is produced after the financial year end, no later than 30th September. This will be reported to General Purposes Committee in advance of Cabinet and Council. Audit Committee will be responsible for the scrutiny of treasury management activity and practices.
- 8.3 Officers monitor counterparties on a daily basis with advice from the Council's treasury management advisers to ensure that any creditworthiness concerns are addressed as soon as they arise. Senior management hold monthly meetings with the officers undertaking treasury management to monitor activity and to ensure all policies and procedures are being followed.

9. Other Issues

- 9.1 Training
CIPFA's Treasury Management Code of Practice requires the Director of Corporate Resources to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.
- 9.2 Regular training sessions are arranged for members to keep their knowledge up to date. This included a Treasury Management Strategy training session on 11th January 2011.

9.3 Investment Consultants

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

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

- 9.4 The Council has appointed Arlingclose Limited to provide information and advice about the types of investment the Council should undertake and the counterparties that should be used. Quarterly service review meetings take place to monitor the service and the appointment is formally reviewed in accordance with the Council's Contract Standing Orders.

ANNEX 1

Current and Projected Portfolio Position

	Current Portfolio £000	31 Mar 11 Estimate £000	31 Mar 12 Estimate £000	31 Mar 13 Estimate £000	31 Mar 14 Estimate £000
External Borrowing:					
Fixed Rate – PWLB	460,806	490,806	529,106	530,106	527,706
Fixed Rate – Market	125,005	125,005	125,005	125,005	125,005
Variable Rate – PWLB	20,000	48,000	0	0	0
Variable Rate – Market	0	0	0	0	0
Total External Borrowing	605,811	663,811	654,111	655,111	652,711
Existing long-term liabilities	2,625	2,539	2,442	2,334	2,213
IFRS Long Term Liabilities:					
- PFI	43,026	40,929	38,957	36,884	34,705
- Operating Leases	7,351	6,697	6,010	5,288	4,530
Total Gross External Debt	658,813	713,976	701,520	699,617	694,159
Total Investments	20,000	20,000	40,000	40,000	40,000
(Net Borrowing Position)/ Net Investment position	(638,813)	(693,976)	(661,520)	(659,617)	(654,159)

ANNEX 2

Summary of Prudential Indicators

No.	Prudential Indicator	2011/12		2012/13		2013/14	
CAPITAL INDICATORS							
1	Capital Expenditure	£60,197k		£54,843k		£43,969k	
2	Ratio of financing costs to net revenue stream						
	General Fund	4.95%		4.04%		3.72%	
	HRA	31.90%		29.87%		28.84%	
3	Capital Financing Requirement	£756,511k		£749,411k		£740,567k	
4	Incremental impact of capital investment decisions						
	Band D Council Tax	£1.00		£1.88		£1.95	
	Weekly Housing rents	£0.02		£0.00		£0.00	
TREASURY MANAGEMENT LIMITS							
5	Authorised Limit	£946,879k		£937,349k		£925,938k	
	Operational Boundary	£818,434k		£810,646k		£801,069k	
6	Upper limit – fixed rate exposure	100%		100%		100%	
	Upper limit – variable rate exposure	40%		40%		40%	
7	Maturity structure of borrowing (U: upper, L: lower)	L	U	L	U	L	U
	under 12 months	0%	25%	0%	25%	0%	25%
	12 months & within 2 yrs	0%	25%	0%	25%	0%	25%
	2yrs & within 5 yrs	0%	50%	0%	50%	0%	50%
	5 yrs & within 10 yrs	0%	60%	0%	60%	0%	60%
	10 yrs & within 20 yrs	0%	60%	0%	60%	0%	60%
	20 yrs & within 30 yrs	0%	60%	0%	60%	0%	60%
	30 yrs & within 40 yrs	0%	60%	0%	60%	0%	60%
	40 yrs & within 50 yrs	0%	60%	0%	60%	0%	60%
	50 yrs & above	0%	60%	0%	60%	0%	60%
8	Sums invested for more than 364 days	£20,000k		£20,000k		£20,000k	
9	Adoption of CIPFA Treasury Management Code of Practice	√		√		√	

ANNEX 3

Arlingclose's Economic and Interest Rate Forecast

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

Arlingclose's comments and assumptions

- The recovery in growth is likely to be slow, uneven and more "Square root" than "V" shaped.
- The initial reaction to the Comprehensive Spending Review is positive but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Gilts will remain volatile as the growth versus headline inflation debate escalates.

Specified and Non Specified Investments**Specified Investments identified for use by the Council**

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

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

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

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- AAA-rated Money Market Funds with a Constant Net Asset Value
- Treasury-Bills (T-Bills)
- *Certificates of deposit with banks and building societies
- *Gilts: (bonds issued by the UK government)
- *Bonds issued by multilateral development banks

** Investments in these instruments would only be undertaken on advice from the Council’s treasury management adviser.*

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

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

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

The Council will also take into account the range of information on investment counterparties detailed in section 4.4.

Specified investments will be made within the limits detailed in the following table. The limits stated will apply across the total portfolio operated by the Council and so incorporate both Council and Pension Fund specific investments.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits £m	Maximum period of investment*
Term Deposits	UK	Debt Management Account Deposit Facility (DMADF), Debt Management Office (DMO)	No limit	6 months
Gilts	UK	Debt Management Office (DMO)	No limit	364 days
T-Bills	UK	Debt Management Office (DMO)	No limit	6 months
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£30m per local authority	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	£20m per bank or banking group	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit	Non-UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in European countries** with a Sovereign Rating of at least AAA from all three credit rating agencies.	£15m per bank or banking group	6 months
Bonds issued by multilateral development banks	Non-UK	Counterparties rated AAA in which the UK is a shareholder	£15m per counterparty	364 days
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	Constant Net Asset Value Money Market Funds (MMFs)	£20m per MMF***; Group limit £100m	Instant Access

* The limits for the period of investment are the maximum for the categories of counterparties. Lower operational limits will apply if recommended following a review of creditworthiness.

** Investments in any one country's banks will be limited to a maximum of 10% of the total investments at the time of investment, excluding the UK.

*** Limit per MMF to be no more than 0.5% of the Money Market Fund's total assets.

Non-Specified Investments proposed for use by the Council

Non-specified investments are those which do not meet the criteria for specified investments. The non-specified investments which it is proposed the Council will consider are investments for longer than one year with the same counterparties as specified investments. None of these will constitute capital expenditure. Non-specified investments will form a maximum of 50% of the total portfolio at any time.

	In-house use	Maximum maturity	Capital expenditure?
<ul style="list-style-type: none"> ▪ Term Deposits with UK banks and building societies ▪ Certificates of Deposit with UK banks and building societies 	✓	5 years	No
<ul style="list-style-type: none"> ▪ Gilts ▪ Bonds issued by multilateral development banks 	✓ (on advice from treasury adviser)	5 years	No

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

ANNEX 5

Lending List of counterparties for investments

This is the proposed list of counterparties which the Council can lend to. The list will be kept under constant review and counterparties removed if the process described in 4.4 and 4.5 raises any concerns about their credit worthiness.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Gilts, Treasury Bills, Term Deposits	UK	Debt Management Office (Term deposits with Debt Management Account Deposit Facility DMADF)	No limit
Term Deposits	UK	Other Local Authorities	£30m per local authority
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Santander UK Plc (Banco Santander Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Bank of Scotland (Lloyds Banking Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Lloyds TSB (Lloyds Banking Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Barclays Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Clydesdale Bank (National Australia Bank Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	HSBC Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Nationwide Building Society	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	NatWest (RBS Group)	20

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Royal Bank of Scotland (RBS Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Standard Chartered Bank	20
Term Deposits/ Call Accounts/ Certificates of Deposit	Finland	Nordea Bank	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	BNP Paribas	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	Credit Agricole CIB (Credit Agricole Group)	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	Credit Agricole SA (Credit Agricole Group)	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	Société Générale	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Germany	Deutsche Bank AG	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Netherlands	ING Bank NV	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Netherlands	Rabobank	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Sweden	Svenska Handelsbanken	15

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Term Deposits/ Call Accounts/ Certificates of Deposit	Switzerland	Credit Suisse	15
Money Market Funds	Ireland	BlackRock Institutional Sterling Liquidity Fund	20
Money Market Funds	Ireland	BlackRock Institutional Sterling Government Liquidity Fund	12
Money Market Funds	Ireland	Goldman Sachs Liquid Reserves Fund	20
Money Market Funds	Ireland	Henderson Global Investors Liquid Assets Sterling Fund	15
Money Market Funds	Ireland	Invesco Short Term Investments Company Sterling Liquidity Portfolio	5
Money Market Funds	Luxembourg	J.P. Morgan Asset Management Sterling Liquidity Fund	20
Money Market Funds	Ireland	RBS Global Treasury Fund - Sterling	20
Bonds	European Union	European Investment Bank	15
Bonds	European Union	European Bank for Reconstruction and Development	15
Bonds	Worldwide	International Bank for Reconstruction and Development (the World Bank)	15

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Haringey Council

Agenda item:

[No.]**Audit Committee****On 3 February 2011**

Report Title: Implementation of International Financial Reporting Standards (IFRS) – Progress Report	
Report of: Director of Corporate Resources	
Signed : <i>J. Parker</i> 26/1/11	
Contact Officer : Kevin Bartle, Lead Finance Officer Telephone 020 8489 5972	
Wards(s) affected: All	Report for: Non-key Decision
1. Purpose of the report 1.1. To inform the Committee on the progress made in respect of the implementation of International Financial Reporting Standards (IFRS) and to note the ongoing actions to secure full implementation.	
2. State link(s) with Council Plan Priorities and actions and /or other Strategies: 2.1. The IFRS initiative has strong links to the Council's Financial Strategy and is also a mandatory requirement with objectives and timescales that are imposed by central government.	
3. Recommendation 3.1. That the progress to date to ensure full IFRS implementation be noted.	
4. Summary 4.1. In the budget in 2007 the Chancellor announced that the public sector would be moving to IFRS-based financial reporting from 2008/09 for all areas except local government. Local government would be required to report on these new standards	

from 2009/10.

4.2. In the 2008 budget it was announced that this timetable would slip by one year and, therefore, local government are required to meet these standards in closing the 2010/11 accounts.

4.3. This report updates the committee on progress towards implementing the requirements of IFRS.

5. Head of Legal Services Comments

5.1. There are no specific legal implications in this report.

6. Service Financial Comments

6.1. The additional costs the Council will incur in preparing for IFRS in 2010/11 are to be contained within existing budgets.

7. Use of appendices /Tables and photographs

7.1.

8. Local Government (Access to Information) Act 1985

8.1 The following background papers were used in the preparation of this report:

- Report of Chief Financial Officer to the Audit Committee on 23 April 2009 – Implementation of International Financial Reporting Standards (IFRS)
- Report of Chief Financial Officer to the Audit Committee on 1 February 2010 – Implementation of International Financial Reporting Standards (IFRS) – Progress Report

9. Background

9.1. The Audit Committee were briefed on the requirement for the Council to complete its statement of accounts in accordance with International Financial Reporting Standards (IFRS) in April 2009 with a progress report in February 2010. The committee has also been periodically updated in the Audit Progress reports from the Council's external auditors Grant Thornton.

9.2. Annual accounts for local authorities will need to be prepared using IFRS from the year ending 31 March 2011. In addition financial information for 2009/10 will need to be restated for comparative purposes along with opening balances as at 1 April 2009. In practice, this means that the transition period for all Local Government

bodies started in 2009/10.

10. Progress to date and Milestones

- 10.1. The Council's project plan includes a number of milestones to be achieved in preparation for IFRS which are detailed below.

Restatement of the balance sheet at 1 April 2009 and at 31 March 2010.

- 10.2. Implementing IFRS requires accounting for some financial transactions as though they had always been accounted for on an IFRS basis. This requires the restatement of the transition balance sheet i.e. the balance sheet as at 1 April 2009 and 31 March 2010.
- 10.3. A draft of the restated balance sheet was completed in December 2010 and has been submitted to external audit for their review.

Restatement of the other disclosures to the accounts at 31 March 2010

- 10.4. The statement of accounts for 2010/11 will include comparator information from 31 March 2010. Consequently all disclosures required for IFRS will need to be restated.
- 10.5. Additional guidance on the Code of Practice for IFRS was received from CIPFA in December 2010 with examples of the required accounting disclosures. The requisite changes to the Council's accounting systems have been implemented to ensure that the necessary data collection processes are in place by 31 March 2011.

Review of the accounting policies for 2010/11

- 10.6. The Council's accounting policies are reviewed each year based on changes to the CIPFA Code of Practice and approved by the General Purposes Committee. The policies under IFRS will be considered by that committee in March 2011.
- 10.7. The Council will also work closely with our external auditors to ensure they have been able to review the draft set of policies prior to the March 2011 General Purposes Committee.

Preparation of the 2010/11 Statement of Accounts

- 10.8. As noted above, guidance on the 2010/11 accounts has been received from CIPFA and will inform the preparation of the accounts for the current financial year and the restatement of the 2009-10 accounts for comparative purposes. The outcome of the work external audit is currently undertaking will also inform the preparation of the accounts.

- 10.9. IFRS will now become part of the business-as-usual closing process for the Council. The timetable for the closure of accounts will be prepared in February as usual.

11. Principal Impacts and Workloads

- 11.1. The implementation of IFRS has the largest impact on the following areas of the Council's accounts.

Employee Benefits

- 11.2. The cost of accrued employee benefits such as flexitime and annual leave carried forward now need to be included in the accounts.

Leases and Contractual Arrangements

- 11.3. A small number of leases have been identified so far that were previously treated as operating leases which are to be accounted for as finance leases under IFRS. The review of leases will continue up to the balance sheet date of 31 March 2011 to incorporate any changes for new leases or leases with modifications.

- 11.4. As part of the 2009/10 Statement of Accounts work, a review was undertaken of contractual and other arrangements which involve the provision of services using specific underlying assets and which therefore can be considered as containing a lease for those assets. At that time, the review concluded that only that the suspended PFI contract fell into this category. This review process will continue for the closure of the 2010/11 accounts.

Land and Buildings Valuation and Classification

- 11.5. All property assets were revalued where appropriate under IFRS as part of the 2009/10 closing process to enable the restatement of the balance sheet.
- 11.6. The revaluation process for 2010/11 is in progress in accordance with the normal timetable for the closure of accounts and includes a full revaluation of the investment property portfolio.
- 11.7. Some assets have also been reclassified in the restated IFRS balance sheet. For example, the category of 'Assets Held for Sale' has much stricter criteria than the former 'Surplus Assets' category so some assets formerly classified as surplus will be held as 'Property, Plant and Equipment'.

Building Components

- 11.8. From 1 April 2010, any addition to, enhancement of or revaluation of buildings requires a judgement to determine whether the building has significant

components that have varying economic lives and should therefore be depreciated over differing periods of time. The components are then recorded separately in the asset register and depreciated over their respective economic lives.

- 11.9. The consideration of components is in progress in line with the normal closing timetable.

Group Accounts

- 11.10. IFRS still requires local authorities to produce group accounts where they have subsidiary or associate entities. Haringey's 2009/10 group accounts consolidated Homes for Haringey's and the Council's financial statements.

- 11.11. However, under IFRS, an entity could be treated as a subsidiary based on the Council's ability to control the entity as opposed to the old standards which required actual control taking place. More organisations may therefore need to be consolidated into the Council's group accounts.

- 11.12. The outcome of this is that there is a possibility that Alexandra Park and Palace Charitable Trust will be required to be consolidated into the Council's group accounts.

- 11.13. External and independent advice from consultants Deloitte's on the accounting treatment for potential consolidation has been received and is being reviewed.

- 11.14. The review is ongoing and a final conclusion has not yet been reached.

12. Summary

- 12.1. The requirements of IFRS are being implemented and the Council is on track to produce IFRS compliant accounts for 2010/11. The Council will continue to work closely with external audit throughout this process. This report has outlined some of the ongoing activities and actions in order to achieve this.

13. Recommendation

- 13.1. That the progress to date to ensure full IFRS implementation be noted.

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LONDON BOROUGH OF HARINGEY

AUDIT PROGRESS REPORT - FEBRUARY 2011

Work	Progress
2009/10 Audit	We have now completed our 2009/10 audit and the Annual Audit Letter that we are about to present to Cabinet and the Audit Committee summarises the work that we carried out and our main conclusions.
Audit Plan 2010/11	<p>We agreed our indicative fee for 2010/11 with the Chief Financial Officer and presented this to the June meeting of the Audit Committee. This letter was prepared in advance of the audit year in order to provide the Audit Commission with details of indicative fees nationally.</p> <p>We have now agreed the full 2010/11 Audit Plan with management and will present this to the February meeting of the Audit Committee. The plan sets out the areas where we will be carrying out work in 2010/11 and provides the confirmed position on the 2010/11 audit fee and the likely level of reduction to the 2011/12 fee.</p>
International Financial Reporting Standards (IFRS)	<p>We are continuing to work with management as preparations for IFRS continue and we are currently performing a review of the restated 31 March 2010 balance sheet, under IFRS.</p> <p>We will report the outcome of this review to management in mid-February and present this to the next meeting of the Audit Committee.</p>
Grants claims and returns certification	<p>We presented our Grant Claims And Returns Planning Memorandum 2009-10 to the September 2010 Audit Committee and, with the exception of the housing benefit claim where we are having to carry out further testing, our work is complete.</p> <p>We will issue our 2009-10 grants report to the Council once this claim has been certified and will present this to the next meeting of the Audit Committee.</p>

Grant Thornton UK LLP

February 2011

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Haringey Council

Agenda Item

Audit Committee**On 3 February 2011**Report title: **External Audit Plan 2010/11**Report of: **Director of Corporate Resources**

Signed:

*J. Power 25/1/11***Ward(s) affected:** All**Report for:** Decision**1. Purpose**

1.1 To inform the Committee of the external audit plan for 2010/11 proposed by Grant Thornton and to agree the audit fees.

2. Recommendation

2.1 That the Committee approves the proposed audit plan and fees for 2010/11.

Report authorised by: Kevin Bartle – Lead Finance Officer

Contact officer: Kevin Bartle - Head of Corporate Finance
Telephone 020 8489 5972

3. Executive Summary

3.1 The proposed audit plan for 2010/11 sets out the work that Grant Thornton, the Council's external auditors are proposing to carry out in discharging their

responsibilities to provide an opinion on the Council's financial statements and to be able to provide an opinion on the value for money arrangements the Council has in place.

3.2 The plan also includes the proposed fees for the audit of £505k and an estimate of the fees for grant certification of £90k which are equal to the indicative figures provided originally to the Audit Committee in March 2010.

3.3 The proposed plan has been discussed with senior officers of the Council and it is recommended for approval.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 None.

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

5.1 None.

6. Background

6.1 The content of the work in the external audit plan is proposed by Grant Thornton on a risk based approach to audit planning and reflects national and local risk issues. The outputs from this are contained on page 13 of their plan and include appropriate reporting back to Members on completion of the work.

6.2 The key risk areas highlighted in the proposed audit plan include:

- Accounting under IFRS
- Financial performance pressures
- Revaluation of fixed assets
- Use of estimates and judgements
- Valuation of Council dwellings
- Alexandra Park and Palace Trust – consideration of group accounts consolidation

6.3 The fees charged by Grant Thornton are for the work they carry out for the statutory audit, Value for Money assessment, review the Annual Governance Statement, the Whole of Government Accounts consolidation pack, the certification of grants and claims and review of the work the Council undertakes on the National Fraud Initiative.

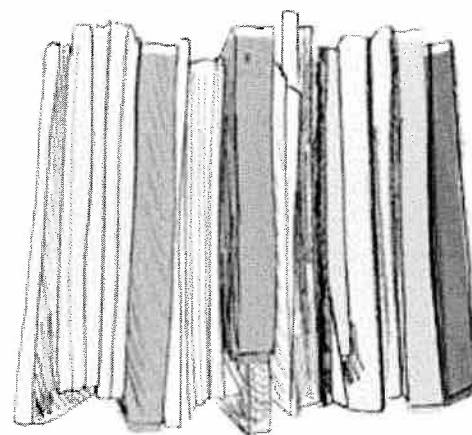
7. Recommendation

7.1 That the Committee approves the proposed audit plan and fees for 2010/11.

London Borough of Haringey

Audit plan 2010-11

January 2011



An overview of your 2010-11 Audit Plan

This is our audit plan for the financial year 2010-11 for the London Borough of Haringey (the Council). It sets out the work that we will deliver in discharging our responsibilities to give an opinion on the Council's financial statements and a conclusion on the Council's arrangements for achieving value for money.

We set an indicative fee in March 2010. In setting this fee, we assumed that, whilst the transition to IFRS is a significant change and challenge, the underlying level of risk in relation to the audit would not be significantly different from that identified for 2009-10. Following the completion of the 2009-10 audit we have updated our accounts audit risk assessment.	See Accounts audit
In August 2010 a new approach to local Value for Money audit work was introduced by the Audit Commission. From 2010-11 we will give our value for money conclusion based on two reporting criteria specified by the Audit Commission.	See Value for money audit
Our main audit team includes a new assistant manager to lead the final accounts process. As in previous years, we will use specialists from across Grant Thornton to support our work and ensure that you are getting the required levels of expertise from us.	See Engagement team
We have used the Audit Commission scale of fees work programme for 2010-11 to calculate your proposed audit fee. Although this fee remains unchanged from the agreed indicative of March 2010 the Commission has recently confirmed that the Council will receive a further rebate.	See Audit fee
You will receive a number of reports and other outputs from us throughout the year which will provide you with the detailed conclusions of our work, culminating in the issue of our Annual Audit Letter to the Council.	See Outputs and timeline
We have considered our independence and objectivity in respect of the Audit and draw your attention to our approach in placing reliance on the work of internal audit. We comply with the Audit Commission's requirements in respect of independence and objectivity.	See Appendix A

Accounts audit

Introduction

This section of the plan sets out the work we propose to undertake in relation to the audit of the 2010-11 accounts. The plan is based on our risk-based approach to audit planning and is based on our assessment of the potential business and audit risks that need to be addressed by our audit and the controls the Council has in place to mitigate these risks.

The Council's responsibilities

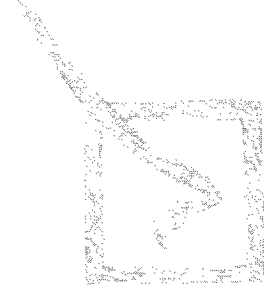
The Council's accounts are an essential means by which it demonstrates its stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
- maintain proper accounting records
- prepare accounts, which accurately represent the financial position of the Council and its expenditure and income in accordance with International Financial Reporting Standards.

Our responsibilities

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Council and its expenditure and income for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.



Accounts audit - risk assessment

Accounting risks and planned audit response

Table 1 below summarises the results of our initial risk assessment of significant financial risks facing the Council and our planned response.

Table 1: Accounting risks and planned audit response

Key audit risk	Audit areas affected	Audit approach
Accounting under IFRS	All areas of the financial statements	<ul style="list-style-type: none">• Prior to the main financial accounts audit taking place we will agree a programme of work on the restated statements to gain assurance over these figures.• We will review the accounting policies used by the Council in its adoption of IFRS for the first time.• Specialist technical support will continue to be made available to the Council as required.• We will review the implications of any developing issues through reference to IFRS guidance and discuss with the Council accordingly.
Financial performance pressures	All areas of the financial statements	<ul style="list-style-type: none">• We will review the Council's financial performance for the year against its agreed budget.• We will consider the use of general reserves during the year.• We will review the Council's medium term financial strategy in light of current funding arrangements.
Revaluation of fixed assets	Property, plant and equipment	<ul style="list-style-type: none">• We will review any valuations undertaken and ensure that these are in compliance with the requirements of IFRS. Where possible, this work will be performed prior to our final accounts audit fieldwork.• We will undertake a detailed review of property, plant and equipment accounting to ensure previous recommendations have been addressed, as well as those arising upon adoption of IFRS.

Accounts audit - risk assessment

Accounting risks and planned audit response (continued)

Table 1: Accounting risks and planned audit response

Key audit risk	Audit areas affected	Audit approach
Use of estimates and judgements	All areas of the financial statements	A project has been completed by the International Auditing and Assurance Standards Board to clarify the International Standards on Auditing. The main area of our work that this is likely to impact on is the use of estimates and judgements within the financial statements. All judgements used by the Council, including those used by professionals such as property valuers, will need to be clearly documented and evidenced
Valuation of Council dwellings	Property, plant and equipment	We will review the documented judgements made by the Council in determining which indices and assumptions to use in line with the introduction of the Clarity ISAs (International Standards on Auditing).
Alexandra Park and Palace Trust	Group accounts consolidation	We will review arrangements in place between the Council and Alexandra Park and Palace Trust to determine whether Alexandra Park and Palace Trust should be consolidated into group accounts under IFRS.

Accounts audit - approach

Audit approach

We will:

- work closely with the Finance Team to ensure that we meet audit deadlines and conduct the audit efficiently
- plan our audit on an individual task basis at the start of the audit, and timetables agreed with all staff involved.
- consider the materiality of transactions when planning our audit and when reporting our findings.

In summary our audit strategy comprises:

Planning	Updating our understanding of the Council through discussions with management and a review of the management accounts
Control evaluation	<ul style="list-style-type: none"> • Reviewing the design and implementation internal financial controls, including IT, where they impact the financial statements • Assessing audit risk and developing and implementing an appropriate audit strategy • Testing the operating effectiveness of selected controls • Assessing internal audit against the CIPFA Code of Practice
Substantive procedures	<ul style="list-style-type: none"> • Reviewing material disclosures in the financial statements • Performing analytical review • Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate
Completion	<ul style="list-style-type: none"> • Performing overall evaluation of the process • Determining an audit opinion • Reporting to Audit Committee

Accounts audit - other issues

Other issues

Annual Governance statement

As part of our work on the accounts audit, we will review the Annual Governance Statement (AGS) to determine if it is consistent with our knowledge of the Council.

Whole of Government Accounts

We will also review the Whole of Government Accounts (WGA) consolidation pack for consistency with the Council's accounts.

Electoral challenge

The Audit Commission Act 1998 gives electors certain rights:

- the right to inspect the accounts
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form a decision on the elector's objection. The additional work may be significant and could result in the requirement to seek legal representations on the issues raised. The costs incurred in responding to any questions or objections raised by electors are not part of the audit fee. In the event of costs being incurred as a result of elector's objections we will discuss these with the Council and, where appropriate, charge for this work in accordance with the Audit Commission's fee scales.

Certification of Grants and Returns

In addition to our audit of the Council's financial statements and Value for Money, we are required to certify grant claims and returns above predetermined thresholds.

In carrying out work in relation to grant claims and returns, Grant Thornton UK LLP acts as an agent of the Audit Commission, on behalf of the grant paying bodies. The work that the auditor is required to undertake is specified in a Certification Instruction, issued by the Audit Commission for each scheme, following discussion with the grant paying body. As agents of the Audit Commission we are required to recover, in respect of each grant claim and return, a fee that covers the full cost of the relevant work undertaken. These rates are based on the hourly rates for certifying claims and returns set out in the Audit Commissions 'Work programme and scales of fees 2010-11.

Prior to the commencement of our work we will issue a grants plan and report in full to the Council on conclusion of our certification work.

National Fraud Initiative (NFI)

The Council participates in the National Fraud Initiative, the Audit Commission's data-matching exercise designed to prevent and detect fraud in public bodies. We will review the Council's progress and actions in following up the matches identified.

Value for money audit

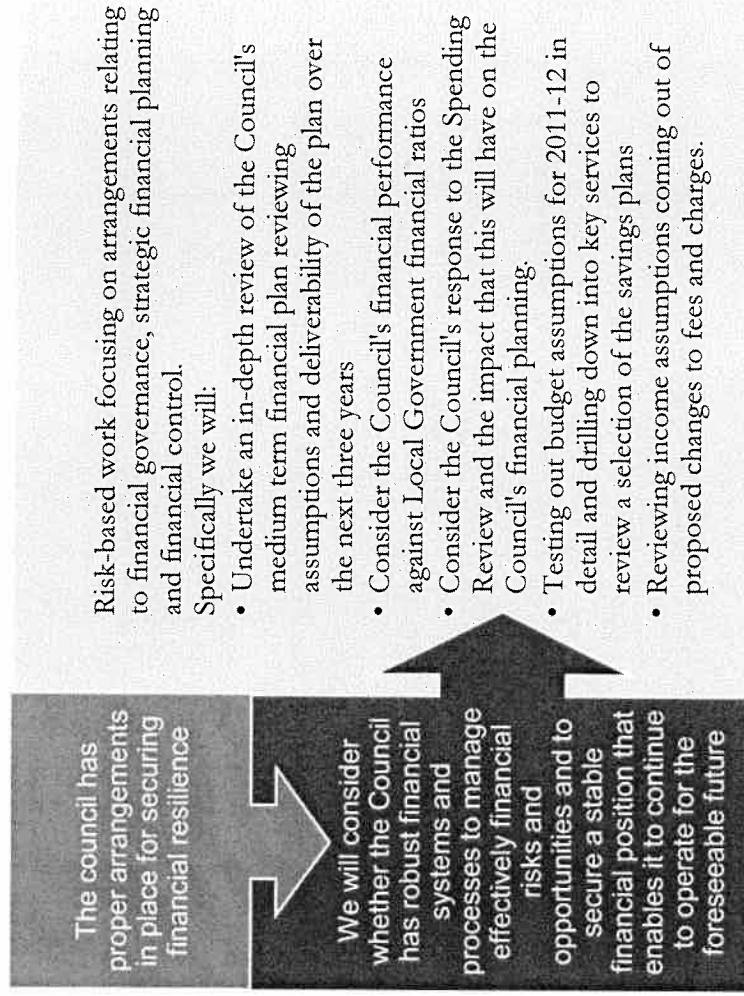
Introduction

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

2010-11 VFM conclusion

Since we issued our indicative fee letter, a new approach to local Value for Money audit work has been introduced by the Audit Commission. From 2010-11 we will give our value for money conclusion based on two reporting criteria specified by the Audit Commission:

Code criteria 1 Work to be undertaken



Value for money audit

Code criteria 2

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness



We will consider whether the Council is prioritising its resources within tighter budgets

Work to be undertaken

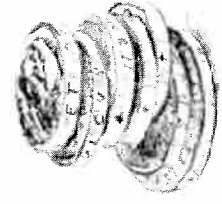
Risk-based work focusing on arrangements for prioritising resources and improving productivity and efficiency.

Specifically we will:

- Apply our VfM benchmarking tool to the Council's 2009-10 performance to establish how services performed during the year.
- Carry out a review to assess the adequacy of the Council's arrangements for managing personal budgets in Adult Social Services.
- Follow up on our 2009-10 reviews of partnership working and workforce arrangements in the context of the Council's response to the Spending Review.
- Review progress made in implementing actions arising from the recently completed independent review of governance arrangements.

We will tailor our VfM work to ensure that as well as addressing our high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for officers and members. Where we plan to undertake specific reviews to support our VfM conclusion, we will agree brief Terms of Reference with officers specifying the objectives, scope and timing of each review.

The results of all our local VfM audit work and key messages will be reported in our Report to Those Charged with Governance (ISA 260 report) and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.



Engagement team - key contacts

Your main audit team is based in London and are all public sector specialists.

However, we operate as a national practice, coordinating the work of all our offices to ensure that new ideas, good practice experiences and services are developed and disseminated to all, irrespective of location.



Paul Dossett (CPFA)
Engagement Lead
T 020 7728 3180
E paul.dossett@uk.gt.com

Paul is the Council's Engagement Lead, bringing his extensive local authority expertise to the Council. Paul will be a key contact for the Chief Executive, the Director of Finance, other senior Council Officers and the Audit Committee. Paul is responsible for the overall delivery of the audit including the quality of output and, signing the audit reports and conclusion



Caroline Glitre (CPFA)
Manager
T 020 7728 2085
E caroline.glitre@uk.gt.com

Caroline is responsible for the audit strategy, planning and liaison with key Council contacts, including internal audit, to ensure the smooth running of the audit and the delivery of the overall audit plan. Caroline reviews the quality of audit outputs and ensures accuracy of reporting prior to presenting plans and reports to the Council's officers and Members.



Hanisha Solanki (ACCA)
Assistant Manager
T 020 7728 2072
E hanisha.solanki@uk.gt.com

Hanisha is responsible for managing the audit of the financial statements and is the main contact for the Head of Accounts. Hanisha will provide feedback to the Council throughout the audit process and is the first point of contact for resolving technical accounting issues.



Helen Phillips (ACA)
Executive
T 020 7728 2385
E helen.phillips@uk.gt.com

Reporting to Hanisha, Helen is responsible for the performance of the audit fieldwork and day-to-day liaison with the Council's finance department. Helen will be supported by a team of audit assistants.

Engagement team - specialist support



Paul Hughes (CPFA)
Client Relationship Support
T 020 7728 2256
E paul.hughes@uk.gt.com

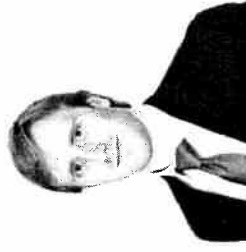
Paul will support Caroline in setting and delivering the audit strategy, using his experience of the Council, wider local government and our other council and NHS clients in the local area.

Paul will also deputise for Paul Dossett, as needed, and will continue to be available to the Council to discuss any issues.



Nick Taylor (ACA)
Grants Manager
T 07500 815 358
E nick.taylor@uk.gt.com

Nick is responsible for the overall management of the grants audit programme and will work with the Council to coordinate the certification of the grant claims.



Denis Thorpe (CPFA)
Technical and Quality Lead
T 077 6832 6514
E denis.thorpe@uk.gt.com

Denis is responsible for ensuring that complex technical issues are dealt with consistently across all our clients.

His role will include technical support to the audit team and will be available to support in the resolution of any complex accounting issues with the Council.



Guy Clifton (CPFA)
Advisory Specialist
T 020 7728 2903
E guy.clifton@uk.gt.com

Guy has extensive public sector experience specialising in financial, efficiency and performance reviews and transformation and change management.

Guy's expertise will be used to support our work on the Council's Value for Money conclusion.

Audit fee

What is the scale audit fee?

This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2008.

It represents the Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment.

How we calculate your scale audit fee

The Council's audit fee is calculated in accordance with the Audit Commission's scale of audit fees for 2010-11. For the Council, the scale calculation includes a fixed element for a London Borough and a percentage of planned gross expenditure as determined by the Audit Commission.

Variations to the scale audit fee

Based on a thorough review by the audit team which includes discussions with Council Officers and Members, we then tailor our work to reflect local circumstances. This may result in a variation upwards or downwards on the scale audit fee. Any variation to the scale fee must be approved by the Audit Commission, following agreement of the proposed fee with the Council.

2010-11 audit fee

As set out in our indicative Audit Fee Letter issued March 2010, the total indicative fee for the audit (excluding the Pension Fund) for 2010-11 is £505,000 (exclusive of VAT), this is £10,000 less than the 2009-10 fee.

The scale audit fee for the Council has been calculated at £531,865.

The planned fee is 5% lower than the suggested scale audit fee.

In setting the audit fee below scale, we have made the following assumptions:

- ✓ a good level of proactive joint working with the Council's finance and valuations teams with timely and good quality working papers and records being provided to support the accounts audit
- ✓ no significant issues impacting on our audit with the transition to IFRS
- ✓ internal audit will continue to meet appropriate professional standards and undertake work on all material systems that provide figures in the financial statements, sufficient to support our audit
- ✓ the Council will inform us of significant developments impacting on our audit and prompt responses will be provided to draft reports.

The fee will be subject to review and may be revised if significant new risks are identified or if we are unable to progress the audit as planned due to the timing or quality of information provided by the Council. In the event that we consider it necessary to revise the Council's audit fee upwards, we will discuss this with the Director of Corporate Resources.

Audit fee

A summary of the audit fee is shown in the table below:

Table 2: 2010/11 audit fee

Audit area	Planned fee 2010/11	Actual fee 2009/10
Financial statements#	360,000	340,000
VfM conclusion	145,000	175,000
Total audit fee	£505,000	£515,000
Certification of claims and returns*	£90,000	£90,000

Inclusive of Whole of Government Accounts and the impact of the first year of IFRS accounting, including audit review of the 2009-10 restated accounts

* The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates. Issues with the certification of large claims, such as housing benefits, will lead to additional audit costs being incurred by the Council.

New approach to local VfM work – impact on the audit fee

The Audit Commission wrote to all council chief executives in August 2010 to advise of the new approach to local Value for Money for audit work and the impact of this on the 2010/11 audit fee following the cessation of the Comprehensive Area Assessment. For 2010-11, the Commission has already given a 6% rebate to mitigate the increases in audit fees arising from the transition to IFRS and a further rebate of 3.5% of scale fee (around £19,000) has recently been announced which reflects the cessation of Use of Resources. This has the net effect of reducing the Council's 2010-11 audit fee to £486,000. The Commission has also confirmed that the Council will not be charged for abortive CAA Managing Performance Work which, if billed, would have been in the region of £20,000.

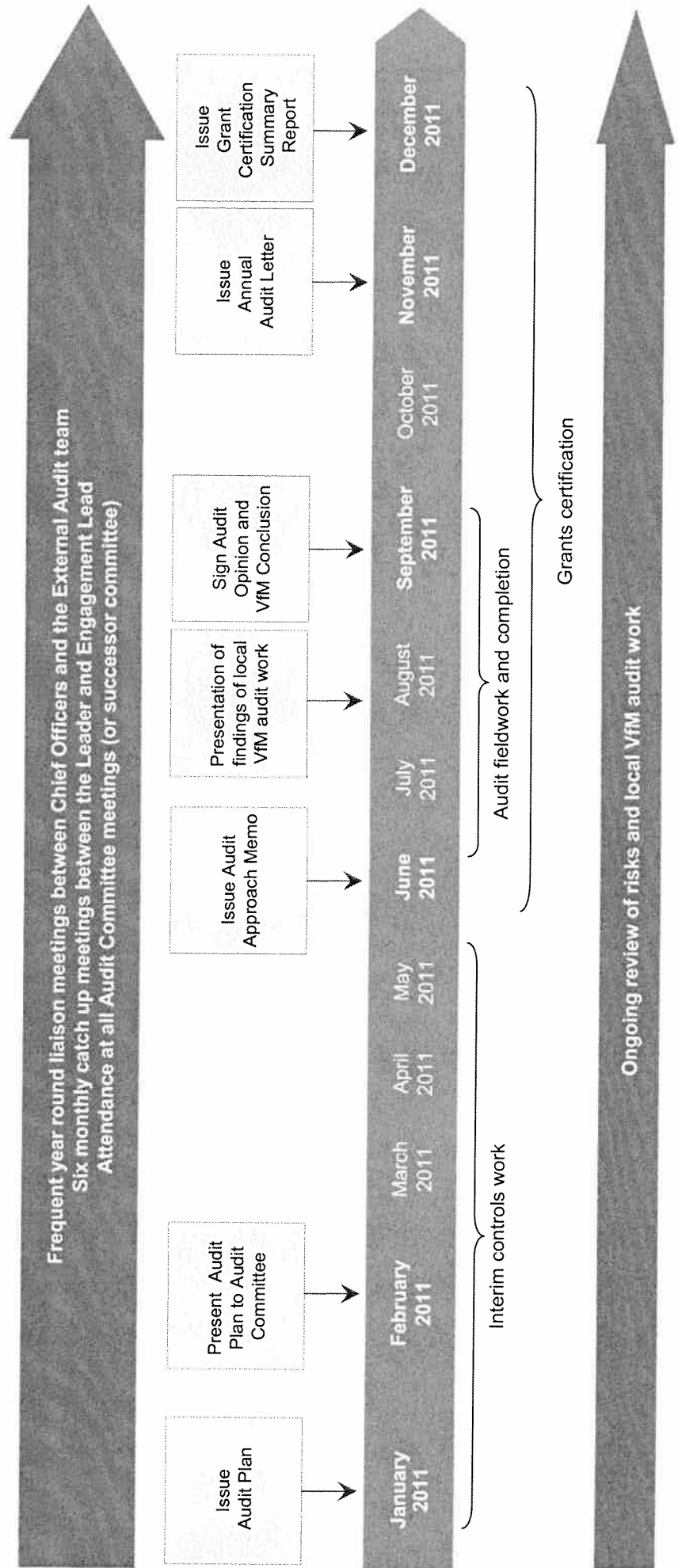
For 2011-12, the scale fee for the Council will be reduced by a further 10%, which, subject to no major movements in the variable elements of the scale fee, would be around £462,000. We will set our 2011-12 fee against the scale based on the assessed level of risk at the Council.

Outputs

Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee. Reports are addressed to management and the Audit Committee and are prepared for the sole use of the Council, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Output	Purpose	Issue date
Audit Plan	<ul style="list-style-type: none"> • Outline audit approach • Identify initial high risk areas and our planned response • Confirm Plan with Audit Committee 	February 2011
Audit Approach Memorandum	<ul style="list-style-type: none"> • Outline our audit strategy on conclusion of detailed audit planning • Review risks and update planned response accordingly • Highlight focus areas for the audit • Confirm with Senior Officers and Audit Committee 	June 2011
Report to those charged with Governance (ISA 260)	<ul style="list-style-type: none"> • Highlight key issues arising from the audit and their resolution • Communication of adjusted and unadjusted audit differences • Improvement recommendations resulting from audit procedures 	September 2011
Auditor's Reports	<ul style="list-style-type: none"> • Report on financial statements • Report on value for money conclusion 	September 2011
Annual Audit Letter	<ul style="list-style-type: none"> • Summarises the key issues arising from our 2010/11 audit 	November 2011
Grants Claim Certification	<ul style="list-style-type: none"> • Highlights key issues arising from our grants certification work • Recommendations identified for improvement 	December 2011

Timeline



Appendices

Appendix A

Independence and objectivity

We are required to communicate to you an relationships that may affect the independence and objectivity of the audit team. Following the Council's employment of a former Grant Thornton employee as Assistant Director of Internal Audit and in order to comply with ethical standards we will utilise an independent partner and additional resource, as required.

We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

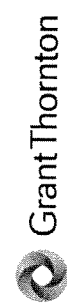
- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- Appointed auditors should not perform additional work for an audited body (i.e. work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years
- The Engagement Lead and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The Engagement Lead and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.



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Agenda item:

[No.]

Audit Committee

On 3 February 2011

Report Title: **Annual Audit Letter 2009/10**

Report of: **Director of Corporate Resources**

Signed :

J. Parker 13/1/11

Contact Officer : Kevin Bartle, Lead Finance Officer

Wards(s) affected: **All**

Report for: **Key Decision**

1. Purpose of the report

1.1. To receive the Annual Audit Letter for 2009/10 from the Council's external auditors, Grant Thornton and to note the issues raised and actions being taken.

2. State link(s) with Council Plan Priorities and actions and /or other Strategies:

2.1. The Annual Audit Letter is part of the formal process of external audit and provides an independent assessment of the Council's position in terms of progress in meeting its strategic objectives.

3. Recommendation

3.1. To receive the Annual Audit Letter for 2009/10 and to note the Council's response.

4. Summary

4.1. The Annual Audit Letter for 2009/10 summarises the key issues arising from the work undertaken by the external auditors, Grant Thornton, during their 2009/10 audit. The main two areas of audit work are in respect of the audit of the accounts and the Value for Money conclusion.

- 4.2. In terms of the audit of the accounts for 2009/10 the Council received an unqualified opinion from the external auditors. This was formally reported to the General Purposes committee on 23 September 2010 within the statutory deadline.
- 4.3. In respect of the Value for Money conclusion, the auditors concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010. This was formally reported to the Audit Committee on 2 November 2010.
- 4.4. The auditors work on the certification of grant claims and returns is ongoing. The results of that work will be formally reported to the April 2011 Audit Committee.
- 4.5. The report also outlines how the Council is addressing the key areas for action raised by external audit in the Annual Audit Letter.

5. Head of Legal Services Comments

- 5.1. The Head of Legal Services has been consulted on the content of this report and has no specific comment to make.

6. Service Financial Comments

- 6.1. The resource implications for implementing the actions recommended in the Annual Audit Letter have been considered as part of the overall financial and business planning process and are included within the previously approved budget.

7. Use of appendices /Tables and photographs

- 7.1. Annual Audit Letter 2009/10 – Grant Thornton

8. Local Government (Access to Information) Act 1985

- 10.1 The following background papers were used in the preparation of this report:

- Report of Director of Corporate Resources to General Purposes Committee on 23 September 2010 – Annual Governance Report – to consider the statutory report of Grant Thornton, the Council's appointed auditor
- Report of Grant Thornton to Audit Committee on 2 November 2010 – Value for Money 2009/10

9. Background

- 9.1. The Annual Audit Letter for 2009/10 is compiled by the Council's appointed external auditors Grant Thornton. It summarises the conclusions and significant

issues arising out of the audit work for the Council in the preceding year. It includes information from the audit of the Council's accounts, the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources and the certification of claims and returns.

- 9.2. The Annual Audit Letter for 2009/10 from Grant Thornton is an important external assessment of the Council's overall position.
- 9.3. The auditors' findings have been reported previously to the General Purposes Committee and to the Audit Committee and actions agreed in response. The Audit Committee is responsible for monitoring the implementation and progress of the detailed actions, which are summarised in this report.
- 9.4. At the time of writing this report, the Annual Audit Letter will have been presented to the Cabinet at its meeting of 25 January 2011; any feedback from that meeting will be reported orally to this committee.

10. Annual Audit Letter 2009/10

- 10.1. This is the third year of Grant Thornton operating as the Council's external auditor. Council officers have worked closely with Grant Thornton in preparation for and during the audit and a positive relationship continues to exist.
- 10.2. In relation to the Council's 2009/10 accounts, an unqualified opinion has been received. This is a positive outcome for the Council.
- 10.3. The auditors' Value for Money (VFM) concluded that "the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010".
- 10.4. The Council has improved its management arrangements in a number of areas, including data quality, commissioning and procurement and asset management and the auditors' view is that the Council's implementation of IFRS is on track. They also highlighted a number of areas for improvement. Council responses to these key areas are set out below.
- 10.5. Audit work on the certification of grant claims and returns is ongoing. The outcome of this work will be formally reported to the Audit Committee in April 2011.

11. Recommendation

- 11.1. To receive the Annual Audit Letter for 2009/10 and to note the issues raised and actions being taken. Progress on the implementation of actions will be periodically reported to members.

12. Summary Actions

12.1. A summary of the key actions are set out in the table below.

Recommendations	Response	Responsible Officer
The impact of the changes to local government funding are taken into account in all future financial plans - in doing this the Council will need to review the services it delivers and how it delivers them and where savings and changes can be made whilst minimising the impact on the standard of service delivery	In the light of the government funding reductions, the Council's overall service structure is being reviewed alongside detailed individual service reviews. These reviews are taking place as part of the Medium Term Financial Planning which includes an extensive budget consultation process, Equality Impact Assessments and robust budget scrutiny.	Chief Executive and the senior management team
The Medium Term Financial Strategy is reviewed in the light of the Spending Review and is subject to robust stress testing and sensitivity analysis	The process of reviewing the Medium Term Financial Strategy is already well underway. A detailed report was submitted to Cabinet on 21 st December 2010 and further reports are planned for January and February 2011. The scrutiny of investment and savings proposals commenced in January 2011. The review process will continue to be supported by robust budget monitoring arrangements that ensure that all service proposals are subject to sound financial analysis.	Director of Corporate Resources
It continues to emphasise the importance of data quality, including housing benefit information, to prevent any relaxation in compliance	As a result of concerns raised in the previous Annual Audit Letter the Council has put in place a more rigorous regime for maintaining the integrity of its data quality. The associated systems and procedures will continue to be closely managed and monitored.	Director of Corporate Resources

Recommendations	Response	Responsible Officer
There is a continued focus on the production of its first IFRS compliant accounts in 2010/11, including ensuring that there are sound arrangements for the valuation and accounting for property assets	The Council has a detailed project plan responsible for implementing the new IFRS. We will continue to work closely with Grant Thornton to ensure timely implementation and careful management of the project risks.	Director of Corporate Resources

London Borough of Haringey

Annual Audit Letter 2009/10

26 November 2010

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1 Introduction and Key Messages

Purpose of this letter

- 1.1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year at The London Borough of Haringey (the Council). Although this letter is addressed to the members of the Council, it is also intended to communicate the significant issues we have identified to key external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Responsibilities of the external auditors and the Council

- 1.2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.
- 1.3 We have been appointed as the Council's independent external auditor by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks, when reaching our Code conclusions.
- 1.5 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

What this letter covers

- 1.6 This Letter covers our 2009/10 Code audit, including key messages and conclusions from our work on:
- auditing the 2009/10 year end accounts (Section 2)
 - the accuracy of grant claims and returns to various government departments and other agencies (Section 2)
 - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3).
- 1.7 A list of all the reports issued during the year is provided at Appendix A, whilst Appendix B sets out our actual and budgeted fees for 2009/10.

The Economy

- 1.8 The Government's most urgent priority in the current financial climate is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £6 billion are planned from Government spending during this financial year, including some £1.1 billion in reduced grants to local government. At the same time, the Government aims to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:
- abolishing Comprehensive Area Assessment
 - reducing ring-fenced central government grants
 - abolishing Local Area Agreements
 - undertaking a full review of local government finance
- 1.9 The October Spending Review (SR) will have a significant impact on the Council, its plans and its finances. The SR announced a 28% cut in DCLG grants, estimated job losses within the public sector at 490,000 and £7bn of savings are required to be made to the welfare budget, mainly through benefit cuts. Cuts are being top-loaded with the greatest reductions being required in the first year of the SR period. The June Budget announced the Government's intention to work with local authorities to freeze council tax in England in 2011-12. The SR announced that local authorities who freeze their council tax in 2011-12 and keep their bills flat for the next four financial years will have the resultant loss to their tax base funded at a rate of 2.5% in each year of the Spending Review period. As a large urban authority with a reliance on grant funding, the financial challenge for Haringey is significant, with the anticipated impact of the SR requiring savings of £45 - £50m to be made in 2011-12 alone.
- 1.10 The issues highlighted in this Annual Audit Letter should be understood within the context of the significant changes to government policy and the reduction in financial resources outlined above.

Key messages**Accounts audit**

- 1.11 We issued an unqualified opinion on the Council's 2009/10 accounts on 27 September 2010, ahead of the statutory certification deadline. Our opinion confirmed that the accounts give a true and fair view of Council's financial affairs at 31 March 2010 and of its income and expenditure for the year. The audit process was efficient and well managed, although there have been a number of audit adjustments. This has affected fixed asset accounting in particular following implementation of a new closing procedure. Further detail on our accounts audit work is detailed in section 2.

Value for Money Conclusion

- 1.12 We issued our annual Value for Money (VFM) conclusion on 27 September 2010. We concluded that, for 2009/10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

- 1.13 Our work highlighted that the Council had improved its management arrangements in a number of areas, including data quality, commissioning and procurement and asset management. We also highlighted a number of areas for improvement and agreed an action plan with management to implement the associated recommendations. Further detail on our work in this area is detailed in section 3.

International Financial Reporting Standards

- 1.14 From 2010/11 the Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS). Our work to date on this area confirms that, the Council's IFRS implementation plan remains on track. However, the preparation and review of the 2009/10 IFRS restated accounts represents the first major test and the Council must build on its good work to date.

Key areas for Council action

- 1.15 The Council will need to ensure that:
- the impact of the changes to local government funding are taken into account in all future financial plans - in doing this the Council will need to review the services it delivers and how it delivers them and where savings and changes can be made whilst minimising the impact on the standard of service delivery
 - the Medium Term Financial Strategy is reviewed in the light of the SR and is subject to robust stress testing and sensitivity analysis
 - it continues to emphasise the importance of data quality, including housing benefit information, to prevent any relaxation in compliance
 - there is a continued focus on the production of its first IFRS compliant accounts in 2010/11, including ensuring that there are sound arrangements for the valuation and accounting for property assets.
- 1.16 Further details on these key messages can be found in sections 2 and 3 of this Letter.

2 Audit of Accounts

Introduction

- 2.1 We issued an unqualified opinion on the Council's 2009/10 accounts on 27 September 2010, ahead of the statutory certification deadline of 30 September 2010. Our opinion confirmed that the accounts give a true and fair view of the Council's financial affairs at 31 March 2010 and of its income and expenditure for the year.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to those charged with governance (for the accounts audit this is defined as the General Purposes Committee). We presented our Annual Report to those Charged with Governance at the General Purposes Committee on 23 September and summarise only the key messages in this Letter.

Audit of the accounts

- 2.3 The Council managed a rapid closedown process presenting us with the draft financial statements on 28 June 2010 and, as in previous years, they were supported by good quality working papers.
- 2.4 Closedown was well managed by the Council and there is clear corporate commitment to producing timely final accounts. The audit process has been efficient and well managed, although there have been a number of audit adjustments, particularly affecting fixed asset accounting.
- 2.5 The key messages arising from our accounts audit are:
- the Council managed an effective closedown and audit process allowing early resolution of audit findings as they arose
 - the Council continues to improve in valuing and accounting for its fixed assets although our audit findings suggest that there is scope for further development, particularly in light of the requirements under International Financial Reporting Standards (IFRS) applicable from 2010/11.

Financial performance

- 2.6 The Council reported a deficit on the Income & Expenditure account of £141.2million (2008/09 £129.9million) and a general fund balance of £10.5million.
- 2.7 The current economic climate has placed significant pressure on the public sector and local government in particular, to generate efficiencies and operate within reduced resources. The Council has performed well to date by maintaining a robust budgetary control system and early identification of cost pressures. However, maintaining and building on these arrangements will be critical with the anticipated impact of the SR requiring savings of £45 - £50m to be made in 2011-12 alone, whilst the Council is experiencing continued financial pressures from demand led services.

- 2.8 The scale of the challenge faced has been recognised by Members and the Council will need to continue to work hard to deliver the anticipated significant financial challenge ahead.
- 2.9 We will continue to keep the Council's financial position under review as part of our 2010/11 audit including a risk based assessment of the robustness of the Medium Term Financial Plan, the assumptions made within it and the reasonableness of associated savings plans. This is in line with the new approach to local Value of Money audit work introduced by the Audit Commission.

Financial systems

- 2.10 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the financial statements.
- 2.11 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2009/10 accounts. We also performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that would adversely impact our audit of the accounts.

Annual Governance Statement

- 2.12 We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and considered whether the statement was in accordance with our knowledge of the Council. Our work confirmed that the AGS was consistent with our knowledge of the Council and no issues arose from our work.

International Financial Reporting Standards

- 2.13 The Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) from 2010/11. The IFRS transition at the Council is being led by the finance team and a clear project plan is in place.
- 2.14 Our work confirms that for the Council, the overall project plan remains on track. Key dates for preparing the opening balance sheet and restating the 2009/10 accounts and skeleton IFRS compliant statements are expected to be achieved. Our view is that the Council has placed a good focus on IFRS, but that the preparation and review of the 2009/10 restated accounts represents the first major test.
- 2.15 We will continue to review progress as part of our planned programme of work for 2010/11.

Grant Claims and Returns

- 2.16 Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2008/09 certification work we reported that performance had generally improved against the key performance measures but identified that the Council should work to continually reduce the number of claims requiring amendment.
- 2.17 We certified a total of 14 claims in 2008/09 of which one claim was qualified, the housing and council tax benefit grant claim. Action arising from our recommendations concerning this qualification is being monitored by the Audit Committee.
- 2.18 We are currently in the process of certifying the 2009/10 grant claims and returns. Once this work is complete we will report in full on the findings of our work.

3 Value for Money

Introduction

- 3.1 We issued our annual Value for Money (VFM) conclusion on 27 September 2010, at the same time as our accounts opinion. We concluded that, for 2009/10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.
- 3.2 We set out the basis of this conclusion and the results of our assessment in our report presented to the Audit Committee on 2 November. In this Letter, we summarise the key messages from this work alongside relevant findings.

2009/10 VFM conclusion

- 3.3 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 3.4 Our 2010 Value for Money conclusion was informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009/10 Audit Plan.
- 3.5 Key highlights within the Council's arrangements were that the Council had:
- improved its management arrangements in a number of areas, including data quality (previously assessed as inadequate), commissioning and procurement and asset management
 - demonstrated strong and robust arrangements for the management of its workforce against the criteria set out by the Commission.
- 3.6 The main areas for further development were around:
- ensuring that the impact of significant reductions in future funding and the requirement to find savings beyond those that had been anticipated and planned for as part of the Medium Term Financial Strategy are taken into account in all future financial planning
 - addressing some significant in year challenges and robustly profiling the impact of these in future financial plans.
 - ensuring a continued emphasis on the importance of data quality to prevent any relaxation in compliance and a potential return to an "inadequate" assessment for data quality.
- 3.7 On the basis of the work completed, we issued an unqualified Value for Money conclusion.

Approach to local value for money audit work from 2010/11

- 3.8 The Audit Commission has reviewed its work programme for 2010/11 onwards given the scale of the pressures facing public bodies in the current economic climate. As part of this exercise, the Commission has adopted a new approach to local value for money audit work with key national stakeholders.
- 3.9 From 2010/11 we will apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:
- securing financial resilience
 - prioritising resources within tighter budgets.
- 3.10 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in the annual audit letter.

4 Closing Remarks

- 4.1 This Letter was discussed and agreed with the Director of Corporate Resources, in her capacity as the Council's s151 officer, and will be presented to the Audit Committee on 3 February 2011.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit.

Grant Thornton UK LLP
26 November 2010

A Reports issued in relation to the 2009/10 audit

Report	Date Issued
Audit Plan	December 2009
Partnership working	March 2010
Accounts Audit Approach Memorandum	June 2010
Review of Leaseholder Service Charges	June 2010
Grants Plan 2009/10	August 2010
Annual Report to those Charged with Governance	September 2010
Value for Money	October 2010
Annual Audit Letter	November 2010
Grant Certification Summary Report	due December 2010

B Audit and Other Fees

Audit Area	Budget 2009/10 £	Actual 2009/10 £
Financial statements	340,000	340,000
VFM conclusion / Use of resources	175,000	175,000
Total Code of Practice fee	515,000	515,000
Certification of grant claims and returns*	100,000	TBC

*The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates.



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Haringey Council

Agenda item:

Audit Committee

On 3 February 2011

Report Title: Internal Audit Progress Report – 2010/11 Quarter 3

Report authorised by: Director of Corporate Resources

J. Power 26/11/11

Report of and Contact Officer: Anne Woods, Head of Audit and Risk Management

Tel: 020 8489 5973

Email: anne.woods@haringey.gov.uk

Wards(s) affected: All

Report for: Non-key decision

1. Purpose of the report

1.1 To inform the Audit Committee of the work undertaken during the third quarter by the Internal Audit Service in completing the 2010/11 annual audit plan and reports issued for outstanding 2009/10 audits together with the responsive and housing benefit fraud investigation work. In addition, to provide details of the work the Council's personnel division has undertaken in supporting disciplinary action taken across all departments by respective council managers.

2. State link(s) with Council Plan Priorities and actions and/or other Strategies:

2.1 Audit and Risk Management contribute to the Council priority to deliver excellent, customer focused, cost effective services by reviewing key services and making recommendations for improvement where appropriate. Follow up work is undertaken to provide assurance that managers have implemented agreed recommendations and improvements.

3. Recommendations

3.1 The Audit Committee is recommended to note the audit coverage and progress during the third quarter 2010/11.

3.2 That the Audit Committee notes the progress and responses received in respect of outstanding audit recommendations.

3.3 That the Audit Committee confirms that the actions taken during Quarter 3 to

address the outstanding recommendations are appropriate.

4. Reason for recommendation(s)

4.1 The Audit Committee is responsible for monitoring the completion of the annual internal audit plan and the implementation of agreed recommendations as part of its Terms of Reference. In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Audit Committee.

4.2 Where further action is required or recommended, this is highlighted in the covering report and associated appendices and included in the recommendations for the Audit Committee.

5. Other options considered

5.1 Not applicable

6. Summary

6.1 The internal audit service makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the authority. This report looks at the work undertaken in the quarter ending 31 December 2010 and focuses on:

- Progress by Deloitte and Touche on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised;
- Progress in implementing outstanding internal audit recommendations with special attention given to priority 1 recommendations;
- Details of investigative work undertaken relating to fraud and/or irregularities including those within the remit of the Housing Benefit Fraud Investigation Team, including information in respect of disciplinary action taken.

6.2 The information has been compiled from information held within the Audit & Risk Management business unit and from records held by Deloitte and Touche and the Council's corporate Human Resources business unit.

7. Head of Legal Services Comments

7.1 The Head of Legal Services has been consulted in the preparation of this report, and advises that there are no direct legal implications arising out of the report.

8. Chief Financial Officer Comments

8.1 The Chief Financial Officer supports the contents and recommendations set out in this report and in particular the progress reported both in relation to the in year

planned activity and also following up outstanding recommendations from prior years.

8.2 That the integration of the audit and housing benefit investigation functions is now complete has been noted and should place the council in a stronger position to direct resources more effectively and help to reduce risk down. It is noted that the pro-active counter-fraud framework and draft plan is being developed and will be presented to the Audit Committee for formal approval later in the year.

8.3 There are no specific financial implications to highlight.

9. Head of Procurement Comments

9.1 Not applicable

10. Equalities and Community Cohesion Comments

10.1 This report deals with how risks to service delivery are managed across all areas of the council, which have an impact on various parts of the community. Improvements in managing risks and controls will therefore improve services the Council provides to all sections of the community.

11. Consultation

11.1 No external consultation was required or undertaken in the production of this report. Consultation is undertaken with respective service managers, Assistant Directors and Directors during the audit process and in the production of individual internal audit reports and follow up programmes. Their comments are included in the final report which is circulated in accordance with the agreed internal audit reporting protocol.

12. Service Financial Comments

12.1 There are no direct financial implications arising from this report. The work completed by Deloitte and Touche is part of the five year contract which was awarded following a competitive tendering exercise in compliance with EU regulations from 1 April 2007. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget.

13. Use of appendices

13.1 Appendix A – Deloitte and Touche Progress report
 Appendix B – In-house Team – investigations into financial irregularities
 Appendix C – Council-wide disciplinary information

14. Local Government (Access to Information) Act 1985

14.1 For access to the background papers or any further information please contact Anne Woods on 0208 489 5973.

15. Performance Management Information

15.1 Although there are no national or Best Value Performance Indicators, local performance targets have been agreed for Audit and Risk Management. These form part of Corporate Resources' reporting processes, but are detailed below for information. Table 1 below shows the targets for each area of audit activity monitored and gives a breakdown between the quarterly and cumulative performance.

Table 1

PI Ref.	Performance Indicator	3 rd Quarter	Year to date	Target
A1	Audit work Completed vs. Planned programme	85%	80%	95%
A2	User satisfaction (1 = low, 5 = high)	4.0	3.83	3.75
A3	Time taken to complete investigations (2009/10 referrals)	7.75 weeks	8 weeks	8 weeks
A4	Priority 1 recommendations implemented at follow up	90%	90%	95%

16. Internal Audit work – Deloitte and Touche contract

16.1 The activity of Deloitte and Touche for the third quarter of 2010/11 to date is detailed at Appendix A, which also includes reports issued for outstanding work from the 2009/10 audit plan. Members of the Audit Committee receive detailed summaries of all projects for which a final report has been issued on a monthly basis to allow for any issues to be raised and discussed in a timely manner. Appendix A provides a list of all final reports which have been issued during the quarter, together with detailed summaries of all reports which are issued with a 'limited' assurance rating.

16.2 Appendix A also provides detailed summaries of all recommendations which were previously recorded as outstanding at the time of the follow up audit work. Members have been monitoring the progress and implementation of these at each Audit Committee to ensure that managers were taking appropriate action to address outstanding recommendations. Only 2 recommendations from prior years remain outstanding: 2005/06 - One Priority 2 recommendation remains partly implemented; and 2007/08 - One Priority 3 recommendation remains partly implemented. Work is ongoing to address these and internal audit is satisfied that managers' actions are appropriate to manage the lower

priority risks facing the Council. Internal Audit will continue to monitor implementation of recommendations to ensure appropriate actions are taken to mitigate identified risks.

16.3 A summary of all follow up audit projects for 2009/10 work which have been undertaken is also included in Appendix A (page 13-14). We have followed up on 94 recommendations to date and found that 77 (82%) have been implemented, six are no longer applicable, eight are in progress, and one recommendation had not reached its due date. Seventeen out of twenty Priority 1 recommendations followed up to date, where the deadline for implementation has passed, have been implemented. Two Priority 1 recommendations are in progress and the details provided at Appendix A.

16.4 To date, 85% of the planned annual programme of work for quarter 3 has been delivered, the slightly reduced delivery was as a result of clients' annual leave commitments at the end of 2010. To date, 80% of the total planned work has been completed, and at this stage there are no issues identified at this date which will prevent the 95% annual target from being achieved. Ongoing monthly contract monitoring reviews ensure that performance levels are kept under review.

16.5 In conjunction with the Director of Corporate Resources, Directors are kept advised of the outstanding recommendations and any actions required to ensure that implementation of recommendations is achieved. From 2008/09 onwards, the implementation of Priority 1 recommendations has been included in the performance reporting requirements for all departments. During quarter 3, Internal Audit are satisfied that managers have been taking appropriate action to address the issues raised in the original recommendations prior to 2009/10.

17. In-house Team – Fraud investigation/Pro-active work

17.1 In accordance with the Council's Constitution, Internal Audit investigates all cases that fall outside the remit of the Housing Benefit Fraud Investigation Team and the Information Security Policy. Appendix B details the individual cases that were completed by the In-house Team to date in 2010/11 and any which were brought forward from 2009/10. The listing at Appendix B also includes any referrals made using the Council's whistle blowing policy which were investigated by Internal Audit. During the third quarter, two whistle blowing referrals were made.

17.2 Within the third quarter, nine new cases were referred to Internal Audit for investigation, and four cases were completed during the quarter involving Council employees. The four cases completed took 7.75 weeks on average to complete, within the agreed performance target of 8 weeks. Internal Audit work closely with officers from personnel and the service involved to ensure that the investigation is completed as quickly as possible.

17.3 The In-house Team also investigates claims of non-receipt of Council cheques. In the third quarter of 2010/11, there have been no referrals for investigation and no losses to the Council. Improvements in procedures, including the introduction of 'positive pay' whereby the council's banking team receives information on cheques before they are cleared, and

new cheque security measures have reduced the opportunity for attempted fraud in this area.

17.5 Since the creation of the corporate team in December 2010, the in-house fraud investigation resource has been increased to enable the Council to develop a corporate pro-active approach. During the fourth quarter of 2010/11, the team will develop its programme of work to focus on key risks facing the Council. This work programme will include the National Fraud Initiative exercise, for which potential data matches will be made available in February 2011. Some initial pro-active counter-fraud projects will be undertaken during the fourth quarter and the section has begun working with Homes for Haringey and the Strategic and Community Housing Service on developing an approach to target and investigate housing and tenancy fraud. The pro-active counter-fraud framework and draft plan will be developed and presented to the Audit Committee for formal approval later in the year.

18. Housing Benefit counter-fraud

18.1 The function for investigating benefit fraud was transferred to the Audit & Risk Management business unit on 13 December 2010. The HB Fraud Team spent a large proportion of the third quarter processing outstanding claims and identified 128 existing cases which were able to be closed with no identified fraud, although these may still have an overpayment and a possible caution associated with them and these will be progressed during the fourth quarter.

18.2 As a result of cleansing the system of old cases, the team achieved a total of eight prosecutions (compared to 6 in the second quarter). However, there were no lower sanctions – admin penalties, or cautions – achieved during the third quarter, compared to a total of 28 cautions and five admin penalties achieved in quarter 2. It is anticipated that, with the investigation work that was started, that a further 16 lower sanctions can be progressed during the fourth quarter. Although the capability to apply lower level sanctions will be retained, the team's focus going forward will be on securing prosecutions and working with Legal Services and other services across the Council to recover money and assets using relevant legislation, including the Fraud Act and Proceeds of Crime Act.

18.3 During the third quarter, seven prosecution cases resulted in an overpayment. The total overpayment identified for the seven cases was £90.7k, of which £18.3k (20%) has already been recovered. Two cases have been recovered in full – a total of £13.5k – and Legal Services are currently attempting to secure a charge order of £40k against a property for a third case. Payment plans are in place for 2 of the remaining cases, where £4.7k of the total debt of £23.1k has already been recovered. The team will be working with the HB recovery team and Legal Services to ensure that all options for recovery are considered when fraud has been proven.

19. Council-wide disciplinary statistics

- 19.1 Appendix D details the number of disciplinary suspensions and/or action taken in the third quarter of 2010/11. The data is taken from SAP and the information has been provided by the Council's Human Resources business unit in line with Council statistics reported elsewhere.
- 19.2 During quarter 3, the number of disciplinary cases investigated was 72 (an increase of nine from the previous quarter), with 35 remaining 'open' at the end of the quarter. The average length of time taken to resolve disciplinary cases in quarter 3 was 95 days, broadly similar to the average length of time for the previous quarter's cases.

**Internal Audit
Quarter 3 Internal Audit Report
2010/2011
London Borough of Haringey**

Deloitte & Touche Public Sector Internal Audit Ltd.
January 2011

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Executive Summary

Introduction

This is our third quarter report to the Audit Committee for the 2010/11 financial year including details of all reports which are now at final stage. The report provides information on those areas which have achieved full or substantial assurance and gives an indication of the direction of travel for key systems work which will provide Members with information on how risks are being managed over time. The format of this report is also designed to highlight the key risks facing individual departments and the Council which have been identified during the course of our internal audits. A more detailed summary of the limited assurance audit findings is included for information. The report draws together the summary information which is provided on a monthly basis to Members of the Audit Committee. Members of the Committee will also be provided with full copies of our audit reports upon request.

All recommendations are agreed with Council officers, and any disputes are discussed prior to the final report being issued. All recommendations to address any control weaknesses highlighted within this report have been agreed. Officers' actions to address the recommendations, including the responsible officer and the deadline for completion, are fully detailed in the individual final audit reports.

The attached tables reflect the status of the systems at the time of the audit, and recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Audit Committee.

As a reminder, our recommendations are prioritised according to the following categories:

<i>Priority 1</i>	-	major issues for the attention of senior management
<i>Priority 2</i>	-	other recommendations for local management action
<i>Priority 3</i>	-	minor matters and/or best practice recommendations

Key Highlights/Summary of Quarter 3 2010/11 – Final Reports issued:

- Value for Money 2009/10;
- Disposal of Properties 2010/11;
- Data Quality 2010/11;
- Employment – Ongoing Verification Procedures 2010/11;
- iWorld Revenues & Benefits Application 2010/11;
- Business Support & Development Risk Register Testing 2010/11; and
- Absence Management – Urban Environment 2010/11.

As part of the 2010/11 Internal Audit Plan, we also issued a draft report in Quarter 3 for the following audits:

- Internal Payments and Recharge Procedures;
- Use of Purchase Cards;
- Use of Waivers; and
- Building Control Services.

The above list does not include reports which we have issued to schools in Quarter 3.

Follow Up of Prior Years' Recommendations

The results of our follow-up work are as follows:

2005/06

One Priority 2 recommendation remains outstanding; work is ongoing to address this.

2007/08

One Priority 3 recommendation remains outstanding; work is ongoing to address this.

2008/09

We have followed up the nine recommendations raised in the Haringey Heartland – Spine Road (Project Management Assurance) Internal Audit report issued in October 2008 and found that seven recommendations have been implemented and two recommendations are no longer applicable.

2009/10

To date we have followed up 94 recommendations and found that 77 (82%) have been implemented, 8 (8.5%) have been partly implemented, two (2%) have not been implemented, one (1%) is not yet due and six (6.5%) are no longer applicable. The recommendations which have been partly implemented include two Priority 1 recommendations.

Audit Progress Summary:

The following table sets out the audits finalised in quarter three of 2010/11, showing those that relate to the 2009/10 and 2010/11 financial years, and the status of the systems at the time of the audit. It must be noted that the recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Audit Committee.

Detailed summaries of all audits which do not receive 'Full' or 'Substantial' assurance ratings are also provided for Members' information.

Audit Title	Date of audit	Date of Final Report	Assurance level	Direction of Travel	Number of Recommendations (Priority)		
					1	2	3
2009/10							
Value for Money	2009/10	25.11.10	Substantial	N/A	1	4	0
2010/11							
Day Centre – Transport Services (ACCS)	Jul'10	06.10.10	Substantial	N/A	0	4	3
Park Force -- Project Management Assurance	May'10	18.10.10	Limited	N/A	1	6	1
Disposal of Properties	Jul'10	18.10.10	Substantial	N/A	0	3	1
Data Quality	Aug'10	21.10.10	Substantial	↔	0	1	1
Employment – Ongoing Verification Procedures	Jul'10	18.10.10	Substantial	N/A	1	3	1
Voice Over Internet Protocol	Sep'10	20.10.10	Substantial	N/A	0	3	2
Management of Out of Hours Telephone Contact Service	Aug'10	08.11.10	Substantial	N/A	1	5	0
Strategic Community Housing Services Risk Register Testing	Aug'10	08.11.10	Substantial	N/A	0	3	0
iWorld Revenues & Benefits Application	Sep'10	25.11.10	Substantial	N/A	1	7	1
Business Support & Development Risk Register Testing	Oct'10	29.11.10	Limited	N/A	2	0	0
Benefits & Local Taxation Risk Register Testing	Sep'10	16.12.10	Substantial	N/A	0	4	1
Absence Management – Urban Environment	Apr'10	20.12.10	Substantial	↔	0	2	0

DETAILED SUMMARIES:

Audit area	Scope	Status/key findings	Assurance
	ADULT, CULTURE & COMMUNITY SERVICES		
Park Force – Project Management Assurance 2010/11	<p>The audit will seek to identify and assess the application of the following processes:</p> <ul style="list-style-type: none"> • Application and Compliance with the Council Project Management Framework Arrangements; • Project Monitoring and Reporting; • Link to Capital or Revenue Budget and Monitoring and Identification of Early Signals of Projects being Under/over spent or Delayed; • Impact of Risks and Issues, and the Distinction Between the Two; • Delegation of Responsibility; • Monitoring of the Critical Path; and • Actions to Ensure Delivery of the Project, and Contingency Reporting and Actions. 	<p>Weaknesses in the system of internal controls are such as to put the client's objectives at risk.</p> <p>The key findings are as follows:</p> <ul style="list-style-type: none"> • Monthly Project Highlight Reports are produced for review by management; • The Project Team are in the process of completing the Project Closure report; • Progress on the completion of the project is discussed by the Recreation Services Team at their fortnightly meetings; • Although a report was presented to Cabinet briefing on the project at the initiation stage, there was no evidence of completion of a Business Case and Project Brief; • There were instances where the deadlines for some of the milestone actions had been changed without any explanation and in other instances, where the reason was given as issues relating to the project, the issues were not recorded in the issues log and monitored until they were resolved; • A green RAG status was shown on the Project Highlight Reports when project milestones failed to be achieved by the original target date; 	Limited

Audit area	Scope	Status/key findings	Assurance
		<ul style="list-style-type: none"> • Although the deadline for the mitigating actions had passed for two of the risks identified in the Project Highlight Reports, the risk log had not been updated to show whether the actions had been implemented or whether revised deadlines were required; • Key project issues were not recorded in the Project Highlight Reports, although comments entered against some of the milestone deadlines indicated that there were issues that resulted in the deadlines not being met; and • Key project milestones identified in different versions of the Project Initiation Document (PID) did not always cover the period up to the expected completion of the project. However, the achievement of some key objectives should be noted, including the deletion of a function/unit and an efficiency saving of £200k, the creation of new working arrangements with partner agencies and securing resident/community buy in to the new mode of working. <p>We were informed that the full outcome of the project, including stakeholder satisfaction, would only be determined following completion of the next annual residents' survey, as one of the key issues which the project aimed to address was the perception of crime and the use of parks. Discussions with the current Project Manager, revealed that measurement of achievement against targets will not be an easy task for a number of reasons, including the fact that the relevant data will be collected by the Metropolitan Police Service (MPS) and the decision on which to base the description of whether an</p>	

Audit area	Scope	Status/key findings	Assurance
		<p>improvement has or has not been made will be difficult to establish, as is the case with statistics on crime.</p> <p>As a result of our audit work we have raised one Priority 1 recommendation, six Priority 2 recommendations and one Priority 3 recommendation, which should help to improve controls in this area.</p> <p>The Priority 1 recommendation is as follows:</p> <ul style="list-style-type: none"> • Management should establish a process for monitoring the completion of actions to mitigate project risks, such as maintaining a separate risk register identifying individual risk owners and deadlines, and for updating the status of the risks on the Project Highlight Reports. <p>The Priority 2 recommendations are as follows:</p> <ul style="list-style-type: none"> • Management should prepare a checklist of all key project documentation required under the Council's Project management Framework, for completion by Project Managers, to confirm that all documentation, signed where appropriate, is held on the project file; • Attendance at the Council's Project Management training course should be made compulsory for all Project Managers and a record should be maintained of attendance at the course; • Monthly Project Highlight Reports should be reviewed for completeness and accuracy by an officer within the Recreation Services Team prior to being presented to management; 	

Audit area	Scope	Status/key findings	Assurance
		<ul style="list-style-type: none"> The Project Highlight Reports should be submitted to and discussed by the Project Management Board and the outcome of the discussion should be reported to the Better Haringey Member Working Group and Stream Board; Officers responsible for preparing the monthly Project Highlight Reports should be reminded of their responsibility to record details of all key issues relating to the project, including the actions required to resolve these, together with the responsible officer, deadline and RAG status; and The key milestones and target dates for their completion up to the closure of the project, covering the critical path of the project, should be identified at the outset and recorded in the PID and Project Highlight Reports for all future projects. <p>The Priority 3 recommendation is as follows:</p> <ul style="list-style-type: none"> Where the deadlines for any of the project milestones have not been met, information on the resulting financial implication should be included in the Project Highlight Reports. 	
		CHILDREN & YOUNG PEOPLES SERVICES	
Business Support & Development Risk Register Testing	<p>The risks sampled from the Strategic Community Housing Services risk register were as follows:</p> <ul style="list-style-type: none"> CY04_R002 – Failure to balance planned places with demand (primary schools); 	<p>Weaknesses in the system of internal controls are such as to put the client's objectives at risk.</p> <p>The key findings are as follows:</p> <ul style="list-style-type: none"> The four controls tested were confirmed to be operating effectively, although they do not correctly correspond to 	Limited

Audit area	Scope	Status/key findings	Assurance
2010/11	<ul style="list-style-type: none"> • CY04_R003 – Failure to balance planned places with demand (secondary schools); • CY04_R004 – Schools meals service developing a deficit due to the impact of the Single Status pay award; and • CY04_R005 – Office accommodation does not meet Service requirements. 	<p>the relevant risks.</p> <ul style="list-style-type: none"> • Some progress was made in implementing the further actions identified on the risk register, although this was not recorded on Covalent. • There are no controls identified on the risk register which mitigate Risk CY04_R005 (the Deputy Director for BSD stated that the risk was no longer applicable and that no action needed to be taken). This risk was removed subsequently from the risk register. • One risk with a residual risk score of 14 was subject to further action, which was not recorded on the risk register (please note that the acceptable residual risk score under the Council's Risk Management Strategy is 12). • The risk register does not identify risk and control ownership. <p>As a result of our audit work we have raised two Priority 1 recommendations, which should help to improve controls in this area.</p> <p>The Priority 1 recommendations are as follows:</p> <ul style="list-style-type: none"> • Senior management within the Service should ensure that the BSD risk register is updated on Covalent at least on a quarterly basis and is fully completed to include current risks and controls and to identify officers who have ownership of individual risks and controls; and • A reminder should be sent to officers with responsibility for the completion of the BSD risk register, reinforcing the 	

Audit area	Scope	Status/key findings	Assurance
		requirement to complete the risk register completely and accurately, in line with the Council's Risk Management Strategy. This includes the correct identification of risks and corresponding controls, and the need for further action, where relevant. Consideration should be given to the provision of training, where required.	

FMSiS Assessments and Summary:

As part of our schedule of visits to Schools for the financial year 2010/11 to check continued compliance with the requirements of the Financial Management Standard in Schools (FMSiS), we visited 10 Schools, including six Primary Schools, one Infants School and three Secondary Schools. Following the announcement by the Secretary of State for Education in November 2010 of the decision to end the current FMSiS with immediate effect, the Council took the decision not to proceed with the FMSiS audit of schools in the borough. We have therefore advised the remaining Schools on our schedule of visits, of the cancellation of the FMSiS audit.

The announcement by the Secretary of State also confirmed that a simpler standard will be developed as a replacement to the FMSiS.

Detailed Progress Report - Implementation of Recommendations 2005/06

Ref	Recommendation	Priority	Original Deadline	Progress/Status
ADULTS, CULTURE & COMMUNITY SERVICES				
TOREx Leisure Management System				
1	Management should contact the software suppliers with a view to investigating whether and how 'failed logon attempts' can be included in the existing Audit Trail logging, as are successful logons and logouts currently.	2	Ongoing / May 2008	<p>Partly Implemented <i>Update 5 January 2011:</i> Version 9.5 of the software (now called 'Advantage') addresses the audit finding but does not meet other business requirements. Therefore the Council will be seeking to install version 9.6 due for release in February 2011. Version 9.5 might have been installed in the meantime to meet audit obligations, but the Council was advised by the supplier that version 9.5 contains bugs that could potentially negatively impact on business effectiveness and efficiency. Coupled with the cost of implementing two versions in quick succession, it was therefore decided not to implement version 9.5 but to wait for version 9.6. Implementation of version 9.6 at Haringey would be expected relatively soon after its release date but a target implementation date at this time cannot be confirmed.</p>

Detailed Progress Report - Implementation of Recommendations 2007/08

Ref	Recommendation	Priority	Original Deadline	Progress/Status
ADULTS, CULTURE & COMMUNITY SERVICES				
Appointeeship & Receivership				
1	All policies and procedures should be reviewed regularly, and at least annually, and updated, if necessary. Furthermore, all documents should be dated and communicated to all relevant staff.	3	March 2008	Partly Implemented <i>Update 12.01.11:</i> The documents are finalised and are with the Finance Manager who will present it to the next DMT for sign-off. <i>Revised Deadline: March 2011</i>

Follow Up Table - 2009/10 Audit Work

AUDIT AREA	Assurance Level	Recommendations													Priority 1 Recs. Outstanding	
		Category				Implemented										
		1	2	3	Total	1	2	3	Total	N/A	Not Imp.	In Progress	Not due			
Corporate – Council-wide																
Risk Management	Substantial	0	3	0	3	0	3	0	3	0	0	0	0	0	0	0
Corporate Resources																
Pension Fund Administration	Substantial	0	2	1	3	0	2	1	3	0	0	0	0	0	0	0
Treasury Management	Substantial	0	4	1	5	0	4	1	5	0	0	0	0	0	0	0
Strategic Financial Management & Budgetary Control	Substantial	0	1	1	2	0	1	0	1	0	0	0	1	0	0	0
Accounts Receivable (Sundry Debtors)	Substantial	0	3	1	4	0	3	1	4	0	0	0	0	0	0	0
Accounts Payable (Creditors)	Substantial	0	2	0	2	0	1	0	1	0	1	0	0	0	0	0
Decent Home Standards (Procurement)	Limited	5	2	1	8	5	2	1	8	0	0	0	0	0	0	0
RBS Bankline Application	Substantial	0	1	1	2	0	0	1	1	1	0	0	0	0	0	0
Website Security Audit	Substantial	0	1	2	3	0	1	1	2	1	0	0	0	0	0	0
Planning and Building Control Application	Limited	2	10	0	12	1	2	0	3	1	2	6	0	0	1	1
Framework-i Disaster Recovery	N/A	0	1	0	1	0	1	0	1	0	0	0	0	0	0	0
Urban Environment																
Temporary Accommodation	Limited	3	8	0	11	2	8	0	10	0	0	1	0	0	1	1

DELOITTE INTERNAL AUDIT - QUARTERLY AUDIT REPORT 2010/11

APPENDIX A

AUDIT AREA	Assurance Level	Recommendations													Priority 1 Recs. Outstanding	
		Category				Implemented										
		1	2	3	Total	1	2	3	Total	N/A	Not Imp.	In Progress	Not due			
Adults, Culture & Community Services																
Recreation Services (including Leisure) - Risk Register Testing	Limited	2	0	0	2	2	0	0	2	0	0	0	0	0	0	0
ACCS- Culture Libraries and Learning- Risk Register Testing	Substantial	0	3	0	3	0	2	0	2	1	0	0	0	0	0	0
Leisure Centres – Income Generation and Collection	Substantial	1	2	1	4	1	2	1	4	0	0	0	0	0	0	0
Framework-I application	Substantial	0	8	2	10	0	8	2	10	0	0	0	0	0	0	0
Mental Health	Limited	1	3	0	4	1	2	0	3	0	0	0	0	1	0	0
Markfield Park Development – Project Management Assurance	Limited	3	4	0	7	2	4	0	6	1	0	0	0	0	0	0
Lordship Recreation Ground Regeneration Programme – Project Mgmt. Assurance	Limited	3	3	0	6	3	3	0	6	0	0	0	0	0	0	0
Chief Executives – P&OD																
Councillor Call for Action	Substantial	0	1	0	1	0	1	0	1	0	0	0	0	0	0	0
Chief Executives – PPPC																
Data Quality	Substantial	0	1	0	1	0	1	0	1	0	0	0	0	0	0	0
Total		20	63	11	94	17	51	9	77	6	2	8	1		2	

Implemented – officers has indicated through self-certification the progress of recommendations. We have verified a sample of responses.

N/A – the recommendation is no longer applicable due to changes in the system, or alternative action has been taken to address the risk.

Not implemented – the recommendation has not been addressed, alternative action has not been taken.

Partly implemented – officers have started implementation of recommendations

Detailed Progress Report - Outstanding Recommendations 2009/10

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
CORPORATE RESOURCES				
STRATEGIC FINANCIAL MANAGEMENT & BUDGETARY CONTROL				
1	It is recommended that a periodic programme of review for all procedures and guidance available on Harinet (including Close Down procedures) should be established and documented with responsibility assigned for the review. It is further recommended that once reviewed and updated, where appropriate, the procedures, including version control, should be approved by appropriate senior management prior to being loaded on Harinet.	3	April 2010	Partly Implemented Procedures are reviewed annually and are communicated to relevant staff. Although the procedures are not added to Harinet, we noted that the guidance available on Harinet (including Close-Down Procedures) makes reference to the final accounts procedure for 2004/05. Although management have removed some out-of-date documents from Harinet, there are other documents which management have confirmed will be removed or amended, where appropriate. <i>Revised Deadline: February 2011</i>
PLANNING & CONTROL IT APPLICATION				
2	The number of users with System Administrator access on the iPlan and iBuild system should be reviewed and where this level of access is not required this should be removed. Where users require high level access this should be allocated to an appropriate group.	2	July 2010	Not Implemented: This action has been delayed due to a 'bug' in the current system. Bug fixed in new version which is currently upgrading. (go-live currently programmed in for mid January 2011). Completion deadline extended to March 2011 for implementation. <i>Revised Deadline: March 2011</i>

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
3	<p>User access on the iPlan and iBuild applications should be reviewed to ensure that users do not have excessive permissions and the user groups are in line with duties required to complete jobs.</p> <p>This should also ensure that the role of enforcement and planning processing is segregated and users cannot access the system files for the applications.</p>	2	August 2010	<p>Not Implemented:</p> <p>This action has been delayed due to a 'bug' in the current system. Bug fixed in new version which we are currently upgrading. (go-live currently programmed in for mid January 2011).</p> <p>Completion deadline extended to March 2011 for implementation.</p> <p><i>Revised Deadline: March 2011</i></p>
4	<p>Management should review data validation and input controls on the iPlan application and consider implementing the following controls:</p> <ul style="list-style-type: none"> • Date fields to only include recent and possible future dates; • Limit checks on the finance field to restrict the processing of high value invoices; and <p>Address fields in the e-Forms to be amended to reflect address fields in iBuild.</p>	2	31 August 2010	<p>Partly Implemented:</p> <p>Informal discussion was held with Northgate and after they indicated the cost involved, it was decided that the cost was too high in comparison to the risk involved. An enhancement request is to be submitted based upon the recommendation raised. This is work in progress.</p> <p>Management Update 25.1.11:</p> <p><i>No implementation date is able to be provided as this is outside of Haringey's control. A formal enhancement request has been submitted to Northgate.</i></p>
5	<p>The current reports available for use with the Crystal Reports for the iPlan and iBuild systems should be reviewed to ensure only reports that are required are defined.</p> <p>Reporting from iPlan and iBuild should facilitate the reporting for applications</p>	2	31 August 2010	<p>Partly Implemented:</p> <p>Initial works to install this started with the ORACLE 10G upgrade, but the reports did not run correctly. This has now been put on hold until after the current upgrade and is hoped to be in place for 31 March 2011.</p> <p><i>Revised Deadline: March 2011</i></p>

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
	<p>where a response is required within a specific timescale. This should be developed though not limited to the following cases:</p> <ul style="list-style-type: none"> • Incomplete and Void applications; • Checking Void applications with Valid applications to ensure there are no duplicates; • Enforcement officer cases; and <p>Attachments not marked for Public Access.</p>			
6	<p>A procedure should be established to reconcile payments received from the Planning Portal and iPlan as well as e-Forms on the Haringey website and iBuild application via the Haringey e-Payments system. This should ensure that all payments received via the Cash Receiving interface are reconciled to the Planning Portal application and e-Forms.</p>	2	31 August 2010	<p>Partly Implemented: Implementation date is unclear at present due to costs involved, however, in the interim a workaround has been developed whereby before applications are formally completed, SAP is checked for payments received.</p> <p>Management Update 25.1.11: <i>No implementation date is able to be provided as this is outside of the Service's control – Central IT are aware of the integration issues between the payment systems and i-LAP. In the interim the Service will instigate a manual update system.</i> <i>Deadline: 31/03/11</i></p>

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
7	<p>The current audit trail in place on the iPlan and iBuild application should be reviewed to ensure audit trail functionality specifies the tables required for auditing. This should be completed with management to help ensure that all system activity is recorded for the following areas:</p> <ul style="list-style-type: none"> • Changes to system files or fields; • User access to the system; and • Unauthorised access attempts and user lockouts. 	2	31 August 2010	<p>Partly Implemented:</p> <p>It has been agreed that this recommendation is not going to be implemented at this time due to the way that the i-LAP is configured. However, as with the input controls above, an enhancement request based upon the recommendation will be submitted.</p> <p>Management Update 25.1.11:</p> <p>No implementation date is able to be provided as this is outside of Haringey's control. A formal enhancement request has been submitted to Northgate.</p>
8	<p>A Disaster Recovery Plan should be implemented for the iPlan/iBuild systems. This should identify the steps required for the early recovery of the IT server environment, appropriate contacts and system specification. This should be tested on a regular basis to help ensure that the server environment and application can be restored in a timely manner.</p>	1	31 August 2010	<p>Partly Implemented:</p> <p>A document has been developed which outlines the system failure scenarios considered and the recovery provisions.</p> <p>Management Update 25.1.11:</p> <p>A limited DR solution has been implemented, constrained by value for money considerations. Investigations are underway to determine whether a more robust DR solution will become cost-effective when based on elements of the Infrastructure Renewal Programme currently in progress. Deadline: 31 March 2012.</p>
9	<p>The current Planning and Building Control Business Continuity Plan should be updated to help ensure:</p> <ul style="list-style-type: none"> • All contact details of the Assistant Director are populated; and • The inclusion of the Planning Portal 	2	31 August 2010	<p>Partly Implemented:</p> <p>A document has been developed which outlines the system failure scenarios considered and the recovery provisions. This is work in progress.</p> <p><i>Revised Deadline: 31 March 2011</i></p>

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
	<p>functionality and e-Forms used on the Haringey website.</p> <p>When completed, the details relating to the recovery of the iBuild and iPlan applications should be included in the plan.</p>			
URBAN ENVIRONMENT				
TEMPORARY ACCOMMODATION				
10	<p>Management should undertake a review of all current procedures covering every team within the Service to ensure that these are up-to-date and properly reflect the new operational practices resulting from the 'whole service' restructure of Strategic and Community Housing Services and that, where procedures do not exist, these are developed. The procedures, which should have version controls and identify reviewing responsibility to be built into work plans, should then be formally reviewed and signed off by senior management. It is further recommended that the induction pack given to new staff should be reviewed and updated and that a training log should be kept for each staff, recording all gaps in skills and training provided.</p> <p>In addition, to the procedures being made available to staff, a process should be put in places for the dissemination of the</p>	1	31 March 2010	<p>Partly Implemented</p> <p>At the time of our follow-up audit, the teams within the Service were in the process of fully updating their policies and procedures. Although most of these have been developed and some have been finalised, it was found that there are some procedures which are still in draft format or are awaiting quality assurance review.</p> <p>An induction pack has is in the process of being finalised before being communicated to staff and made available on the Council's intranet. For all three teams sampled, training logs were maintained. We were informed by the Business Support Manager that action is currently being taken to try to centralise the training records maintained for staff in line with the results of the needs assessment completed for the Service.</p> <p>We were informed that the finalised procedures had been discussed at staff team meetings.</p> <p>Update from management in August 2010: A list of the required procedures has been drawn up and it was the intention that these would be finalised by September. The recent budget situation has led to proposals for a further</p>

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
	procedures to all staff via training and briefing sessions.			restructure. Whilst the procedures will be completed there may be a need to hold back on the finance elements in relation to temporary accommodation whilst revised team structures are finalised by March 2011 <i>Revised deadline: March 2011</i> <i>Responsible officer: Housing Assessments and Lettings Manager / Temporary Accommodation / Procurement & Compliance Manager.</i>
ADULTS, CULTURE & COMMUNITY SERVICES				
MENTAL HEALTH				
11	It is recommended that the Assessment and Care Management Manual is reviewed and updated, to ensure that its contents are in line with the strategic direction and objectives of the Council as a whole. Evidence of this should be retained e.g. through the use of version control.	2	March 2011	In Progress (Not yet due) - Management have confirmed that all procedures, including the Assessment & Care Management Manual, will be updated in line with the Transformation of Social Care Programme. Excellent progress is being made and it is expected that this recommendation will be implemented before the deadline of March 2011.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

London

January 2011

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IN HOUSE AUDIT – IRREGULARITIES INVESTIGATED 01/04/10 – 31/12/10 & B/F FROM 2009/10

Directorate	Irregularity Type	No. of cases investigated	No. of cases proven at 31/12/2010	No. of Officers subject to Disciplinary Investigation	Disciplinary Outcome	Value (£) (if known)
Adult Culture & Community Services	Allegation that employee used a fraudulent Blue Badge	1	1	1	Dismissed	
	Allegation of Gross Misconduct	1	1	1	Appeal completed Dismissed	
	Allegation of theft of client monies	1	1	1	Dismissed	
Chief Executive Service	Allegation that employee undertaking other employment during contracted hours	1	1	1	Employee Dismissed Appeal completed ET Application Withdrawn	
Children and Young People's Service	Allegation that employee had undeclared other employment	1	0	0	N/A	
	Allegation that employee working elsewhere whilst off sick	1	1	1	Disciplinary sanction imposed	

APPENDIX B

IN HOUSE AUDIT – IRREGULARITIES INVESTIGATED 01/04/10 – 31/12/10 & B/F FROM 2009/10

Directorate	Irregularity Type	No. of cases investigated	No. of cases proven at 31/12/2010	No. of Officers subject to Disciplinary Investigation	Disciplinary Outcome	Value (£) (if known)
	Allegation that employee failed to make visits	1	1	1	Contract Ended by Service	
Corporate Resources	Allegation of irregular land sale B/F 2009/10	1	1	1	Employee Dismissed Appeal Completed	
	Allegation of working elsewhere whilst off sick	1	1	1	Employee Resigned	
	Allegation that employee is running a business from their desk	1	1	1	Employee Dismissed	
	Allegation that employee misused resources	1	1	1	Pending Disciplinary Action	
Urban Environment	Allegation of irregular housing allocation B/F 2009/10	1	1	1	Disciplinary sanction imposed Appeal Withdrawn	
Total		12	11	11		

Haringey Council – Audit Committee

Disciplinary Case Analysis October to December 2010

Introduction

The information in this report is taken from SAP, covering the period 01 October 2010 – 31 December 2010.

The data is based on Haringey Council employees who

- hold Permanent, Temporary or Fixed Term Contracts

Note that this data excludes:

- Casual or Sessional Workers
- Schools
- Agency Workers

Legend	
Adults, Culture & Community Services	AS
The Children & Young People's Service	C
Corporate Resources	CR
People & Organisational Development	PO
Policy, Performance, Partnership & Comms	PP
Urban Environment	UE
Haringey Council	HGY

The Council's Disciplinary Procedure is considered as a tool to assist in good management and not solely as a means of imposing sanctions or setting out procedures leading to dismissal.

The procedure aims to:

- Allow managers to address issues of unsatisfactory conduct and seek improvements in behaviour
 - Ensure that employees covered by the procedure are treated fairly and consistently
 - Ensure that proper and adequate procedures are observed before any disciplinary decisions are taken
 - Help and encourage all employees to achieve and maintain standards of conduct, attendance and job performance
 - Maintain discipline essential to the delivery of high quality services
 - Protect the health, safety and well being of staff, service users and members of the public
 - Safeguard the integrity and good reputation of the Council
- (Disciplinary Procedure July 2005)*

Disciplinary Cases

This section looks at the number of formal actions taken against employees under the disciplinary procedure.

Disciplinary Cases by Directorate

Directorate	Cases Open	Cases Closed	No of cases	No of employees
AS	5	10	15	15
C	14	8	22	20
CR	5	6	11	10
PO	1	1	2	1
PP	1	4	5	5
UE	9	8	17	15
HGY	35	37	72	66

Please, note that the total number of cases is 72, but this only represents 66 employees. The reason being, that one employee can have more than one case running concurrently. For example, an employee's dismissal could count as one case and their appeal as another.

- **Urban Environment** has the highest percentage of disciplinary cases against its workforce at 2.60% in this quarter
- 35 cases remain 'open' at the end of this period

The following table looks at the stages of Disciplinary cases.

Stages of Disciplinary Cases

Stage	Cases Open	Cases Closed	Total	%
Invest. - not suspended	14	17	31	43
Invest. - suspended	17	12	29	40
ET	1	2	3	4
Appeal	3	6	9	13
Total	35	37	72	100

The following table identifies the outcomes of the 37 cases that were concluded.

Disciplinary Case Outcomes						
Outcome	Invest. - not suspended	Invest. - suspended	Invest. - appeal	Invest. - ET	Total	%
Compromise agreement	0	0	0	0	0	0
Dis. Appeal Dismissed	0	0	6	0	6	16
Dis. Appeal Part Upheld	0	0	0	0	0	0
Dis. Appeal Upheld	0	0	0	0	0	0
Dis. Appeal Withdrawn	0	0	0	0	0	0
Dis. Dismissal	1	6	0	0	7	19
Dis. ET Dismissed	0	0	0	1	1	3
Dis. ET Withdrawn	0	0	0	1	1	3
Dis. Final Written Warning	5	0	0	0	5	14
Dis. No Action	1	0	0	0	1	3
Dis. Other	2	0	0	0	2	5
Dis. Relegation/Demotion	0	1	0	0	1	3
Dis. Resigned	0	3	0	0	3	8
Dis. Verbal Warning	3	0	0	0	3	8
Dis. Written Warning	5	0	0	0	5	14
Escalated to next stage	0	0	0	0	0	0
Suspension Lifted	0	2	0	0	2	5
Total	17	12	6	2	37	100

- 19% of cases resulted in Dismissal

This table displays reasons for Disciplinary action against employees.

Reasons for Disciplinary Cases				
Reason	Cases Open	Cases Closed	Total	%
Assault	0	0	0	0
Attendance	1	6	7	10
Behaviour	10	11	21	29
Fraud / Theft	8	3	11	15
Misuse of resources	3	1	4	6
Negligence	9	11	20	28
Other	4	5	9	13
Total	35	37	72	100

- The highest cause for disciplinary action was for Behaviour at 29% and 28% for Negligence

This table looks at the ethnic breakdown and gender split for Disciplinary cases

Disciplinary Case employee representation by Ethnicity and Gender						
Ethnic Class	Female		Male		All	
	Total	%	Total	%	Total	%
B & M E	18	45	22	55	40	61
White	10	42	14	58	24	36
Not Declared	0	0	2	100	2	3
Total	28	42	38	58	66	100

- 33% of the workforce is male, but the male representation with disciplinary cases is significantly higher at 58%

The following table looks at the ethnic breakdown per Directorate and across grade bands.

Disciplinary Case employee representation by Ethnicity and Grade Band													
(T = Total no. in grade band, WF = % of total disciplined employees in Directorate)													
Dir	Ethnic Group	SC1-SC5		SC6-SO2		PO1-PO3		PO4-PO7		PO8+		TOTAL	
		T	WF	T	WF	T	WF	T	WF	T	WF	T	WF
AS	B & ME	8	62	0	0	0	0	0	0	0	0	8	62
	White	5	38	0	0	0	0	0	0	0	0	5	38
	Total	13	100	0	0	0	0	0	0	0	0	13	100
C	B & ME	3	15	1	5	3	15	3	15	0	0	10	50
	White	0	0	1	5	1	5	6	30	2	10	10	50
	Total	3	15	2	10	4	20	9	45	2	10	20	100
CR	B & ME	2	20	2	20	1	10	1	10	0	0	6	60
	White	0	0	2	20	1	10	1	10	0	0	4	40
	Total	2	20	4	40	2	20	2	20	0	0	10	100
PO	B & ME	0	0	1	100	0	0	0	0	0	0	1	100
	White	0	0	0	0	0	0	0	0	0	0	0	0
	Total	0	0	1	100	0	0	0	0	0	0	1	100
PP	B & ME	1	20	1	20	2	40	1	20	0	0	5	100
	White	0	0	0	0	0	0	0	0	0	0	0	0
	Total	1	20	1	20	2	40	1	20	0	0	5	100
UE	B & ME	7	47	2	13	1	7	0	0	0	0	10	67
	White	3	20	0	0	2	13	0	0	0	0	5	33
	Total	10	67	2	13	3	20	0	0	0	0	15	100
HGY	B & ME	21	33	7	11	7	11	5	8	0	0	40	63
	White	8	13	3	5	4	6	7	11	2	3	24	38
	Total	29	45	10	16	11	17	12	19	2	3	64	100

NB: 2 employees are excluded from the above table due to not having an ethnicity declared
Both employees are from Adults, Culture & Comms Directorate and in salary band SC1-SC5

Suspensions

This table shows a summary of suspension cases.

Summary of Suspension Cases	
Case status	Total
No. of cases heard	9
No. of cases not concluded	17
No. of cases not concluded - leaver	3
Total	29

Timescales (no of days) of Suspension Cases

The table below looks at the 29 suspension cases and identifies the no. of working days each case has taken. If a case has not concluded by the end of the quarter, the number of working days is calculated from the start date of the suspension to the end of the quarter.

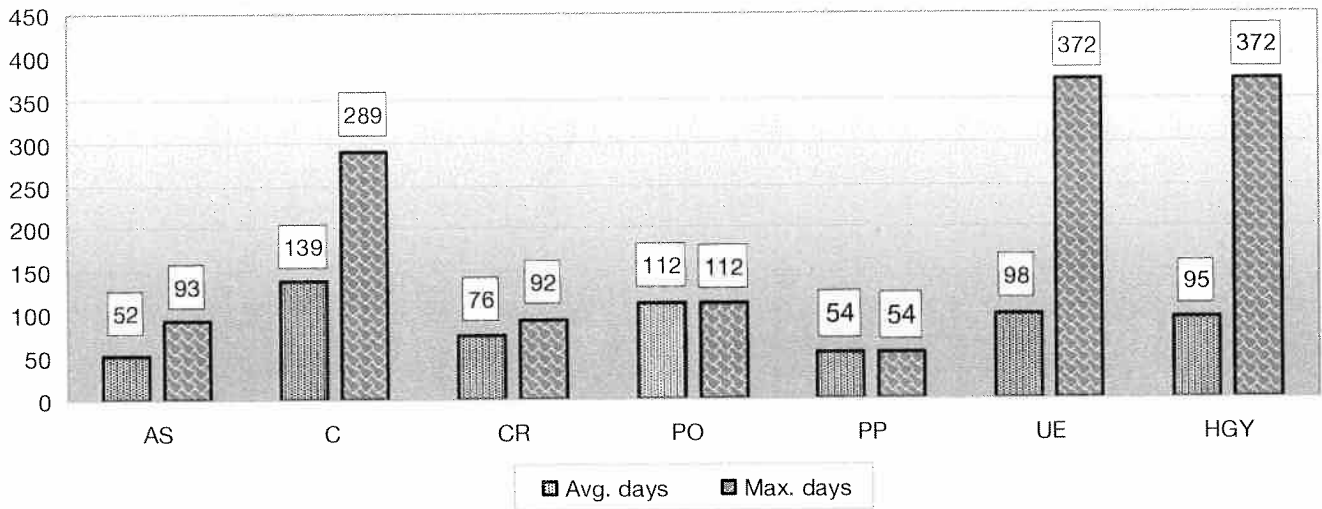
The table also identifies, by directorate, the average number of days suspension for all cases, the maximum days for a single case and average days suspension for cases heard within that period.

Timescales (no of days) of Suspension Cases										
Directorate	1-60	61-120	121-180	181-240	240+	Total cases	Total days	Avg days of total cases	Max. Days	Total cases heard
AS	5	2	0	0	0	7	365	52	93	1
C	3	1	0	4	1	9	1247	139	289	2
CR	1	4	0	0	0	5	379	76	92	2
PO	0	1	0	0	0	1	112	112	112	1
PP	1	0	0	0	0	1	54	54	54	0
UE	4	0	1	0	1	6	586	98	372	3
HGY	14	8	1	4	2	29	2743	95	372	9
Total cases closed	6	2	0	2	2	12				

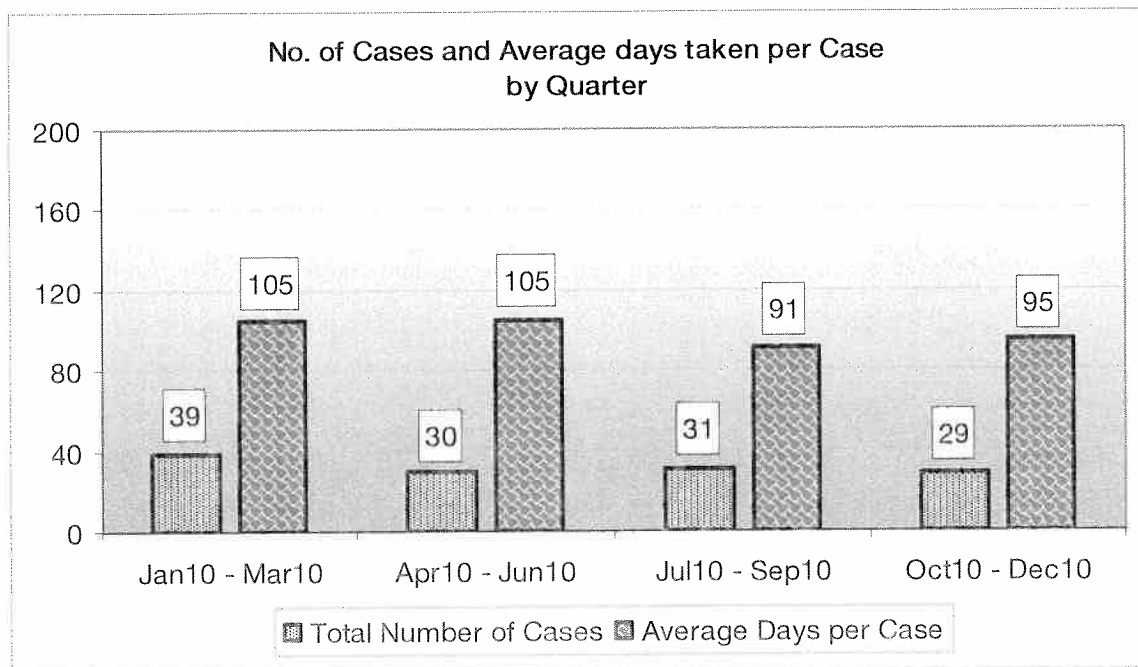
On average, 95 days were spent on each suspension case within the quarter.

The chart below illustrates the average and maximum number of days taken for a suspension case by Directorate for the quarter.

Average and Maximum Days Taken for Suspension Cases by Directorate



The chart below looks at the number of suspension cases per quarter for a rolling year and highlights Haringey Council's average number of days per case.





Haringey Council

Agenda item:

Audit Committee**On 3 February 2011**

Report Title: Risk Management update Quarter 3 2010/11

Report authorised by: Director of Corporate Resources

J. Power 26/11/11

Report of and Contact Officer: Anne Woods, Head of Audit and Risk Management

Tel: 020 8489 5973

Email: anne.woods@haringey.gov.ukWards(s) affected: **All**Report for: **Information****1. Purpose of the report**

1.1 To inform the Audit Committee of the current position on compliance with the corporate risk management policy for the management of risk registers across the Council.

2. State link(s) with Council Plan Priorities and actions and/or other Strategies:

2.1 Audit and Risk Management contribute to the Council priority to deliver excellent, customer focused, cost effective services by ensuring that the Council's risk management framework is in place and operating effectively. Internal audit reviews key risk registers, the controls in place to manage the identified risks. Recommendations for improvement are made, where appropriate.

3. Recommendations

3.1 The Audit Committee is recommended to note the compliance with the risk management strategy for the completion of risk registers across the Council.

4. Reason for recommendation(s)

4.1 The Audit Committee is responsible for approving the Council's Risk Management Policy and Strategy as part of its Terms of Reference. In order to facilitate this, and provide information on its implementation across the Council, the corporate Policy progress reports are provided on a regular basis for review and approval by the Audit Committee.

5. Other options considered

5.1 Not applicable

6. Summary

6.1 The internal audit service makes a significant contribution to ensuring the implementation of the Council's risk management framework throughout the authority. This report focuses on the compliance with the corporate risk management framework for risk registers during the third quarter of 2010/11.

7. Head of Legal Services Comments

7.1 The Head of Legal Services has been consulted in the preparation of this report, and advises that there are no direct legal implications arising out of the report.

8. Chief Financial Officer Comments

8.1 There are no direct financial implications arising from this report as the monitoring of compliance by Directorates to the Council's risk management framework forms part of the annual audit programme. This is an important function and it is positive that no non compliance or recommendations for improvement are being highlighted to the Committee at Qtr 3.

9. Head of Procurement Comments

9.1 Not applicable

10. Equalities and Community Cohesion Comments

10.1 This report deals with how risk registers are managed across all areas of the Council. Improvements in managing risks and controls will improve services the Council provides to all sections of the community.

11. Consultation

11.1 No external consultation was required or undertaken in the production of this report. Consultation is undertaken with respective service managers, Assistant Directors and Directors in the production of risk registers and internal audit reports. Their comments are included in the final report which is circulated in accordance with the agreed internal audit reporting protocol.

12. Service Financial Comments

12.1 There are no direct financial implications arising from this report. The work within internal audit to implement the Council's risk management framework is part of the contract with Deloitte and Touche which was awarded following a competitive tendering exercise in compliance with EU regulations from 1 April 2007. The costs of this contract and managing the corporate risk management policy are contained and managed within the Audit and Risk Management revenue budget. Service

departments manage risks as part of the routine work to achieve their business plans and costs are contained within their revenue budgets.

13. Use of appendices

13.1 Appendix 1 – Update on risk registers Quarter 3 2010/11

14. Local Government (Access to Information) Act 1985

14.1 For access to the background papers or any further information please contact Anne Woods on 0208 489 5973.

15. Background

15.1 The Council's Risk Management strategy is reviewed on an annual basis to ensure that it reflects current operational requirements and best practice. The latest version was approved by the Audit Committee at its meeting on 25 March 2010.

15.2 The Chair of the Audit Committee requested that a report on risk management and compliance with the Council's strategy in respect of risk registers be presented to the Committee on a quarterly basis. The review and testing of risk registers forms part of the 2010/11 annual audit plan which was approved at the Audit Committee meeting on 25 March 2010. This is an ongoing process to ensure the key controls to manage identified risks are effective and operate as intended.

16. Risk Registers

16.1 All risk registers are managed electronically at business unit, department and corporate level. Appendix 1 shows the latest position for all Business Units and Directorates as at the end of quarter 3.

16.2 The corporate risk register is reviewed on a quarterly basis by the Chief Executive's Management Board and reported annually to the Audit Committee. The last review by the Audit Committee was completed at its meeting on 24 June 2010. The corporate risk register was subject to its quarterly review at the CEMB meeting on 16 November 2010.

16.3 During 2010/11, a number of organisational changes have taken place across the Council. The functions of the previous PPP&C directorate are currently managed by other directorates and their risk registers are incorporated into the new reporting structures as follows: Safer Communities Business Unit now reports to the Director of Urban Environment; Policy and Performance and Communication and Consultation Business Units now report to the Assistant Chief Executive – People & Organisation Development. Appendix A reflects these changes.

Progress Report Quarter 3 2010/11 - Risk Register Update Summary

	Department	Level	Risk Register Title	Date of most recent review
1	Corporate - CEMB	Corporate	Corporate Register	November 2010
2	CE – People & Organisational Development (P&OD)	Dept	People & Organisational Development	October 2010
3	CE – P&OD	BU	Communication & Consultation	October 2010
4	CE – P&OD	BU	Policy & Performance	October 2010
5	CE – P&OD	BU	Human Resources	October 2010
6	CE – P&OD	BU	Local Democracy & Member Support	October 2010
7	CE – P&OD	BU	Organisational Development & Learning	October 2010
8	Corporate Resources (CR)	Dept	Corporate Resources	October 2010
9	CR	BU	Legal Services	January 2011
10	CR	BU	IT Services	January 2011
11	CR	BU	Customer Services	December 2010
12	CR	BU	Benefits & Local Taxation	November 2010
13	CR	BU	Corporate Finance	January 2011
14	CR	BU	Audit & Risk Management	November 2010
15	CR	BU	Corporate Procurement	December 2010
16	CR	BU	Corporate Property Services	December 2010
17	Children & Young People's Service (CYPS)	Dept	Children & Young People's Service	October 2010
18	CYPS	Dept	Safeguarding/JAR	October 2010
19	CYPS	BU	Children & Families	October 2010
20	CYPS	BU	School Standards & Inclusion	October 2010
21	CYPS	BU	Business Support & Development	October 2010
22	CYPS	BU	Children's Networks	October 2010
23	Adults Culture & Community Services (ACCS)	Dept	Adults Culture & Community Services	January 2011
24	ACCS	BU	Safeguarding & Strategic Services	January 2011
25	ACCS	BU	Adult Services & Commissioning	January 2011

Progress Report Quarter 3 2010/11 - Risk Register Update Summary

	Department	Level	Risk Register Title	Date of most recent review
26	ACCS	BU	Recreation Services	January 2011
27	ACCS	BU	Culture, Libraries & Learning	January 2011
28	Urban Environment (UE)	Dept	Urban Environment	January 2011
29	UE	BU	Strategic & Community Housing Services	January 2011
30	UE	BU	Frontline Services	January 2011
31	UE	BU	Planning & Policy Development	January 2011
32	UE	BU	Safer Communities	December 2010

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Haringey Council

Agenda item:

Audit Committee

On 3 February 2011

Report Title: Office of the Surveillance Commissioners (OSC) Inspection

Report authorised by: Director of Corporate Resources

J. Pender 26/1/11

Report of and Contact Officer: Anne Woods, Head of Audit and Risk Management

Tel: 020 8489 5973

Email: anne.woods@haringey.gov.uk

Wards(s) affected: All

Report for: Non-key decision

1. Purpose of the report

1.1 To inform Members of the inspection visit made to Haringey by the Assistant Surveillance Commissioner in November 2010.

1.2 To inform members of the recommendations made by the OSC and the Council's response in order to ensure these are appropriately addressed.

2. State link(s) with Council Plan Priorities and actions and/or other Strategies:

2.1 Audit and Risk Management contribute to the Council priority to deliver excellent, customer focused, cost effective services by ensuring that the Council complies with relevant legislation.

3. Recommendations

3.1 That the Audit Committee notes the content of the OSC inspection report.

3.2 That the Audit Committee approves the action plan to address the recommendations made by the Surveillance Commissioner.

4. Reason for recommendation(s)

4.1 The Audit Committee is responsible for overseeing the Council's arrangements for corporate governance and compliance with its own and other regulations as part of its Terms of Reference. Compliance with legislation in relation to the Regulation of Investigatory Powers Act 2000 (RIPA) falls within this remit. In order to facilitate this,

reports on use and external inspection reports are provided for review and consideration by the Audit Committee.

4.2 Where further action is required or recommended, this is highlighted in the covering report and appendices and included in the recommendations for the Audit Committee.

5. Other options considered

5.1 Not applicable

6. Summary

6.1 The Head of Audit and Risk Management acts as the lead operational officer in relation to compliance with RIPA legislation for the Council. This report outlines the results of the recent inspection of the Council's policies and procedures by the Office of the Surveillance Commission and focuses on:

- The conclusions of the inspector on the Council's policies, procedures, training and application/use of RIPA in practice; and
- The recommendations for improvement and how the Council will address these.

7. Head of Legal Services Comments

7.1 The Head of Legal Services has been consulted in the preparation of this report, and comments as follows.

7.2. In view of the commendable findings contained in the OSC report, there are no direct legal implications arising out of this report. Further, the action plan produced to deal with the minor recommendations found on inspection, are a proportionate and effective solution.

8. Chief Financial Officer Comments

8.1 The Chief Financial Officer has been consulted on the content of this report and notes that there are no financial implications to highlight.

9. Head of Procurement Comments

9.1 Not applicable

10. Equalities and Community Cohesion Comments

10.1 This report deals with how RIPA legislation is applied and used within the Council. Use of directed surveillance could have an impact on the community as a whole if used incorrectly; therefore it is important to ensure that safeguards are in place to

enable the council to comply with the legislation. Used in accordance with the requirements of the Act, directed surveillance can enable the council to improve conditions for those who live and work in the borough.

11. Consultation

11.1 No external consultation was required or undertaken in the production of this report. Consultation has been undertaken with relevant service managers where the application of RIPA is included in their responsibilities to ensure that the recommendations will be addressed.

12. Service Financial Comments

12.1 There are no direct financial implications arising from this report. The costs of ensuring the Council complies with RIPA legislation and operating guidelines are contained and managed within the Audit and Risk Management and relevant service departments' revenue budgets.

13. Use of appendices

13.1 Appendix A – Action Plan
Appendix B – OSC report

14. Local Government (Access to Information) Act 1985

14.1 For access to the background papers or any further information please contact Anne Woods on 0208 489 5973.

15. Background

15.1 An inspection of the Council's policies and procedures relating to the Regulation of Investigatory Powers Act, 2000 (RIPA) was conducted by an Assistant Surveillance Commissioner (ASC), from the Office of Surveillance Commissioners, on 24 November 2010.

15.2 The inspection focused on directed surveillance and covert human intelligence sources (CHIS) and a range of compliance issues. Broadly speaking these were: policies and procedures, completion of RIPA authorisations, training, and roles and responsibilities, including the role of the Senior Responsible Officer which was introduced in 2010.

15.3 A report on the outcome of the inspection was received by the Chief Executive on 13 December 2010 from the Chief Surveillance Commissioner, the Rt. Hon. Sir

Christopher Rose. This is attached as Appendix B. In summary, the report concludes that the Council has good policies, procedures and training in place.

15.4 Whilst the Chief Surveillance Commissioner stated that the council appeared to be well placed to use the powers available to it under RIPA, the report at Appendix B does contain two recommendations for improving the application of the required processes.

15.5 The Council has confirmed that it accepts the Surveillance Commissioner's recommendations and will implement them in order to ensure full compliance with the requirements of RIPA.

16. The Inspection

16.1 The ASC met with the Head of Audit & Risk Management (the Council's operational lead officer for RIPA), together with the Head of Enforcement to review the Council's use of RIPA.

16.2 The ASC reviewed and discussed the Council's policy and procedures documentation in relation to their operation and best practice. A review of RIPA applications, authorisations, renewals and cancellations was also undertaken. Feedback from the ASC during the course and at the end of the inspection was positive on the understanding and application of RIPA principles across the Council; on the Council's training for Authorised Officers, which was provided in-house by Legal Services; and on the briefing provided to the Senior Responsible Officer in respect of their role and responsibilities.

16.3 The ASC also visited the CCTV control room on the day of the inspection to review the Council's use of CCTV and RIPA implications, including the use of the service by the police. Feedback from the ASC at the end of the inspection was again positive on the CCTV control room operation, the officers' understanding and application of RIPA principles and the use of the service by the police.

17. The Report

17.1 The ASC did not find any material gaps in approach or compliance in the Council's use of RIPA. No omission in information required by the authorisation forms, or the authorising officer statements (apart from one instance) was identified. However, the ASC did make two recommendations to ensure the Council met best practice and improved its existing processes. The recommendations made by the OSC are detailed in Appendix A, which indicates how these are to be addressed and implemented.

17.2 The ASC did raise one point in his report (paragraph 22, page 4) which was not discussed during the inspection visit. The Head of Enforcement has confirmed that Legal opinion was sought prior to the release of any information regarding Enterprise staff wrong doing. The conduct and collusion of the staff was material to the determination of the offences and defences in this case. The Council was satisfied that, following legal advice, the specific circumstances of the case facilitated the use of the information obtained and no challenge was made of its use.

OSC INSPECTION VISIT NOVEMBER 2010 – ACTION PLAN

OSC Recommendation	Management Response	Deadline and Responsibility
<p>Home Office Forms</p> <p>That only the latest versions of the RIPA forms be used in all future applications and authorisations</p>	<p>Agreed.</p> <p>The Head of Audit & Risk Management will:</p> <ol style="list-style-type: none"> 1. Update the current guidance notes to include the latest versions of the Home Office forms; 2. Formally remind all authorising officers to destroy copies of pre-existing forms and only use the forms contained within the re-issued guidance notes; 3. request authorising officers provide copies of the latest guidance notes and forms to their staff; and 4. ensure that a final check is undertaken on receipt of completed forms within Audit & Risk Management to ensure that current forms are in use. 	<p>1 February 2011 for points 1, 2 and 3. Ongoing for point 4</p> <p>Head of Audit & Risk Management All Authorising Officers</p>
<p>Home Office Forms</p> <p>That care be taken to ensure that review dates are set and adhered to, and that the review dates and correct expiry dates are recorded by Authorising Officers in the authorisation forms so that they can be placed in the Central Record.</p>	<p>Agreed.</p> <p>The Head of Audit & Risk Management will:</p> <ol style="list-style-type: none"> 1. Formally remind all authorising officers to set accurate review dates in accordance with Home Office guidance; and 2. Ensure that a final check is undertaken on receipt of completed forms within Audit & Risk Management to ensure that review dates have been set. 	<p>1 February 2011 for point 1. Ongoing for point 2</p> <p>Head of Audit & Risk Management All Authorising Officers</p>
<p>The Chief Executive should write to the Chief Surveillance Commissioner confirming the Council's acceptance of the OSC Inspection Report and recommendations.</p>	<p>Agreed.</p>	<p>Completed 23 December 2010</p>

The Rt Hon. Sir Christopher Rose

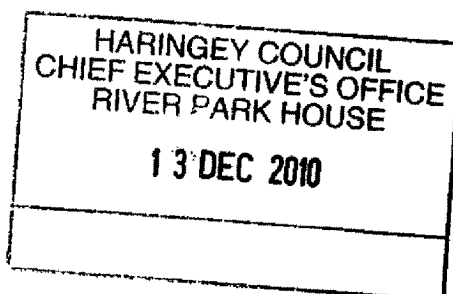


Office of Surveillance
Commissioners



Chief
Surveillance
Commissioner

Restricted



9th December 2010

Dear Mr. Crompton,

Covert Surveillance

On 24th November 2010, an Assistant Surveillance Commissioner, Sir David Clarke, visited your Council on my behalf to review your management of covert activities. I am grateful to you for the facilities afforded for the inspection.

I enclose a copy of Sir David's report which I endorse. You make infrequent, but appropriate, use of your covert powers. You have a sound RIPA structure, with good policies, procedures and training. All this is commendable. There are only 2 recommendations, but the first relates to a matter to which Dr Kolbert drew attention following inspection 3 years ago and it must now be urgently addressed.

The recommendations are that only up to date RIPA forms be used and that review dates must be set, recorded, placed in the Central Record and adhered to.

I shall be glad to learn that your Council accepts the recommendations and will see that they are implemented.

One of the main functions of review is to enable public authorities to improve their understanding and conduct of covert activities. I hope your Council finds this process constructive. Please let this Office know if it can help at any time.

*Yours sincerely,
Chris Rose*

Mr Kevin Crompton
Chief Executive
London Borough of Haringey
River Park House
225 High Road
London N22 8HQ

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**Office of Surveillance
Commissioners**

OFFICE OF SURVEILLANCE COMMISSIONERS

INSPECTION REPORT

COUNCIL OF THE LONDON BOROUGH OF HARINGEY

24 November 2010

**Assistant Surveillance Commissioner:
Sir David Clarke**

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DISCLAIMER

This report contains the observations and recommendations identified by an individual surveillance inspector, or team of surveillance inspectors, during an inspection of the specified public authority conducted on behalf of the Chief Surveillance Commissioner.

The inspection was limited by time and could only sample a small proportion of covert activity in order to make a subjective assessment of compliance. Failure to raise issues in this report should not automatically be construed as endorsement of the unreported practices.

The advice and guidance provided by the inspector(s) during the inspection could only reflect the inspectors' subjective opinion and does not constitute an endorsed judicial interpretation of the legislation. Fundamental changes to practices or procedures should not be implemented unless and until the recommendations in this report are endorsed by the Chief Surveillance Commissioner.

The report is sent only to the recipient of the Chief Surveillance Commissioner's letter (normally the Chief Officer of the authority inspected). Copies of the report, or extracts of it, may be distributed at the recipient's discretion but the version received under the covering letter should remain intact as the master version. Distribution beyond the recipient's own authority is permissible but it is requested that the 'Secretary to OSC', Office of Surveillance Commissioners, is informed of the named individuals to whom copies or extracts have been sent. Any references to it, or extracts from it, must be placed in the correct context.

The Office of Surveillance Commissioners (OSC) is not a public body listed under the FOI Act 2000, however, requests for the disclosure to a third party of any information contained within this report should be notified to the Secretary to OSC."

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Office of Surveillance
Commissioners

OSC/INSP/075

Chief Surveillance Commissioner,
Office of Surveillance Commissioners,
PO Box 29105,
London,
SW1V 1ZU.

28 November 2010.

LONDON BOROUGH OF HARINGEY

INSPECTION REPORT

Inspection date 24th November 2010

Inspector Sir David Clarke
Assistant Surveillance Commissioner

London Borough of Haringey.

1. The nature of the area served by the London Borough of Haringey ("LBH") remains as described in earlier OSC reports.
2. The Senior Corporate Management structure is headed by the Chief Executive, supported by five Service Directors. The Chief Executive is now Kevin Crompton, whose address is River Park House, 225 High Road, London N22 8HQ.
3. The most recent OSC inspection of LBH was conducted by HH Dr Colin Kolbert, Assistant Surveillance Commissioner, on the 3rd March 2009. That was his third visit to LBH, and he once again reported favourably and made only minor and readily achievable recommendations.
4. The Council has continued to be a modest user of RIPA, having granted only six authorisations since the last inspection. Four of these were made under the "Safer Stronger Communities" umbrella, in relation to vandalism, drug dealing and noisy disorder in housing areas. The other two were under "Urban Environment", one in relation to alcohol sales to already intoxicated purchasers and the other in relation to fly tipping.

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5. None of these applications had used the urgency provisions, none was concerned with the likely acquisition of confidential information, and none concerned Covert Human Intelligence Sources (CHIS).
6. One application for directed surveillance was refused by the authorising officer.

Inspection.

7. I carried out the inspection on 24 November 2010 at the LBH's offices at Alexandra House, Wood Green. I met the following council officers:
 - Anne Woods, Head of Audit and Risk Management;
 - Robin Payne, Head of Enforcement Service and an Authorising Officer

These were the officers interviewed by Dr Kolbert at his inspection in 2009; indeed, Ms Woods was described by him as already a veteran of his two previous inspections. These officers provide valuable and commendable continuity to the Council's RIPA activities.

8. The inspection started with a discussion of the revised Codes of Practice and OSC Guidance, LBH's RIPA management, policy and procedures, the designated authorising officers (AOs), training, and the actions taken on the recommendations in the last OSC report. I then inspected the RIPA authorisations themselves before examining the Central Record, for which purpose I briefly met its keeper Julia Johnson, Principal Auditor. Finally I met Ms Woods again for a final discussion before departing Alexandra House.
9. I then visited LBH's CCTV centre at Ashley Road, Tottenham Hale. I deal with this separately, later in the report.
10. I am grateful to all concerned, particularly Ms Woods, for their helpful cooperation which greatly eased my task.

RIPA Structure

11. LBH's RIPA Procedure Notes, approved by Dr Kolbert at his last inspection, were duly revised as recommended by him and have been further revised to take account of the 2010 revisions to the Codes of Practice. The Notes are clear and accurate, and include full explanations of the requirements of necessity and proportionality.
12. The attached application forms are, however, not the latest versions in that the paragraph references to the Codes of Practice relate to the earlier Codes preceding the 2010 revisions. In particular, the important box for "collateral intrusion" has a wrong reference and is therefore misleading. This is easily remedied by downloading the current forms from the Home Office website.

See recommendation

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13. The Procedure Notes include a useful provision that the Lead Officer (Ms Woods) reviews the implementation of RIPA, as well as the policy, on a regular basis. In practice she, together with Julia Johnson, act as *de facto* RIPA co-ordinators and provide the necessary oversight of LBH's RIPA activity.
14. In the light of paragraph 3.28 of the revised Covert Surveillance Code, LBH had appointed Julie Parker, Director of Corporate Resources, as Senior Responsible Officer. I did not meet Ms Parker but I was assured that she is familiar with RIPA principles and practice as a former AO. Ms Woods showed me the clear and cogent briefing note she had prepared for the SRO, setting out her duties and responsibilities.
15. There are now ten designated AOs identified by their names and posts, listed in an appendix to the Procedure Notes. All are appropriately qualified as required by SI 2010/521. They include the incoming Chief Executive, who was previously Chief Executive of Luton Borough Council and is therefore familiar with the role of AO for cases involving confidential information. The AOs are carefully chosen and limited in numbers, in such a way as to ensure that they are properly trained and are regularly updated with any changes of law or procedure. In practice, however, only two LBH officers have had occasion to act as AOs in the period under review.
16. The procedure notes make clear that in the unlikely event of a CHIS authorisation being considered, consultation must first take place with the Head of Audit and Risk Management (Ms Woods) and with the Head of Legal Services, and that specialist training for all relevant officers would be required.
17. The Central Record is as described by Dr Kolbert in paragraph 9 of his last report. The computer spreadsheet contains columns for all the information now required by paragraph 8.1 of the Covert Surveillance Code of Practice, but I found that the column for entering review dates (not itself a requirement of the Code, surprisingly) was blank in most cases. This reflects the fact that in some of the authorisations, no review date was set, contrary to the guidance properly given in paragraph 8.4.1 and 8.4.2 of LBH's Procedure Notes. For the Central Record to serve as a useful management tool, it should record the review dates set by the AO when authorising, rather than recording (after the event) the date on which the review has taken place. Separate columns are provided for recording renewals and cancellations.

See recommendation

18. I enquired why LBH's use of covert surveillance seemed lighter than in some London boroughs of comparable size. Ms Woods and Mr Payne explained that they act as gatekeepers, challenging those who wish to use these powers to justify whether they really need to do so, thereby

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testing the proportionality of such action before it reaches an AO for a formal decision. This is commendable. They also explained that increased information sharing and data matching techniques have greatly reduced the need for surveillance, and that no RIPA authorisations have been sought for Housing Benefit cases for some years.

Training

19. The last training day was held on the day before the last OSC inspection. I was shown the excellent training materials shown to Dr Kolbert on that occasion. Further training is planned but has not yet been fixed. Apart from the arrival of a new Chief Executive, the AOs are unchanged.
20. Ms Woods explained that she provides regular email updates to staff, as she did when the revised Codes of Practice were published earlier in 2010. I am satisfied that the training needs of AOs and applicants are met.

Examination of Records.

21. The Urban Environment authorisations, for which Mr Payne was the AO, contained good descriptions of the surveillance operations and of the necessity and proportionality of them. However, no expiry dates were entered, despite the prompts on the forms indicating how the time and date of expiry should be shown.
22. In one of these, in which surveillance was authorised to investigate the unlawful depositing of waste by tradesmen, the surveillance revealed LBH refuse collectors helping themselves to fruit and vegetables on display outside a shop. In reliance on this evidence the men were suspended from duty. It appeared to me that this use of the authorised surveillance fell outside the terms of the authorisation and might have been open to challenge.
23. The Safer Communities authorisations, for which the Head of that service was AO, were (save in one case) thorough and well documented. Necessity and proportionality were fully dealt with, except in one case where the AO did no more than tersely state that "*no other overt action would achieve the results required*". The fact that her other authorisations were fully dealt with led me to think this was a one-off error which would have been noticed on the next review by Ms Woods. There was, however, a more systemic failure to record expiry dates, save in one instance where an expiry date was specified but did not comply with the prompt, being three months (without the required deduction of one day) after the authorisation date.

See recommendation

24. The refused application was well documented. It was made by the Children's Service of LBH, and concerned surveillance to be carried out

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on the parents of a child who was the subject of ongoing care proceedings, to ascertain whether they had resumed cohabitation and potentially put the child at renewed risk. The AO gave full reasons for his view that covert surveillance was not proportionate and was not likely to achieve the hoped-for results. He might have added that the stated purpose of obtaining further evidence for use in the care proceedings was not an admissible purpose, not being for the prevention or detection of crime.

CCTV

25. I decided to visit the CCTV Control Room to see the operation for myself and because it was not visited at the last inspection. I was welcomed there by James Mehmet. I share Dr Kolbert's opinion, which he formed on an earlier visit, that it is excellent. The close cooperation with the Metropolitan Police continues. It so happened that two officers arrived whilst I was there to view some recorded footage, which was retrieved quickly and efficiently for them.
26. I viewed the CCTV monitoring screens and discussed RIPA issues with the CCTV supervisor Ihsan Iqbal, an employee of NSL Services Group who have been contracted to LBH since 2008 to provide monitoring of the community safety CCTV cameras. Mr Iqbal was clearly well aware of the circumstances in which the police must have and produce RIPA authorisations before being permitted to use the CCTV in a targeted operation, and he showed me several of the confirmation forms ("form 5429") which the police provide to him. These are not full copies of the RIPA authorisations, but give sufficient detail of the operation, with the identity of the police AO, to confirm to NSL and to LBH that valid authorisations are in place.
27. My visit was interrupted by a fire alarm evacuation and I did not feel the need to await the all-clear so as to return and inspect the other part of the CCTV operation, which concerns driving and parking enforcement and is not contracted out.

Conclusion

28. LBH continues to have a sound RIPA structure, with good policies and procedures and good training. However, though Dr Kolbert's recommendation at paragraph 18 was complied with and the then revised form brought into use with the questions set out in a logical order, I found that the latest version had not been downloaded. This is a minor matter, but more significant was the failure to ensure that review dates are consistently set by AOs. This can be readily remedied in future authorisations.

29. I make the following

Recommendations

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- I. That only the latest versions of the RIPA forms be used in all future applications and authorisations;
- II. That care be taken to ensure that review dates are set and adhered to, and that the review dates and correct expiry dates are recorded by AOs in the authorisation forms so that they can be placed in the Central Record.

A handwritten signature in black ink that reads "David Clarke". The signature is written in a cursive style with a large initial 'D' and a long, sweeping underline.

David Clarke
Assistant Surveillance Commissioner

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