

# Governance, Audit and Risk Management Committee **AGENDA**

**DATE:** Tuesday 29 March 2011

**TIME:** 7.30 pm

**VENUE:** Committee Room 5,  
Harrow Civic Centre

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## **MEMBERSHIP** (Quorum 3)

**Chairman:** Councillor John Cowan

**Councillors:**

Mano Dharmarajah	Richard Romain
Thaya Idaikkadar (VC)	Yogesh Teli
Nizam Ismail	
Sachin Shah	

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## **Reserve Members:**

- |                   |                    |
|-------------------|--------------------|
| 1. Ben Wealthy    | 1. Tony Ferrari    |
| 2. Ajay Maru      | 2. Stephen Wright  |
| 3. Krishna Suresh | 3. Anthony Seymour |
| 4. Krishna James  |                    |

**Contact:** Lysandra Dwyer, Democratic Services Officer  
Tel: 020 8424 1264 E-mail: [lysandra.dwyer@harrow.gov.uk](mailto:lysandra.dwyer@harrow.gov.uk)

# **AGENDA - PART I**

## **1. ATTENDANCE BY RESERVE MEMBERS**

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

- (i) to take the place of an ordinary Member for whom they are a reserve;
- (ii) where the ordinary Member will be absent for the whole of the meeting; and
- (iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
- (iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

## **2. DECLARATIONS OF INTEREST**

To receive declarations of personal or prejudicial interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee, Sub Committee, Panel or Forum;
- (b) all other Members present in any part of the room or chamber.

## **3. MINUTES (Pages 1 - 8)**

That the minutes of the meeting held on 19 January 2011 be taken as read and signed as a correct record.

## **4. PUBLIC QUESTIONS**

To receive questions (if any) from local residents/organisations under the provisions of Committee Procedure Rule 17 (Part 4B of the Constitution).

## **5. PETITIONS**

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

## **6. DEPUTATIONS**

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

## **7. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS**

- (a) Treasury Management Strategy Statement: Reference from the Cabinet meeting on 10 February 2011
- (b) Final Revenue Budget 2011-12 and 2015-16: Reference from the Cabinet meeting on 10 February 2011

- (a) Treasury Management Strategy Statement (MRP) Prudential Indicators & Minimum Revenue Provision Policy & Strategy 2011/12: Reference from the Cabinet meeting on 10 February 2011: (Pages 9 - 10)

*For the sake of economy, the report which was circulated on the agenda for the February Cabinet meeting is not being reprinted in this agenda, and Members are therefore requested to bring their copies with them to the meeting.*

- (b) Final Revenue Budget 2011-12 and 2015-16: Reference from the Cabinet meeting on 10 February 2011: (Pages 11 - 14)

*For the sake of economy, the report which was circulated on the agenda for the February Cabinet meeting is not being reprinted in this agenda, and Members are therefore requested to bring their copies with them to the meeting.*

**8. INFORMATION REPORT - AUDIT PLAN FOR 2010 -11 (Pages 15 - 76)**

Report of the Interim Director Finance.

**9. DRAFT INTERNAL AUDIT PLAN 2011/12 (Pages 77 - 126)**

Report of the Assistant Chief Executive

**10. AUDIT FEE LETTER 2011-12 (Pages 127 - 134)**

Report of the Interim Director Finance.

**11. INFORMATION REPORT - CAPITAL INVESTIGATION IMPLEMENTATION PLAN (Pages 135 - 160)**

Report of the Assistant Chief Executive.

**12. MANAGING ASBESTOS**

Verbal Update of the Service Manager Internal Audit

**13. ANY OTHER URGENT BUSINESS**

Which cannot otherwise be dealt with.

**AGENDA - PART II - NIL**

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# GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES

## 19 JANUARY 2011

**Chairman:** \* Councillor John Cowan

**Councillors:** \* Mano Dharmarajah \* Richard Romain  
\* Thaya Idaikkadar \* Sachin Shah  
\* Nizam Ismail \* Yogesh Teli

**In attendance:** Bill Stephenson  
**(Councillors)**

\* Denotes Member present

### 52. Attendance by Reserve Members

**RESOLVED:** To note that there were no Reserve Members in attendance at this meeting.

### 53. Declarations of Interest

**RESOLVED:** To note that there were no declarations of interests made by Members.

### 54. Minutes

**RESOLVED:** That the minutes of the meeting held on 29 November 2010, be taken as read and signed as a correct record.

### 55. Public Questions, Petitions and Deputations

**RESOLVED:** To note that no public questions were put, or petitions or deputations received at this meeting.

**56. References from Council and other Committees/Panels**

A reference from the Cabinet meeting on 15 December 2010 on the Half Year 2010/11 Treasury Management Activity Report was received by the Committee.

**RESOLVED:** That the reference be noted.

**57. Capital Programme - Reference from the Cabinet meeting on 15 December 2010**

The Committee received a reference from the Cabinet meeting on 15 December 2010 on the Capital Programme.

**RESOLVED:** That the reference be noted.

**RECOMMENDED ITEMS**

**58. Capital Programme - Report of the Director of Legal and Governance Services**

An officer presented a report that set out how the Council was responding to recommendations in the report on the Capital Programme presented at the Cabinet meeting on 15 December 2010. The officer reported that:

- two investigations had been completed with outcomes relating to project management and financial management. As a result of the investigation, a series of recommendations had been discussed with the Leader of the Council and the Corporate Directors who would be responsible for overseeing their implementation;
- the Cabinet report had also been considered by Deloitte Touche LLP, the Council's external auditors who were responsible for approving the annual accounts;
- Cabinet had requested that the Governance, Audit and Risk Management (GARM) Committee monitor and report on the implementation of the investigation and that the Internal Audit team independently verify the process undertaken;
- a further report would be presented to the GARM Committee meeting on 29 March 2011. Members would have an opportunity to address any shortcomings in implementing the recommendations and how the Council's Governance framework should be developed in the future.

In response Members agreed that the Chairman and Vice-Chairman of the GARM Committee with meet with officers to ensure that all recommendations were implemented. A Member commented that the investigation provided an opportunity to introduce practical systems within the work environment that enhanced performance and positive behaviour.

**RESOLVED:** That

- (1) the report be noted;
- (2) the suggested method of monitoring and reporting the implementation of recommendations in the Cabinet report be agreed;
- (3) a progress report on the implementation of the recommendations and reviewing the Council's governance arrangements would be presented to the GARM meeting on 29 March 2011.

## **RESOLVED ITEMS**

### **59. Half-Year 2010/11 Treasury Management Activity Report**

The Committee received a report on the Half-Year Treasury Management Activity that was also presented at Cabinet meeting on 15 December 2010.

An officer advised that:

- the Treasury Management Strategy was approved by Cabinet on 11 February 2010, to ensure that it complied with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management;
- finance officers within the Council were tasked with managing the Council's cash flow to ensure that the return on investments were maximised with minimal risk to the Council's assets;
- the report outlined the half-year performance of treasury management activities to 30 September 2010 against indicators within the Prudential Code for Capital Finance. Lower than estimated borrowing costs and additional investment income had contributed to a surplus of £819,000 on the capital financing and investment income budget;
- a draft Treasury Management Strategy would be considered by the GARM Committee Lead Member for Finance before it was submitted to Cabinet on 10 February 2011 and ratified by Council on 17 February 2011.

**RESOLVED:** That the report be noted.

### **60. International Financial Reporting Standards (IFRS) Update**

In officer presented a report that provided an update on the IFRS plan and progress made on the implementation timetable. She added that significant progress for implementing the IFRS plan against the statutory programme had been made.

**RESOLVED:** That the report be noted.

## 61. INFORMATION REPORT - Annual Audit Letter 2009/10

A report on the Annual Audit Letter 2009/10 was presented to the Committee which considered its content. A representative of Deloitte Touche, the Council's external auditors, reported that:

- the Annual Audit letter replicated findings in the statement presented at the GARM Committee meeting on 28 September 2010. Following the investigation into the capital overspend, an unqualified audit opinion on the Council's 2009/10 accounts was issued on 28 October 2010.
- a qualified opinion on the Council's Value for Money (VFM) arrangement in accordance with the Code of Audit Practice had been provided. A weakness in the management, control and monitoring of certain capital projects during the year had led to a specific overspend. Nevertheless, the external auditors were satisfied that robust arrangements in relation to the effective and efficient use of resources in the year ending 31 March 2010 had been made, except for managing its risks and maintaining a sound system of internal control;
- an unqualified audit opinion on the Council's 2009/10 pension scheme annual report had been issued on 30 September 2010, ahead of the statutory deadline of 1 December 2010;
- an unqualified statement of assurance relating to the Council's consolidation return was presented to the National Audit Office on 28 October 2010;
- certification of the 2009/10 accounts had not taken place as an ongoing objection to credit card fees on parking and traffic penalty charges by a local resident was unresolved;
- a separate management letter on the outcome of grant certification had been written. Deloitte Touche LLP, had not identified any specific areas of concern in relation to grant claims and other returns.

In response to questions, the representative and an officer advised that:

- the Chairman of the GARM Committee had delegated authority to counter-sign the Council's financial statements;
- the external auditors were employed to take an objective view of the Council's financial statements. A capital investigation was initiated by the Council in relation to capital expenditure. The external auditors were unable to sign the statement of accounts on 30 September 2010 as the Council's investigation was ongoing. The finance team had kept the external auditors updated on the progress of the investigation;
- whilst completing the audit, the auditors had identified two specific key lines of enquiry (KLOE) relating to financial management and risk management and internal control which may have been affected by the

capital issue. No qualification was required in relation to financial management;

- miscoding may have taken place earlier but had not been picked up in previous years. The external auditors would seek to ensure that the measures introduced internally were effective;
- the financial statements had not been amended since September 2010. Officers had made some amendments to the Annual Governance statement and the auditor had qualified his VFM conclusions;
- recommendations made by the auditors in relation to the pension scheme annual report had been followed up by officers within the finance team. The progress made by the finance team would be revisited when the 2010/11 annual accounts would be audited;
- the 2009/10 annual accounts were signed in October 2010 by the external auditors following completion of the investigation and the recommendation of revised internal measures within the Council.

The Chairman of the Committee noted the positive working relationship between the Council and Deloitte Touche LLP and thanked the external auditors and officers for completing the 2009/10 annual audit.

**RESOLVED:** That the report be noted.

## **62. INFORMATION REPORT - Risk, Audit & Fraud Division Activity Update**

Officers within the Internal Audit Team presented a report that outlined the current work streams and future work of the Risk, Audit and Fraud group of services in Harrow Council. In relation to different teams within the division the Committee noted that:

### Corporate Anti-Fraud Team

Harrow had been identified to receive additional funding to tackle and address housing fraud. The appointment of a new Housing Fraud Investigations Officer at the end of January 2011 would assist the team in managing the increasing number of housing fraud investigations completed by the team.

There had been a rise in the number of people registered on the housing waiting list. This was an increase of 11% between July and September 2010 from the previous quarter.

### Information Management

A policy on Information Management that complied with appropriate legislation would be introduced throughout the Council in the near future. All Directorates would be provided with an Information Risk Plan and data

restrictions that would manage data and minimise the loss of sensitive information.

### Health & Safety

An update report on the investigation in relation to the management of asbestos was provided. Further updates will be provided to the Committee in due course.

### **63. Follow Up Report on Statement of Accounts**

An officer provided a verbal update on the statement of accounts reported at the GARM meeting on 28 September 2010.

**RESOLVED:** That the update be noted.

(Please also see Minute Item 60)

### **64. Vote of Thanks**

As this was the last meeting of the Committee before the Corporate Director of Finance left to begin a new post, the Chairman expressed his appreciation for all her work and the support provided to the GARM Committee by the Finance Team.

In response, the Corporate Director of Finance thanked Members and the officers in attendance at the meeting.

### **65. Exclusion of the Press and Public**

**RESOLVED:** That the press and public be excluded from the meeting for the following item for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
15.	Risk, Audit and Fraud Team Investigation Updates	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

### **66. Risk, Audit and Fraud Team Investigation Updates**

An officer from the Risk, Audit and Fraud team provided a verbal update on the progress of ongoing investigations by the Audit team.

The Committee were advised that:

- the Overview & Scrutiny Committee had reviewed the allocation of grant funding for voluntary organisations. The officer confirmed that a report on the review would be presented to the GARM Committee;
- a report on financial controls of infant schools within the Borough would be presented to the next GARM Committee meeting on 29 March 2011.

**RESOLVED:** That the report be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 9.10 pm).

(Signed) COUNCILLOR JOHN COWAN  
Chairman

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**LONDON BOROUGH OF HARROW**

**GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE**

**29 MARCH 2011**

**REFERENCE FROM CABINET – 10 FEBRUARY 2011**

**Minute 154 - Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision (MRP) Policy and Strategy 2011/12**

The Corporate Director Finance introduced a report, which set out the Council's Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision (MRP) Policy and Strategy for 2011/12. She explained that Treasury Management was the management of the Council's investments and cash flows, its banking, money market and debt transactions together with the effective control of risks associated with those activities.

The Corporate Director highlighted the importance of risk minimisation, as the Council was funded by public money. It was important for an authority to strike a balance between risk and return in order to allow for a contribution to the budget. The borrowing element was also a key aspect with duration and timing as essential ingredients. She explained that as base rates were currently low, it was better to borrow internally but that this would be kept under review.

**Resolved to RECOMMEND:** (to Council) That

- (1) the Treasury Management Strategy and Prudential Indicators be approved;
- (2) the Minimum Revenue Provision Policy and Strategy for 2011/12 be approved.

**RESOLVED:** That the report be referred for review to the Governance Audit and Risk Management Committee.

**Reason for Decision:** To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.

**FOR CONSIDERATION**

Background Documents:  
Minutes of Cabinet

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**LONDON BOROUGH OF HARROW**

**GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE**

**29 MARCH 2011**

**REFERENCE FROM CABINET – 10 FEBRUARY 2011**

**Minute 151 - Key Decision - Final Revenue Budget 2011/12 to 2015/16**

Cabinet received a report of the Corporate Director Finance, which set out the final Revenue Budget for 2011/12 and the Medium Term Financial Strategy for 2011/12 to 2015/16. The Revenue Budget set out the Council Tax Strategy and spending plans, including new investment and savings proposals. The report set out the impact of the proposals and included information on the local government settlement, reserves policy and consultation on the budget. It covered all of the Council's main activities, including schools.

The Leader of the Council stated that this was the first budget of the new administration and that it had been a challenging process as a result of the cuts imposed in the region of 28% over a four year period. The severity of the cuts in local government and other public sector bodies, such as the Primary Care Trusts (PCTs), had led to many requests to the government to change its mind. A £5.6m in-year funding gap had been filled and the budget proposed by the administration was responsible and robust.

The Leader acknowledged that it had been difficult to deliver a balanced budget without affecting front line services but he was proud that Harrow would be retaining all its libraries and children centres which would remain open. This had been possible as a result of planning ahead and that during the last eight months 12 major projects were being delivered and front line services had been defended. Some of these projects would be considered at the next Cabinet meeting.

The Leader alluded to various proposals which were underway and those that had contributed towards a robust budget, such as a major procurement exercise which would include working with Hammersmith & Fulham Council, a re-shaping of the senior management structure, a successful voluntary severance scheme and joint working through the West London Alliance. He also referred to funding gaps in future years, that could increase if further cuts were imposed by government.

The Leader commended the budget stating that it could not be considered as having been produced by applying a 'salami slicing' approach. He thanked officers for their work in ensuring a balanced budget.

The Corporate Director Finance highlighted key aspects of the report and explained how the funding gap had been closed, which had been achieved due to technical changes, levies on other public bodies and the positive position on the collection fund. She added that the impact of investments and savings proposed had been carefully considered, a new policy on contingencies was being proposed, and the reserves policy and the rules on virements needed amending. The budget contained a £1m contingency fund. A detailed risk assessment of the budget would be referred to the Governance, Audit and Risk Management Committee (GARM), and the schools' budget

was ring-fenced. The Greater London Authority (GLA) budget precept was expected to be set at zero but had yet to be agreed as a result of which the Council meeting date had been changed to 10 March 2011.

The Corporate Director highlighted the challenges that lay ahead as a result of the settlements which would be reduced by £7m in 2012/13 and £5m in 2013/14. However, a 0% Council Tax increase for 2011/12 was proposed. She was recommending a budget to Cabinet and Council that was robust and had adequate reserves.

The Portfolio Holder for Adult Social Care, Health and Well-Being updated paragraph 39 of the report under the Adults and Housing section and it was agreed that it should read: 'There are a number of areas which were currently subject to consultation which were shown in the budget. No decision had been made on those areas. However, the pre-consultation phase had now been concluded. The Steering Group met this morning and agreed that it go forward to a full consultation. The full consultation has to be over 12 weeks. It is anticipated that it will conclude in the early summer. The results will be report to Cabinet later in the year. There were no alternative plans to achieve these savings if proposals were not implemented post consultation. Covering these savings was therefore the first call on the contingency fund established as part of the 2011/12 budget.'

Cabinet noted the tabled reference from the Overview and Scrutiny Committee in this regard and the feedback received from the stakeholders.

**Resolved to RECOMMEND:** (to Council)

That, subject to the update on paragraph 39 above,

- (1) the budget be approved to enable the Council Tax for 2011/12 to be set;
- (2) the policy on the use of contingency at appendix 7 to the report be approved;
- (3) the schools budget at appendix 8 to the report be approved;
- (4) the reserves policy at appendix 10 to the report be approved;
- (5) the virement rules at appendix 11 to the report be added to the financial regulations;
- (6) Members' Allowances be frozen and the current Members' Allowances Scheme be adopted for 2011/12;
- (7) the model Council Tax resolution at appendix 1 to the minutes be approved.

**RESOLVED:** That

- (1) the Medium Term Financial Strategy at appendix 1 to the report be approved;
- (2) the planned investment in services and efficiency programme be noted;
- (3) in relation to schools, the proposed changes to the formula be approved;
- (4) the risk assessment at appendix 9 to the report be referred to the Governance, Audit and Risk Management Committee for consideration.

**Reason for Decision:** To ensure that the Council sets a balanced budget for 2011/12.

**FOR CONSIDERATION**

Background Documents:  
Minutes of Cabinet

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**REPORT FOR: Governance, Audit and Risk  
Management Committee**

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**Date of Meeting:** 29 March 2011

**Subject: INFORMATION REPORT - Audit  
Plan for 2010 -11**

**Responsible Officer:** Julie Alderson  
Interim Director of Finance

**Exempt:** No

**Enclosures:** **Appendix 1** – 2010-11 Accounts  
Opinion Audit Plan  
**Appendix 2** - 2010-11 Pension Fund  
Annual Report Audit Plan  
**Appendix 3** - Audit Report on Grant  
Certifications 2009-10

## **Section 1 – Summary and Recommendations**

This report provides the Committee with an opportunity to see the 2010-11 Accounts Opinion Audit Plan and Pension Fund Annual Report Audit Plan.

**Recommendations:**

The Committee is requested to note:

1. The 2010-11 Accounts Opinion Audit Plan and Pension Fund Annual Report Audit Plan; and
2. Audit Report on Grant Certifications for 2009-10

**Reason**

To keep the Committee informed of planned work.

## Section 2: Report

### Audit Plan for 2010-11

1. The Accounts Opinion Audit Plan provides the Council with clarity about how the external audit of the accounts for 2010-11 will be conducted and highlights the key audit risks. It is an extremely useful document, as it will help the Council to plan and prioritise its work on the accounts. It also gives the Committee early sight of the issues that will be pertinent.
2. The Committee is asked to consider the plan and in particular the key audit risks. The External Audit has already carried out some preparatory work for the audit of the 2010-11 accounts, and the Council is working to address the key audit risks.
3. Committee will receive a verbal presentation of the report.

### Grant Certifications 2009-10

4. The Report on Grant Certifications in relation to 2009-10 is attached as appendix 3 to this report. Eight grant claims and returns were certified for 2009-10 of which six resulted in an unqualified opinion. Adjustments were made to two grant claims, both of which were greater than £10,000. A qualification letter was issued in respect of one grant claim.

## Financial Implications

5. There are no direct financial implications arising from this report.

## Section 3 – Statutory clearance

Name: Julie Alderson	<input checked="" type="checkbox"/> Chief Financial Officer
Date: 5 March 2011	
Name: Sarah Wilson	<input checked="" type="checkbox"/> On behalf of the Monitoring Officer
Date: 17 March 2011	

## Section 4: Contact details and background papers

**Contact:** Hasina Shah (Finance Business Partner – Financial Accounting, Treasury and Pension Fund) tel: 020-8424-1573

**Background Papers:** None



## Harrow Council

Report to the Governance, Audit  
and Risk Management Committee

Accounts opinion audit plan for  
the 2010/11 accounts

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# Executive summary

We have pleasure in setting out in this document details of our proposed audit plan for Harrow Council for the year ending 31 March 2011.

Audit scope	
<p>Our audit will be carried out in accordance with the Audit Commission's Code of Audit Practice 2010/11. Our primary audit responsibilities are also summarised in the "Briefing on Audit Matters" paper which is circulated to you with this document.</p> <p>The Council will need to prepare accounts under International Financial Reporting Standards ("IFRS") for the first time for the year ended 31 March 2011. A number of the key audit risks we have identified below relate to transition issues.</p> <p>The Audit Commission have made changes to the scope of work to be performed on use of resources following the abolition of the Comprehensive Area Assessment and in response to issues facing local authorities in the current funding environment. The work we are required to perform to support our conclusion in this area will focus on the Council's arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness.</p> <p>In summary, under the Audit Commission's Code of Audit Practice we have responsibilities in two main areas: the financial statements and the Statement on Corporate Governance; and aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>	Page 7

Key audit risks	
<p>The key audit risks which we have identified as part of our overall audit strategy are:</p> <ol style="list-style-type: none"><li>1. Accounting for, and the assumptions underlying, the IAS19 pension liability;</li><li>2. Property valuations;</li><li>3. Presumed risk of fraud in revenue recognition;</li><li>4. Presumed risk of management override of controls;</li><li>5. First time adoption of International Financial Reporting Standards (IFRS) and the new CIPFA IFRS Code of Practice, including segmental reporting, leases and contracts; capital grants; and holiday pay accruals; and</li><li>6. Capital mis-coding.</li></ol>	Page 9



# Executive summary (continued)

Value for money conclusion – capital miscoding noted in 2009/10 audit	
<p>In our 2010 audit of the financial statements we, along with management, noted a weakness in relation to the management, control and monitoring of certain capital projects within Children's' Services – this led to us issuing a qualified VFM opinion with the 2009/10 financial statements and a delay in their issuance whilst the matter was investigated by management, with assistance from third parties.</p> <p>At the time of the findings, a risk arose as a result of the control weakness that led to a significant over-spend against budget. When our audit and VFM opinions were issued in the previous year, sufficient work had been completed by internal and external teams to assure us there were no material misstatements in the financial statements. However work has continued during the 2010/11 financial year, with formal reporting to the GARM on a regular basis. In planning our audit we must make an assessment as to whether the control weakness has been addressed and whether additional controls and procedures have been put in place across the Council to ensure that a similar issue does not arise again. Or indeed whether a risk was present during the financial year that we are auditing.</p> <p>Internal audit are preparing a review of the implementation plan that has been constructed as a result of recommendations received from the third party investigators. We will review the findings from this before making our conclusions. In the course of our audit procedures we will also:</p> <ul style="list-style-type: none"> <li>– Perform detailed testing of cost allocations in the current year, ensuring approvals are sought for any business cases and purchase orders;</li> <li>– Consider the sufficiency and operation of controls introduced; and</li> <li>– Review the documentation around the ongoing reviews and follow up work.</li> </ul> <p>Section 1 explains in more detail our approach to the 2010/11 VFM conclusion.</p>	Page 7 & 13
Challenging risks, uncertainties, estimates, assumptions and forecasts	
<p>The FRC has made it clear, in its 'Update for Audit Committees – November 2010', that it expects audit committees to focus activity on assessing and communicating risk and uncertainties and reliance on estimates, assumptions and forecasts. To support this activity, we will seek to challenge the GARM and management on the following matters during the audit process and report back to you on:</p> <ul style="list-style-type: none"> <li>• consistency of disclosure of risks and uncertainties within the annual report and those taken into account when preparing budgets and forecasts that support going concern and impairment assessments;</li> <li>• validity of estimates, assumptions and forecasts for matters such as asset valuations, impairment reviews and the going concern assessment; and</li> <li>• the adequacy of disclosure of those assumptions.</li> </ul>	N/a
Timetable	
<p>The main deadlines remain unchanged at 30 June for draft accounts and 30 September for the audit opinion. We will carry out a planning and controls audit visits in February 2011 and our final audit visit from the start of July 2011. We will issue our formal report to the GARM Committee on the audit at their meeting in September 2011. We will issue our audit report as soon as practicable following that meeting.</p> <p>The audit deadline for the Whole of Government return is 30 September 2011.</p>	Page 17



# Executive summary (continued)

Materiality and prior year uncorrected misstatements and disclosure deficiencies	
<p>For the 2011 financial statements, we have determined materiality of £4,600k (2010: £5,545k). We will report to the GARM committee on all unadjusted misstatements greater than £230k, (2010, £277k) and other adjustments that are qualitatively material.</p> <p>We take this opportunity to remind you of the misstatements identified in the prior period. Uncorrected misstatements in 2010 increased net result and net assets by £463k.</p> <p>We also remind you of the disclosure deficiencies identified in the prior year in Appendix 1, with a view to addressing these at an early stage of the current year reporting process.</p> <p>Further details of the 2010 uncorrected misstatements and disclosure deficiencies are included in Appendix 1 for reference.</p> <p>In addition, for your information, we would like to report that at the end of the prior period audit process £82.1 million of audit adjustments were recorded following discussion and agreement with management. £29.7m were reclassification journals and £49.0m related to an error noted by management in the revaluation of the HRA property portfolio.</p>	Page 7
Other matters for those charged with governance	
<p>We have previously communicated to you separately in our publication entitled "Briefing on audit matters" those additional items which we are required to report upon in accordance with International Standards on Auditing (UK &amp; Ireland) and the Listing Rules. The document also provides detail of the safeguards and procedures we have in place to ensure our independence and objectivity.</p> <p>We also present in Appendix 2 the findings of the AIU report on audit quality within the firm. This summarises the findings of the recent Audit Inspection Unit visit which reviewed a sample of 2010 audits for publicly listed companies.</p>	<p>Provided previously</p> <p>Appendix 2</p>
Independence	
<p>Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity.</p> <p>These are set out in the "Independence policies and procedures" section of our Briefing on audit matters document.</p> <p>We will reconfirm our independence and objectivity to the GARM Committee for the year ending 2011 in our final report to them.</p>	N/a
Fees	
<p>Our proposed fee for the 2010/11 audit (excluding the audit of the pension scheme annual report and fees in connection with the certification of grant claims) is £367,342 (2009/10 planned fee - £374,520). This is in line with the Audit Commission's scale rates.</p>	N/a

## Executive summary (continued)

Liaison with internal audit	
We continue to liaise with the group's internal audit function to maximise our combined effectiveness and eliminate duplication of effort where possible. This co-ordination will enable us to derive full benefit from the internal audit function, their systems documentation and risk identification during the planning of the external audit.	N/a

New accounting and legal pronouncements	
New International Standards on Auditing (ISAs) have been issued which apply to accounting periods ending on or after 15 December 2010. These "clarified" ISAs impose many new requirements on auditors and as a result the GARM committee will see a change in the scope of audits. Changes are introduced in section 1.	N/a
There is ongoing debate in the corporate IFRS arena around accounting for leases and accounting for revenue. Whilst they are neither endorsed or included in the current Code of practice, we include a summary in appendix 3 for your interest.	Appendix 3



# 1. Scope of work and approach

## 1.1 Auditing standards

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB"). The following changes have arisen since the prior year which will have the following impact on our audit:

- Objectives are included for each ISA and there is a need for auditors to determine whether any audit procedures in addition to those required by the ISAs are necessary to achieve those objectives when planning and performing the audit.
- Management override of controls is a presumed "significant" risk which cannot be rebutted.
- Work in relation to related parties is more fraud risk-based and additional audit work is required on transactions which are outside the normal course of business
- The requirements relating to materiality have changed; in particular a lower amount ("performance materiality") is used when assessing risks of material misstatement and determining the extent of audit procedures to perform.
- Auditors are expected to use confirmation requests more widely to obtain audit evidence.
- There are enhanced documentation requirements such as in relation to significant professional judgements made during the course of the audit and more mandatory procedures when an independent reviewer is required ("engagement quality control reviewer").
- Where misstatements or control deficiencies are identified, if these are to be classed as "anomalies", further audit work is required.
- There are several new communication requirements such as where significant difficulties are encountered during the audit and there is a clearer definition of what control deficiencies should be communicated to those charged with governance.
- There are more specified procedures in respect of auditing accounting estimates and fair values including audit responses where risks of misstatement are assessed as significant.

## 1.2 Our audit opinion

The audit opinion we intend to issue will reflect that the Council will be adopting the IFRS financial reporting framework.

## Overall scope and approach

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

We have responsibilities in two areas:

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

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

## Financial statements and statement on corporate governance

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



# 1. Scope of work and approach (continued)

For the 2010/11 financial statements, we will use the latest estimates of gross expenditure on services as the benchmark for our materiality assessment as this benchmark is deemed to be a critical component of the financial statements for a spending organisation. We determined a materiality of £4,600k (2010: £5,545k). This figure takes into account our knowledge of the entity, our assessment of audit risks and the reporting requirements for the financial statements. The concept of materiality and its application to the audit approach are set out in our Briefing on audit matters document.

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

## Value for money conclusion

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

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

The financial environment in which the Council operates has changed significantly in the last two years. In particular, the recession, the state of the UK's public finances, and the scale of funding cuts have led to increased pressure on public spending. The new approach is more focused and less costly and allows us to plan our work based on consideration of the risks that might affect the conclusion.

## Whole of Government Accounts consolidation pack

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

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

As last year, we have prepared a separate audit plan covering the work we carry out in relation to the Local Government Pension Scheme. As a result, this aspect of our work is not covered within this document.

The Council will need to prepare accounts under International Financial Reporting Standards (IFRS) for the first time in 2010/11. We will agree a timetable and fee for this work with you. This plan excludes any work which we will carry out on the opening IFRS balance sheet as this will form part of our 2010/11 accounts audit plan.

We also carry out work on behalf of the Audit Commission in respect of the certification of grant schemes. This was discussed in our April 2010 fee letter.



## 2. Key audit risks

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

### Accounting for, and the assumptions underlying, the IAS19 pension liability

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

The liability relating to the pension scheme is substantial and its calculation is sensitive to comparatively small changes in assumptions.

A risk arises due to the inherent judgement in choosing these assumptions, which include considerations around future changes in salaries, price and pensions, mortality and other key variables.

In the prior year, between the balance sheet date and signing the accounts the Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index would be the basis for future public sector pension increases. In the prior year accounts, this was disclosed, alongside an estimate of the impact this change would have on the pension liability.

The 2011 calculations will be the first under IAS 19 'Employee Benefits' rather than FRS 17 that was used in previous years.

**Deloitte response**

We will consider the qualifications, expertise and independence of the actuary engaged by the Council. Consistent with prior years, we include our specialist pensions group within our engagement team. They will assist in the review of assumptions used to calculate the pension liability.

In the prior year a restatement was made to the initial liability, reducing the underlying assets by £1,158k. This arose as a result of the actuary's methodology (consistent with previous years) being impacted by the volatile markets – the expected return for the final quarter being 1.5% different to the actual return. Whilst we assume the approach taken by the actuary will remain consistent, we will consider whether any material differences arise from this.

### Property valuations

**A highly judgemental area of the balance sheet, also affected by the adoption of IFRS**

The Council holds a substantial portfolio of properties, subject to a rolling revaluation programme. The markets have been particularly volatile in recent years owing to ongoing challenging economies and the recent recessionary conditions.

Increasing the complexity in the current year, the CIPFA IFRS Code of Practice will apply for the first time, effective from and including the 1 April 2010 certified valuations and then for updates made for the financial statements. The changes predominantly affect terminology, although there are some changes to approach – for example valuations of operational assets will no longer include finance costs.

**Deloitte response**

We will review the arrangements in place for updating market values and assess their compliance with the new Code of Practice. This will include an assessment of the qualifications and experience of the in-house specialists that carry out the valuations.

Once again, included in our audit team are valuation specialists from Drivers Jonas Deloitte. They will assist us in reviewing the reasonableness of key assumptions.

The accounting treatment for impairment/revaluation losses under the Code differs to past practice under the SORP. We will check compliance with the Code in this respect, including any restatement of prior period amounts.



## 2. Key audit risks (continued)

### Presumed risk of fraud in revenue recognition

#### A presumed risk in our work

Clarified International Standards on Auditing establish a presumption of a risk of fraud in revenue recognition.

Accounting for grant income can be complex as the timing for recognising income in the accounts will depend on the scheme rules for each grant.

The new IFRS Code sets out changes to the accounting for grants and contributions related to capital expenditure. Under the Code, the Council will need to restate its opening balance sheet as at 1 April 2009 and 2009/10 comparative information, for the change in accounting policy. Activities which the officers will need to perform include a review of grants and contributions unapplied at 1 April 2009, together with grants received but not applied subsequently, to ascertain whether there are any conditions attached to the grant or contribution.

#### Deloitte response

We will test the design and implementation of controls in place at the Council for detection of benefit fraud. We will perform additional detailed substantive testing of benefit claims.

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

All areas of revenue will be tested in the course of our audit, should we have any concerns around the recognition we will perform additional testing where necessary.

### Presumed risk of management override of controls

#### A presumed risk in our work

New International Standards on Auditing (ISAs) have been issued which apply to accounting periods ending on or after 15 December 2010. These 'clarified' ISAs presume management override of control to be a risk in all of the audits we undertake. Recognising that management may be able to override controls that are in place to prevent inaccurate or even fraudulent financial reporting.

The Council has segregation of duties in place – for example review of journals before posting and regular review of management accounts and budgets, with challenge made on variances and unusual movements. In light of the capital mis-coding noted in the prior year audit, management have also strengthened and reviewed their controls around capital spend against budget and the review procedures that operate.

#### Deloitte response

We will perform tests of journal entries and review the controls in place around the posting and authorisation of journal entries. We will review all material provisions at year end to ensure they meet the requirements of IAS 37 and are supported by appropriate audit evidence.

Financial reporting disclosures will be reviewed. In all our work we will engage professional scepticism with regards to management bias which might be noted during audit testing.



## 2. Key audit risks (continued)

### First time adoption of International Financial Reporting Standards and the new CIPFA IFRS Code of Practice

The first time adoption of IFRS and the new code will bring a new set of challenges to management

The 2011 audit is the first year for which IFRS and the new code of practice will be adopted by the Council. The date of transition has been determined to be 1 April 2009.

The key challenges to management are:

- Setting the IFRS accounting policies which will be applied prospectively from the date of transition;
- Posting of the adjustments where retrospective accounting is required; and
- Construction of an IFRS set of financial statements, including full disclosures.

The key areas where there are expected to be significant change as a result of the transition to IFRS from UK GAAP and the 2009 SORP are:

- Property, plant and equipment – change in valuation basis (see page 9);
- Leases and contracts and componentisation –discussed below;
- Related party disclosures;
- Employee benefits – discussed on page 12;
- Segmental disclosures – discussed on page 12; and
- Grants and contributions for capital purposes are to be recognised as income in the Comprehensive Income and Expenditure Statement when they are received (subject to any outstanding conditions) – discussed on page 13.

In the first year of adoption, IAS 1 'Presentation of financial statements' and IFRS 1 'First time adoption of IFRS' will also be relevant.

Deloitte response

We will review the accounting policies documented by management to ensure they are consistent with IFRS and ensure that they have been consistently applied in the preparation of the financial statements. We will review the adjustments posted by management to each of the 3 years under IFRS from 1 April 2009, including the adjustments required to align the opening reserves to IFRS. Finally we will review the financial statement disclosures, once prepared, to review for compliance with IFRS. Further detail around the areas listed above is found on the following pages.

### Lease accounting

This is a key area of difference between the SORP and the new IFRS based

The 2009 SORP amended the previous accounting requirements for the Private Finance Initiative (PFI) and similar contracts to come into line with International Financial Reporting Standards (IFRS) in 2009/10. Where contracts were in place before the 2009/10 financial year, prior year restatements were necessary. This year, with full IFRS implementation, the scope of the exercise performed last year is widened to include lease arrangements embedded in contracts other than PFI and similar contracts.

The Council will also need to evaluate its standalone leases.

Deloitte response

We will review documentation prepared by officers which shows how they have reviewed contracts which may contain an embedded lease. We will review accounting analysis papers on the accounting treatment for leases identified.

We will review the current year journals posted to the financial statements in relation to the 'on' balance sheet PFI contracts to ensure they have been accounted for correctly, and in line with the transaction models that management use, that our own specialist reviewed in the prior year.



## 2. Key audit risks (continued)

### Segment reporting

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

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

The Council will also need to disclose:

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

Under the SORP 2009, the Council was not required to prepare a subjective analysis within the statutory accounts, but was required to do so in its reporting to the Treasury for Whole of Government Accounts purposes. There were issues in preparing that analysis and in reconciling it to the analysis within the accounts.

**Deloitte response**

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

### Holiday pay and other compensated, short-term absences

**The Council did not previously make provision for such absences under the previous SORP.**

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

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

**Deloitte control recommendation**

We have commenced our audit of the restated balance sheets. In doing this we have reviewed the methodology for obtaining details about entitlement to compensated leave across the council and we make a recommendation from this work which has been discussed with management.

Neither the human resources department nor individual department heads monitor the days being accrued and built up by individuals in relation to un-used leave. To estimate the level of the accrual under the requirements of the IFRS code, the finance team have needed to circularise all staff (excluding teaching staff for which there is a simple CIPFA calculation to create the accrual) requesting them to confirm the level of carry-forward holiday retrospectively. This method is time-consuming and may lead to inaccuracies in recording, given that only 963 of the 2,506 payrolled staff responded.

More critically, of those responses, 20 staff were noted as having accrued more than the 30 days allowable (largest was 58 days) and many of these staff were senior management.

We recommend that HR hold a central spreadsheet which is circulated to individuals regularly. This will ensure adequate central monitoring and ensure staff are not rolling forward more leave than is allowed.

**Deloitte response**

We will consider the systems used to collect data to support the calculation. We will also test other assumptions used in the calculation. We will review new procedures introduced as a result of our recommendation above.



## 2. Key audit risks (continued)

### Accounting for capital grants

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

The Code sets out changes to the accounting for grants and contributions related to capital expenditure. Under the Code, the Council will need to restate its opening balance sheet as at 1 April 2009 and 2009/10 comparative information for the change in accounting policy. Activities which the officers will need to perform include a review of grants and contributions unapplied at 1 April 2009, together with grants received but not applied subsequently, to ascertain whether there are any conditions attached to the grant or contribution.

**Deloitte response**

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

### Capital mis-coding

**As a result of the issues highlighted in the course of last years audit**

In our 2010 audit of the financial statements we, along with management, noted a weakness in relation to the management, control and monitoring of certain capital projects within Children's Services – this led to us issuing a qualified VFM opinion with the 2009/10 financial statements and a delay in their issuance whilst the matter was investigated by management, with assistance from third parties.

At the time of the findings, a risk arose as a result of the control weakness that led to a significant over-spend against budget. When our audit and VFM opinions were issued in the previous year, sufficient work had been completed by internal and external teams to assure us there were no material misstatements in the financial statements. However work has continued during the 2010/11 financial year, with formal reporting to the GARM on a regular basis.

**Deloitte response**

In planning our audit we must make an assessment as to whether the control weakness has been addressed and that additional controls and procedures have been put in place across the Council to ensure that a similar issue does not arise again. Or indeed whether a risk was present during the financial year that we are auditing.

Internal audit are preparing a review of the implementation plan that has been constructed as a result of recommendations received from the third party investigators. We will review the findings from this before making our conclusions. In the course of our audit procedures we will also:

- Perform detailed testing of cost allocations in the current year, ensuring approvals are sought for any business cases and purchase orders;
- Consider the sufficiency and operation of controls introduced; and
- Review the documentation around the ongoing reviews and follow up work.

# 3. Consideration of fraud

## 4.1 Characteristics

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We are aware that management has the following processes in place in relation to the prevention and detection of fraud.

## 4.2 Responsibilities

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

## 4.3 Fraud inquiries

We will make the following inquiries regarding fraud:

Management	Internal Audit	GARM Committee
<p>Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments</p> <p>Management's process for identifying and responding to the risks of fraud in the entity</p> <p>Management's communication, if any, to the GARM committee regarding its processes for identifying and responding to the risks of fraud in the entity</p> <p>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour</p> <p>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity</p>	<p>Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud</p>	<p>How the GARM committee exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks</p> <p>Whether the GARM committee have knowledge of any actual, suspected or alleged fraud affecting the entity</p>

We will make inquiries of others within the Council as appropriate. We will also inquire into matters arising from your whistling blowing procedures.



# 3. Consideration of fraud (continued)

## 4.4 Concerns

As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

## 4.5 Representations

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - i. management;
  - ii. employees who have significant roles in internal control; or
  - iii. others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

## Management override of controls

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

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

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

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

## 4. Internal control

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

As set out in the "Briefing on audit matters" circulated to you previously, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I"). Our audit approach consists of the following:

- Obtain and refresh our understanding of the entity and its environment including the identification of relevant controls;
- Identify risks and any controls that address those risks;
- Carry out 'design and implementation' work on relevant controls;
- If considered necessary, test the operating effectiveness of selected controls; and
- Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.

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

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

### Liaison with internal audit

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

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

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



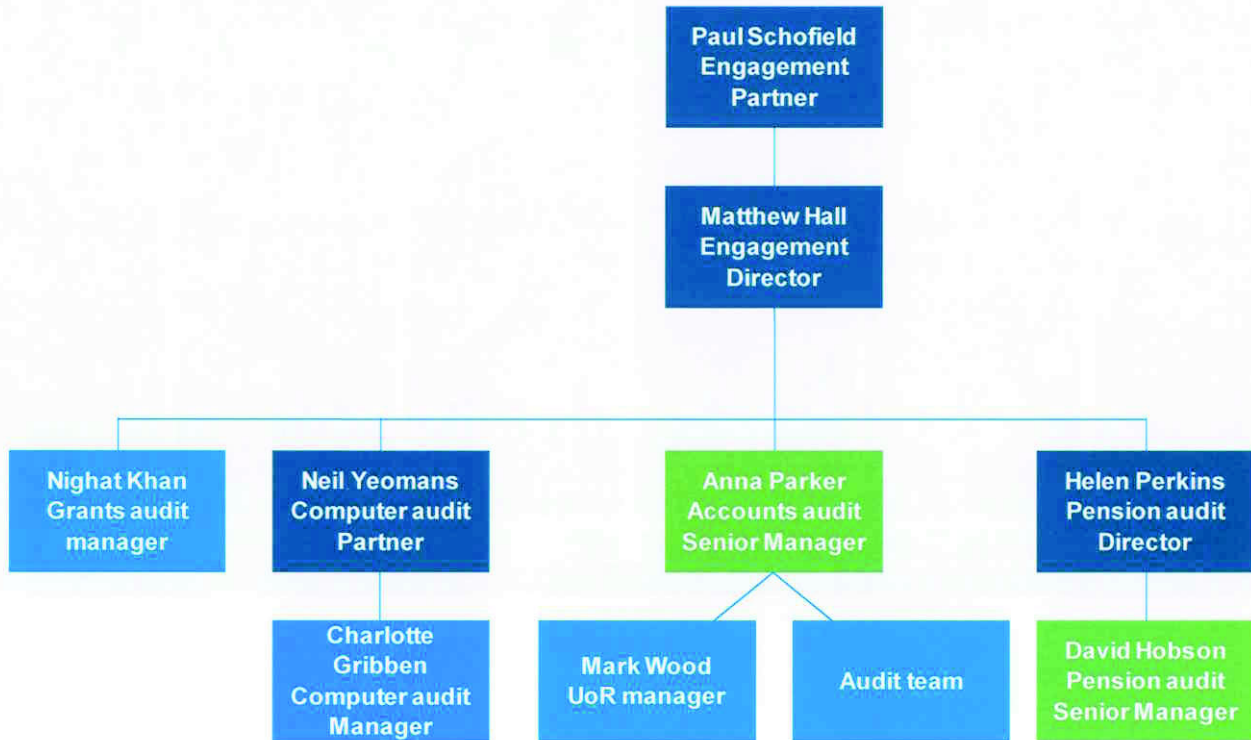
# 5. Communications timetable

Set out below is the approximate expected timing of our reporting and communication with management and the GARM committee.



## 6. Client service team

Paul Schofield will continue to lead the audit. He and the other key members of the team are shown below:



## 7. Responsibility statement

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

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

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



**Deloitte LLP**

Chartered Accountants

St Albans

17 March 2011



# Appendix 1: Prior year uncorrected misstatements and disclosure deficiencies

## Uncorrected misstatements

We are required to communicate to you the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The following uncorrected misstatements were identified during the course of our prior year audit:

		Credit/ (charge) to prior year income statement £'000	Increase/ (decrease) in prior year net assets £'000
<b>Factual misstatements</b>			
Proposal costs	[1]	(219)	(219)
PFI capitalisation of costs	[2]	-	-
<b>Judgemental misstatements</b>			
Overstatement of insurance provision	[3]	400	400
Overstatement of council tax bad debt provision	[4]	-	-
Overstatement of housing benefit provision	[5]	748	748
Capital mis-coding in Children's Services	[6]	(466)	(466)
<b>Total</b>		<b>463</b>	<b>463</b>

- [1] Through our testing of fixed asset additions, we identified £47k of proposal costs that had been capitalised. This is not in line with the SORP which requires proposal costs to be recognised in the I&E. A review of additions by management identified £219k of proposal costs had been capitalised during the year. We have proposed an adjustment for this to be expensed.
- [2] £3.1m of capitalisable costs have not been treated as fixed assets. The effect is on a cumulative basis since the inception of the contracts and accordingly the I&E impact in the current year is immaterial and has not been calculated.
- [3] The actuary who performed the valuation of the insurance provision has recommended a surplus provision of £400k to be prudent. The council has included this in the insurance provision, which is an overprovision, thus we have proposed for this to be reversed.
- [4] Through our testing of council tax bad debt provision, we have estimated a likely overprovision of £1,291k based on projected cash recovery. This adjustment will be credited to the Collection Fund rather than the main I&E of the council. Thus, this will impact the carried forward surplus on the Collection Fund. This will then be credited to the main I&E as part of the Income from Council Tax movement. Under the new SORP accounting for local taxes guidelines, the Collection Fund surplus for the year that it recognised in the main I&E is then taken out in the Statement of Movement of the General Fund balance. Thus, there is a nil impact on the general fund balance for this adjustment.
- [5] Through our testing of housing benefit debt provision, we have estimated a likely overprovision of £748k based on projected cash recovery.
- [6] Errors arising in relation to capital mis-coding, discussed in more detail in the executive summary. Net reduction to the balance sheet of £466k as a result of capitalising deferred charges in error.

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

# Appendix 1: Prior year uncorrected misstatements and disclosure deficiencies (continued)

## Disclosure deficiencies

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

Disclosure	Source of disclosure requirement	Quantitative or qualitative consideration
The foreword (3.2.2) to the accounts refers to £96m of capital spend compared to the fixed asset note (7.15) referring to £99m of additions. The difference arises from 'additions' of assets previously owned, but not held on the balance sheet. This has been discussed in the ISA260 report.	-	Quantitative
In the prior period, Coroners Court amounts were treated as levies, however in the current year, in line with BVACOP, the current and prior year amounts have been classified within net cost of services, as disclosed in appendix 10.2 rather than in note 7.2, levies.	-	Quantitative

We obtained written representations from the Council confirming that after considering all these disclosure deficiencies, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments were required.



# Appendix 2: AIU public report on Deloitte

## AIU public reporting

In July 2010 the AIU issued its Annual Report which provides an overview of the findings from its 2009/10 inspections. In September it issued individual reports on each of the four largest firms, including Deloitte. The Audit Inspection Unit (AIU) is part of the Financial Reporting Council, the UK's independent regulator responsible for promoting confidence in corporate reporting and governance. The AIU is responsible for monitoring the audits of all listed and other public interest entities. The AIU currently inspects the four largest audit firms, including Deloitte, annually and this is the third year the AIU has reported publicly on individual firms.

***“The AIU’s inspections in 2009/10 confirm that major firms have policies and procedures in place to support audit quality that are generally appropriate to the size of the firms and the nature of their client base. Nevertheless, improvements to these policies and procedures have been recommended at all firms.***

***Notwithstanding the quality of firms’ policies and procedures, the number of audits assessed as requiring significant improvement at major firms (eight audits or 11 % of audits reviewed at major firms excluding follow-up reviews) is too high. Firms are therefore not always consistently applying their policies and procedures on all aspects of individual audits.”***

All the AIU public reports on individual firms are available on its website: <http://www.frc.org.uk/pob/audit/firmreports.cfm> as is their Annual Report: <http://www.frc.org.uk/pob/audit/reports.cfm>

## AIU comments on Deloitte

Deloitte’s policies and processes supporting audit quality were reviewed as were 14 individual audits. The AIU’s conclusion on Deloitte was as follows:

*“The firm places considerable emphasis on its overall systems of quality control and, in our view, has appropriate policies and procedures in place for its size and the nature of its client base in the relevant areas which are subject to our review. Nevertheless, we have identified certain areas where improvements are required to those procedures, which we set out in this report. Our principal findings, largely relate to the application of the firm’s procedures by audit personnel, whose work and judgments ultimately determine the quality of individual audits.”*

The AIU identified areas where they believe we should pay particular attention in order to enhance audit quality and safeguard auditor independence:

- Ensuring that the appropriateness of the basis for clients' identification of cash-generating units is properly assessed, given its importance in the audit of goodwill and other intangibles.
- Ensuring sufficient evidence is obtained relating to the reasonableness of growth rates, sensitivity testing and other assumptions and the adequacy of related disclosures in relation to the audit of goodwill and other intangibles.
- Ensuring that appropriate and sufficient evidence is obtained relating to the firm’s evaluation of going concern, including the available headroom and how specific concerns identified are addressed.
- Ensuring the completion on a timely basis of partner and staff appraisals in accordance with the firm’s requirements.
- Ensuring non-audit services provided to audit clients do not in substance stray over the boundary of what Ethical Standards permit. Assessing whether the actions taken to address those issues which have continued to occur from year to year are effective and whether there are alternative solutions that could be implemented to address them.

# Appendix 2: AIU public report on Deloitte (continued)

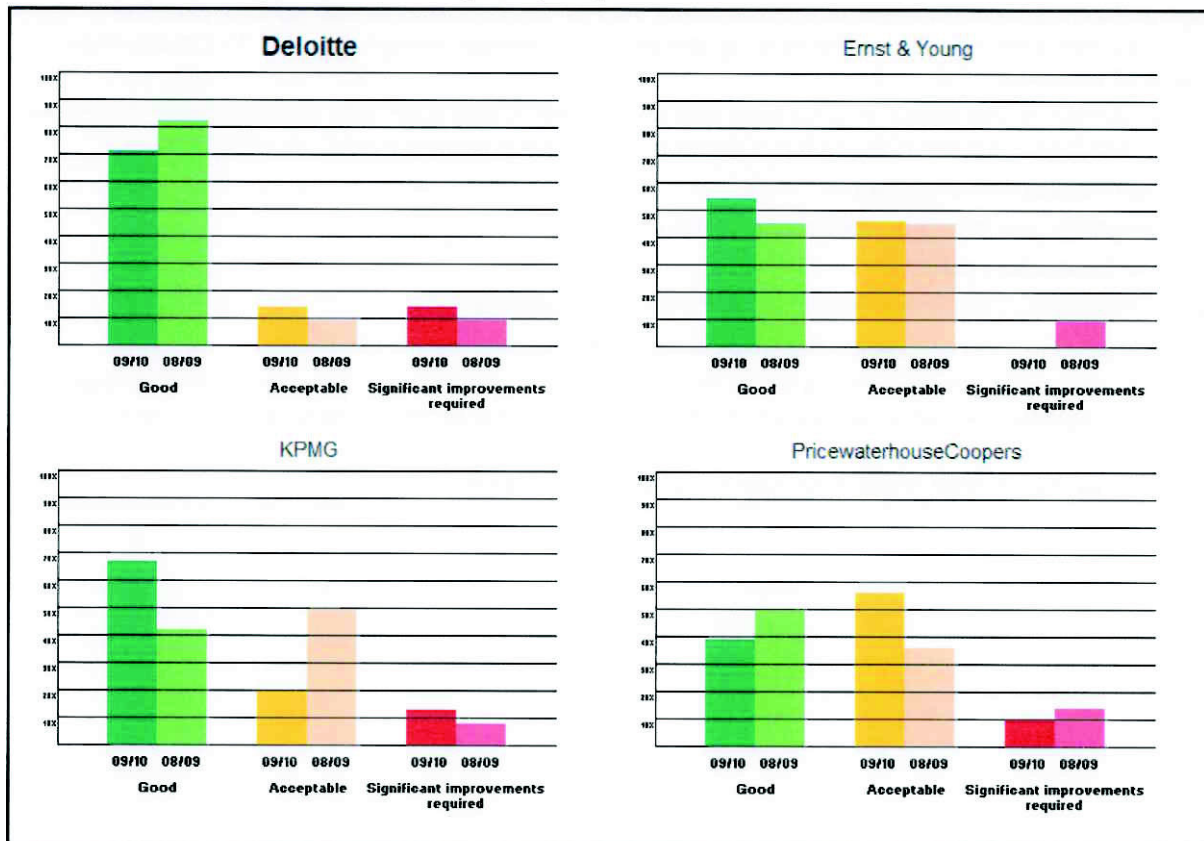
## Review of individual audits

The graph below compares the AIU's assessment of audit files by audit firm. The AIU categorises audits as:

- Good with minor improvements required (green)
- Acceptable but with improvements required (amber)
- Significant improvements required (red)

The percentage of Deloitte engagements assessed as good with minor improvements required was 71%, compared to 52% for the other three largest firms.

The overall analysis of the AIU file reviews by grade for the last two years evidences that among the largest firms Deloitte routinely produces the highest quality audits.



## Deloitte response

The AIU's recognition of the emphasis we place on our overall systems of quality control is welcome. We are committed to retaining our focus on audit quality and recognise that we are on a journey of continuous improvement. The external inspection process provides further impetus to our quality agenda and we confirm that we have implemented a number of actions to respond to the AIU findings.

**Deloitte's Audit Transparency Report** for 2010 provides further comprehensive information regarding our approach to delivering quality and is available on our website:

<http://annualreport.deloitte.co.uk/interface2010/pdfs/deloitte-audit-transparency-report-2010.pdf>

We will inform you if the AIU selects your audit as part of the sample of files reviewed and will share its final report with you when it is complete.



## Appendix 3: New accounting pronouncements

### **Leases – discussion paper**

On 19 March 2009, the IASB published a discussion paper on leases. This proposes a possible new model for lease accounting. The model is based on the principle that all leases give rise to liabilities for future rental payments and assets (the right to use the leased asset) that should be recognised in an entity's statement of financial position. Operating leases, such as property leases, are likely to be included on the balance sheet and may therefore materially impact the banking covenants.

This is currently a discussion paper; the exposure draft is expected later this year, with the final IFRS by mid 2011.

### **Revenue recognition – exposure draft**

The IASB issued an exposure draft on 24 June 2010 with a view to develop a single standard for revenue recognition. The new standard will replace the existing standards on revenue recognition: IAS 11 Construction Contracts and IAS 18 Revenue.

A new revenue recognition model based on a contract with a customer is proposed, with revenue being recognised when goods and/or services are transferred to the customer. Under the proposed model, an entity should:

- Identify the contract(s) with a customer;
- Identify the separate 'performance obligations' in the contract;
- Determine the transaction price;
- Allocate the transaction price to the separate performance obligations; and
- Recognise the allocated revenue when the entity satisfies each performance obligation.

In addition, under the proposals, the customer's credit risk affects how much revenue is recognised rather than whether revenue is recognised. An entity would adjust the transaction price to reflect the customer's credit risk using a probability-weighted approach.

As this is currently an exposure draft, there is no date finalised for application.



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**London Borough of Harrow Council**

**Report to the Governance, Audit and Risk  
Management Committee**

**Audit Plan for the 2010/11 Pension Fund Annual  
Report Audit**

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# Executive summary

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

## Audit scope

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

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

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

## Materiality

We calculate materiality on the basis of the net assets of the fund, but have restricted this to the materiality established for the audit of the Authority's financial statements as a whole. We estimate materiality for the year to be £4.6 million (2010: £5.5 million). We will report to the Governance, Audit and Risk Management ("GARM") Committee on all unadjusted misstatements greater than £0.23 million (2010: £0.27 million) unless they are qualitatively material. Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Authority's financial statements.



## Executive summary (continued)

<b>Key audit risks</b>	<p>The key audit risks which we have identified as part of our overall audit strategy are detailed below:</p> <ol style="list-style-type: none"><li>1. In view of the complexity arising from the participation of different admitted bodies within the fund, together with the fact that members may pay different rates depending on their pensionable pay, we have included the calculation and payment of contributions as areas of specific risk.</li><li>2. As there are a number of complexities to the calculation of both benefits in retirement and benefits paid on ill health and death, we have identified benefits payable as an area of specific risk.</li><li>3. The pension fund in the past has made some use of investments in private equity and derivatives. Such investments can give rise to complexities in accounting, disclosure and measurement, accordingly we will treat the appropriateness of the accounting for these investments as a risk.</li><li>4. The Code of Practice on Local Authority Accounting sets out the new reporting framework for Local Government Pension Schemes, this framework is based on International Financial Reporting Standards. As this accounting treatment is new this year we will treat this as a risk area for the audit.</li></ol>
<b>Prior year uncorrected misstatements and disclosure deficiencies</b>	<p>There were no significant unadjusted misstatements or uncorrected disclosure deficiencies reported to you in respect of the 2009/10 accounts.</p>
<b>Timetable</b>	<p>The timetable is set out in Section 5. The fieldwork will be carried out at the same time as our work on the Authority's financial statements in order for us to have completed the audit of the financial statements in time for inclusion in the Authority's annual report.</p>

## Executive summary (continued)

<b>Independence</b>	<p>Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity.</p> <p>These are set out in the "Independence policies and procedures" section included at Appendix 1.</p> <p>We will reconfirm our independence and objectivity for the year ending 31 March 2011 in our final report to the GARM Committee. We have discussed our relationships with the Authority in our separate audit plan for the audit of the Authority's financial statements.</p>
<b>Fees</b>	<p>We propose a fee of £35,000 (PY: £38,500) which is in line with the fee scale advised by the Audit Commission.</p>
<b>Engagement Team</b>	<p>Paul Schofield will continue to be Engagement Lead and will be supported by Helen Perkins, a director, and David Hobson, as Senior Manager for this work.</p>
<b>Matters for those charged with governance</b>	<p>We have attached at Appendix 1 our "Briefing on audit matters" which includes those additional items which we are required to report upon in accordance with International Standards on Auditing (UK &amp; Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements.</p>



# 1. Scope of work and approach

## Overall scope and approach

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

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

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

The audit opinion we intend to issue as part of our audit report on the Authority's financial statements will reflect the financial reporting framework adopted by the pension fund. This is the Code of Audit Practice on Local Authority Accounting 2010/2011.

For pension fund statements, we have initially considered the net assets of the fund as the benchmark for our materiality assessment as this benchmark is deemed to be a key driver of fund value, is a critical component of the financial statements and is a focus for users of those statements. However, we have restricted our estimate of materiality to the amount set for the Authority's financial statements as a whole, which is £4.6 million. Our separate audit plan for the audit of the Authority's financial statements includes further information on how we derived this estimate. The concept of materiality and its application to the audit approach are set out in our "Briefing on audit matters" document attached at appendix 1.

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



# 1. Scope of work and approach (continued)

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

- comparing the accounts to be included in the pension fund annual report with those included in the statement of accounts;
- reading the other information published within the pension fund annual report for consistency with the pension fund accounts;
- where the pension fund annual report is not available until after the auditor reports on the financial statements, undertaking appropriate procedures to confirm that there are no material post-balance sheet events arising after giving the opinion on the pension fund accounts included in the Authority's Statement of Accounts;
- the financial statements included in the Fund's annual report are prepared on the basis of the same proper practices- the Code of Practice on Local Authority Accounting 2010/2011- as the financial statements included in the Authority's Statement of Accounts; and
- the annual report has been prepared in accordance with Regulation 34 of the Local Government Pension Scheme (Administration) Regulation 2008.

Our audit objectives are set out and explained in more detail in our "Briefing on audit matters" document (Appendix 1).

## 2. Key audit risks

Based upon our initial assessment for the 2010/2011 audit we will concentrate specific audit effort on the following areas:

### Contributions

#### Audit Risk

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

#### Deloitte response

We will perform procedures to ascertain whether employer and employee contributions have been calculated, scheduled and paid in accordance with the schedule of contributions.

## 2. Key audit risks (continued)

### Benefits

#### Audit Risk

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

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

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

#### Deloitte response

We will perform procedures to ascertain whether benefits payable have been calculated correctly in accordance with the fund rules.



## 2. Key audit risks (continued)

### Financial instruments

#### Audit Risk

The pension fund makes some use of investments in private equity and derivative financial instruments.

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

The fund also makes use of derivatives which can be complex in terms of accounting, measurement and disclosure requirements.

#### Deloitte response

For the private equity investments we will seek to understand the approach adopted in the valuation of such investments and inspect supporting documentation such as cash flow reports, quarterly investment advisor reports and audited financial statements. We will tailor further procedures depending on the outcome of that work and our assessment of the risk of material error taking into account the fund's investment holding at the year end.

We will update our understanding of the rationale for the use of the derivatives and then test compliance with the accounting, measurement and disclosure requirements of the Code of Audit Practice on Local Authority Accounting. The use of expert advice may be required for testing these balances.



## 2. Key audit risks (continued)

### Financial instruments

#### Audit Risk

The Code of Practice on Local Authority Accounting sets out the new reporting framework for Local Government Pension Schemes, this framework is based on International Financial Reporting Standards. The main implications for the Harrow Pension Fund are as follows:

- requirement for actuarial present value of promised retirement benefits to be disclosed – with three options for disclosure:
  - Option A – in the Net Asset Statement disclosing the resulting deficit or surplus;
  - Option B – in the notes to the Financial Statements; or
  - Option C – by referring to the actuarial information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS 26 requires the most recent valuation (which should be prepared on IAS 19, not the pension fund's funding assumptions) to be used as a base and the date and valuation disclosed.

- additional note disclosures required around the actuarial position of the fund and the significant actuarial assumptions made; and
- additional note disclosure requirements in IFRS 7 to report on the risks to which financial instruments expose the entity.

#### Deloitte response

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

### 3. Consideration of fraud

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

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

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

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

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



## 3. Consideration of fraud (continued)

### **Management override of controls**

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

- Understanding and evaluating the financial reporting process, including the controls over journal entries and other adjustments made in the preparation of the financial statements. Testing the appropriateness of a sample of such entries and adjustments.
- Reviewing accounting estimates for bias that could result in material misstatement. We will also perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements.
- Obtaining an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Authority and its environment.

## 4. Internal control

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

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

### **Liaison with internal audit**

We will liaise with the Authority's internal audit function on a constructive and complementary basis to maximise our combined effectiveness and eliminate duplication of effort. This co-ordination will allow us to derive full benefit from the Authority's internal audit functions, their systems documentation and risk identification during the planning of the external audit.

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



## 5. Timetable

		2011								
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Management	Prepare plan based on discussions with management		■							
	Early discussion of Authority's approach to risks areas		■							
	Performance of detailed audit planning fieldwork			■						
	Audit fieldwork/audit issues meetings							■		
	Review of pension fund annual report							■	■	
	Preparation of our report on the 2010/11 audit								■	
Pensions Committee	Audit plan			■						
	Report to the GARM Committee on the 2010/11 accounts audit									■

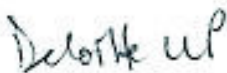
Our work during these visits will be closely co-ordinated with the work carried out on other parts of main audit of the Harrow Council.

## 6. Responsibility statement

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

This report should be read in conjunction with the "Briefing on audit matters" attached at Appendix 1 and sets out those audit matters of governance interest which came to our attention during the audit to date. Our audit was not designed to identify all matters that may be relevant to members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

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



**Deloitte LLP**  
Chartered Accountants

St Albans  
16 March 2011

# Appendix 1: Briefing on audit matters

## Published for those charged with governance



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

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

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

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

## Approach and scope of the audit

### Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB"). Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the trustees on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with the relevant financial reporting framework; and
- to form an opinion as to whether the financial statements contain the information specified in regulation 3 and the schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996;

### Other reporting objectives

Our reporting objectives are to:

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



# Appendix 1: Briefing on audit matters (continued)

## Materiality

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

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

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

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements. We use a different materiality for the examination of the summary contributions to that used for the financial statements as a whole.

We determine materiality to:

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

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

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

## Uncorrected misstatements

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

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

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

# Appendix 1: Briefing on audit matters (continued)

## Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to trustees and create value for management and those charged with governance whilst minimising a "box ticking" approach.

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

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

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

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

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

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor's responsibilities relating to fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor's report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor's responsibilities relating to other information in documents containing audited financial statements



# Appendix 1: Briefing on audit matters (continued)

## Independence policies and procedures

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

### Safeguards and procedures

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



# Appendix 1: Briefing on audit matters (continued)

## Independence policies

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

Amongst other things, these policies:

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

## Remuneration and evaluation policies

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

## APB Revised Ethical Standards

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

The five standards cover:

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

Our policies and procedures comply with these standards.

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**Member of Deloitte Touche Tohmatsu**

London Borough of Harrow

Certification of claims and returns 2009/10

15 March 2011 [Final]



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# Executive Summary

We have pleasure in setting out in this document our report to the Governance, Audit & Risk Management Committee of the London Borough of Harrow on the key findings from our grant audit certification work for the year ended 31 March 2010. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

We have completed our audit work certifying specified grant claims and returns prepared by the Council. We undertake this work as agents for the Audit Commission who provide instructions to us as to the scope and approach of the audit work required.

We are pleased to report that all the audited returns were completed and submitted by the relevant deadline. We have certified eight grant claims for the 2009/10 year, all of these grant claims were submitted to us by the Council within the specified deadline.

In total we were required to audit eight grant claims and returns. Of these, we provided unqualified audit opinions on six grant claims. As a result of errors identified through the performance of our procedures, adjustments were made to two grant claims prior to certification; both of which were greater than £10,000. Last year two grant claims required adjustments of less than £10,000.

In addition to the adjustments noted above qualification letters were issued in respect of two grant claims, compared to one in the prior year.

See Section 3 for more details.

Total fees charged in respect of the work performed on the eight grants certified by Deloitte were £110,625. Section 4 of this report sets out the fees charged on each of the eight grants we certified.

# 1. Introduction

## **Purpose of this report**

This report intends to draw the attention of those charged with governance on the results of the certification work carried out by the Council as recommended in the Audit Commission report, 'Review of Arrangements for Certifying Claims and Returns' published in September 2009. This will cover the Council's performance in the preparation and reporting of grant claims and returns including any errors, adjustments and qualifications arising in claims and returns.

## **Our responsibilities**

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

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

## **The scope of our work**

We are required to:

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

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

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

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



## 2. Preparation and certification Deadlines

Certification deadlines are set out by grant paying bodies. These represent the date by which the authority is required to prepare the claim and submit it for audit and a second date by when we are required to certify the grant claim or return. Any failure to meet the specified audit certification deadline can have implications for the local authority as it could lead to delay in any residual grant payments being received from the grant paying body. We are pleased to report that all claims and returns have been submitted by the authority on time, and certified and delivered by us to the appropriate authorities within the relevant deadlines. This is significant improvement to the previous year and reflects excellent management from those involved.

### 3. Amended/Qualified Grant Claims

As a result of errors identified from our test procedures, adjustments were made to two grant claims prior to certification (Appendix 1); these adjustments represented an amount greater than £10,000, the details of which have been included below.



**Adjustment Details**

Our testing of the Housing and Council Tax Benefits Scheme grant for the year ended 31 March 2010 identified that the manual adjustment for Non HRA Rent Rebate were calculated wrongly.

**Deloitte response**

The error identified above resulted in overstatement in cell 20 and understatement in cell 23. Due to the specific nature of the error, the initial testing of the 80 cases for the four types of benefits did not find other errors of this kind. Furthermore, the testing performed under Test 4 – Reconciliation of claim to underlying reports was found to be satisfactory. As a result, this error has been treated as isolated in accordance with Audit Commission guidance.



**Adjustment Details**

A number of adjustments were made on the claim form as a result of incorrect data being used for gross rent calculation, number of void properties and weekly rent calculation.

**Deloitte response**

The errors identified above reflect the weakness in the system of capturing and extracting the required data from the system and handling of the data for claim preparation purposes.

In addition to the adjustments noted above, qualification letters were issued in respect of the grant claims included in the table below.

### 3. Amended/Qualified Grant Claims (Continued)

As a result of errors identified from our test procedures, adjustments were made to two grant claims prior to certification (Appendix 1); these adjustments represented an amount greater than £10,000, the details of which have been included below.



#### Qualification Details

Our testing of the Housing and Council Tax Benefits Scheme grant for the year ended 31 March 2010 identified several errors, some of them were agreed and adjusted. However, it was not possible to agree all amendments with the Council which would result in a grant claim that was fairly stated. As a result, a qualification letter was issued highlighting the following issues to the grant paying body:

- Assessor Errors
  - As part of our testing of claimant benefit entitlement we noted several cases for which the wrong income had been used to calculate entitlement for all four types of benefits. As a result, claimants were either paid more or less than they were entitled to. Given the varied nature of the errors and the fact that they were not to be isolated cases it was not possible to agree an amendment with the authority and as a result the details of the errors were included in a qualification letter.
- Incorrect Subsidy Classification
  - Our testing identified a number of instances for which benefit entitlement had been incorrectly coded for subsidy purposes, in particular relating to the classification of Rent Rebate and temporary accommodation (Non-HRA) tenure types. Given the varied nature of the errors and the fact that they were not considered to be isolated cases it was not possible to agree an amendment with the authority and as a result the details of the errors were included in a qualification letter.

#### Deloitte response

Given the nature and size of the Housing and Council Tax Benefits Scheme, and the number of housing benefit claims processed in the period, assessor errors are not unexpected. However, both income assessment and subsidy classification errors are avoidable through careful system input. As such, we would suggest that the importance of accurate data input is emphasised to housing benefit assessors in addition to the importance of correct coding for subsidy purposes in order to minimise errors in future periods. Regular training and spot checking could also be increased as part of arrangements towards improved results.



### 3. Amended/Qualified Grant Claims (Continued)



#### Qualification Details

Our testing of the HRA Subsidy Base Data Return for the year ended 31 March 2010 identified several errors including incorrect number of void dwellings at the end of year, total value of the rent in the period, rent loss on void dwellings, average weekly formula rent and average rate of loan interest in August 2010.

#### Deloitte response

The error identified above resulted in the qualification of this grant claim. We would suggest that the importance of accurate data input is emphasised to those involved in the management of the data for this grant return. In addition to the importance of correct input for claim purposes.

#### Looking forward – 2010/11

At the time of writing this report, there have been no changes announced by the Audit Commission likely to impact on the scope of grant audit certification in 2010/11. However, there are usually some minor amendments to the certification instructions each year and we will keep you informed of any significant changes that are announced in the future.

#### Capital grants programmes

In general, as the Regional Development Agencies are wound down, future grant programmes may cease to be part of the Audit Commission's certification framework but may still require auditor certification. In this scenario, we should still be able to perform this certification work but the authority will need to ensure that they receive clear instructions from the grant-paying body with respect to who is required to do the certification and what work needs to be performed. Our experience of non-Audit Commission certification work has shown that the process can be confused and short notice certification requests are common. The Audit Commission has issued "good practice" guidance to grant-paying bodies in November 2010 to help to address this issue.



## 5. Responsibility statement

This letter was provided to the Council on 26 February 2010 and the wording agreed by the Director of Finance on 4 March 2010. A copy of the letter will be presented at the Governance, Audit & Risk Management Committee at the earliest opportunity.

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

**Deloitte LLP**

Chartered Accountants  
15 March 2011

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

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

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

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



# Appendix 1: Summary of Grant Claims

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

BEN01	Housing and Council Tax Benefits Scheme	£ 112,272,111	30/11/2010	29/11/2010	Yes	Yes						
CFB06	Pooling of housing capital receipts	£1,801,661	30/09/2010	28/09/2010	No	No						
EYC02	Sure start, early years and childcare	£8,709,381	31/10/2010	38/10/2010	No	No						
HOU1	HRA Subsidy	£6,926,959	31/12/2010	15/12/2010	No	No						
HOU2	HRA Subsidy Base Data Return	N/A	11/10/2010	11/10/2010	Yes	Yes						
HOU21	Disabled Facilities	£510,000	31/10/2010	22/10/2010	No	No						
EYC02(08-09)	Sure start, early years and childcare	£4,971,484	n/a	n/a	No	No						
LA01	National non-domestic rates return	£48,930,269	25/09/2010	22/09/2010	No	No						
PEN05	Teachers' pensions return	£13,368,044	30/11/2010	12/11/2010	No	No						



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**Member of Deloitte Touche Tohmatsu**

**REPORT FOR: GOVERNANCE, AUDIT &  
RISK MANAGEMENT  
COMMITTEE**

---

<b>Date of Meeting:</b>	29 March 2011
<b>Subject:</b>	Draft Internal Audit Plan 2011/12
<b>Responsible Officer:</b>	Tom Whiting – Assistant Chief Executive
<b>Exempt:</b>	No
<b>Enclosures:</b>	Appendix 1: Draft Internal Audit Plan 2011/12 Appendix 2: Corporate Strategic Risk/Opportunities Register Appendix 3: Corporate Operational Risk Register

## **Section 1 – Summary and Recommendations**

This report outlines the draft Internal Audit plan for 2011/12

### **Recommendations:**

The Committee is requested to:

- (a) Note the process employed to develop the plan.
- (b) Consider and comment on the draft plan.

## **Section 2 – Report**

### **Background**

- 1.1 The CIPFA Code of Practice for Internal Audit requires the Audit Committee (GARM) to approve (but not direct) the Internal Audit Plan.

### **Current situation**

- 2.1 This report sets out the draft Internal Audit annual plan of work for 2011/12 (Appendix 1). The projects set out in the plan are split between reliance/assurance reviews and risk based reviews. The risk reviews have been derived and prioritised from the review of the Corporate Strategic Risk/Opportunities Register (Appendix 2), the Corporate Operational Risk Register (Appendix 3), the governance framework, taking into account cumulative audit knowledge and input from managers including the Service Manager, Corporate Anti-fraud.
- 2.2 Consultation with Corporate Directors and their management teams has begun and the remaining Corporate Directors, Directorate Management Teams, the Chief Executive, the new Director of Finance, the Service Manager, Scrutiny and the External Auditors will be consulted in due course.
- 2.3 Once all consultation has been completed and any changes made to the draft plan as a result of this consultation, including any changes requested by this Committee, a final plan will be produced reflecting a work plan achievable with available audit resources. The final plan will be presented to GARMC for approval at the next meeting (June).

### **Financial Implications**

- 3.1 The functions of the Internal Audit service are delivered within the budget available.

### **Risk Management Implications**

- 4.1 The work of internal audit supports the management of risks across the council and the Internal Plan is derived from the review of the Corporate Strategic Risk/Opportunities Register, the Corporate Operational Risk Register and risks identified by management.

### **Corporate Priorities**

- 5.1 The work of internal audit supports the corporate priorities.



### Section 3 - Statutory Officer Clearance

Name: Julie Alderson



Chief Financial Officer

Date: 16/03/11

Name: Jessica Farmer



on behalf of the  
Monitoring Officer

Date: 17/03/11

### Section 4 - Contact Details and Background Papers

**Contact:** Susan Dixson – Service Manager, Internal Audit

**Background Papers:** None

If appropriate, does the report include the following considerations?

1.	Consultation	YES
2.	Corporate Priorities	YES

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# DRAFT INTERNAL AUDIT PLAN 2011/12

## RELIANCE/ASSURANCE REVIEWS

### Key Control Reviews

These reviews are designed to confirm the presence, or otherwise, of critical high level controls within each of the council's core financial systems. They are undertaken as part of a 3 year cycle in which each system will be reviewed at least once to satisfy the requirements of the External Auditors and to enable them to place reliance on the work of Internal Audit. Coverage of each system is assessed annually having regard to a range of risk factors including changes to systems and key personnel. For 2010/11 the following systems will be reviewed, managers will be asked to update systems notes and walkthrough tests will be undertaken to confirm systems in operation:

- **Housing Benefits**
- **Business Rates**

In addition for the following systems managers will be asked to update systems notes, undertake a controls self assessment and walkthrough tests will be undertaken to confirm systems in operation:

- **Housing Rents**
- **Corporate Accounts Payable**
- **Corporate Accounts Receivable**
- **Payroll**
- **Council Tax**
- **Treasury Management**
- **Capital Programme**

With the exception of the systems notes for the Capital Programme these reviews will be undertaken in the early part of the financial year to enable the External Auditor to utilise them to inform their risk assessment that guides the external audit approach for work on the 2010/11 accounts. At the conclusion of this work an assurance statement will be produced for the Chief Finance Officer and inclusion in the Annual Governance Statement.

### Capital Programme

Continuation of the follow-up of the implementation of the recommendations arising from the Capital Investigation including audit input into the new processes and the use of the project management toolkit.

### Assurance Mapping

Working with Risk Management and the Corporate Governance Group to complete the assurance mapping exercise. To include a review of officer, member and partner groups providing assurance on controls in place to mitigate corporate strategic and operational risks.

### Management Assurance

Revision of the management assurance exercise in light of the outcomes of the assurance mapping exercise; co-ordination of the 10/11 annual management assurance exercise; input to

the 10/11 Annual Governance Statement; follow - up of action planned and the development and instigation of the 11/12 exercise.

### **Corporate Governance**

Organisation of the Corporate Governance Working Group, development of governance assurance processes, collection of governance evidence to support the Annual Governance Statement and support for the Corporate Governance Group and the Governance, Audit and Risk Committee.

### **Corporate Strategic Risk Group (CSRG)**

Attendance and contribution to Strategic Risk Group

### **Information Governance Board**

Attendance and contribution to the Information Governance Board

### **Schools, Sports Partnership Grant (SSC5)**

Reconciliation of grant claim to SAP and audit sign-off.

## **CORPORATE RISK BASED REVIEWS**

### **Application of Contract Procedure Rules**

Currently consulting with Procurement on how best to approach this review with the aim of assessing compliance and the robustness of the rules and processes.

### **Purchase Cards**

A review of the adequacy, application and effectiveness of controls in place over the use of purchase cards.

### **Members and Officers Declarations of Interests and Gifts & Hospitality (SR 9 & OR 2)**

A Council wide review to ensure that declarations of interests, gifts & hospitality are being appropriately managed.

### **Complaints**

Covering both corporate and Adults & Childrens teams. Assessing the implementation of the corporate complaints system across the Council.

### **Information Management**

A review covering adequacy of and compliance with policies, mitigation of risk, communication and engagement with staff and effectiveness of controls in place.

### **Petty Cash**

A review of a sample of petty cash imprests/floats held across the Council to ensure robust financial controls in place.

### **Management of HR Policies**

A review of how HR policies are disseminated and communicated to managers and staff and action taken to ensure that they are understood and implemented.



**Organisational Learning**

A review of how lessons learnt from good and bad experiences e.g. a tribunal case, a court case, an emergency, are cascaded throughout the Council.

**Agency Staff**

A review of the Council's longest serving/highest paid temporary staff to ensure their employment is being actively managed and that VFM is being obtained.

**IT REVIEWS**

The following IT reviews are planned:

- Bank Automated Credit System (BACS)
- Electronic Criminal Records Bureaux (ECRB) – adequacy, application and effectiveness of new processes to be introduced from May 2011
- Internet/telephone credit card payments (including refunds) (CAFT)

**DIRECTORATE RISK BASED REVIEWS****Children's Centres**

Review to assess controls in place for collection of income and banking at the Children's Centers.

**Re-Enablement (SR 2)**

A review of the Resource Allocation System for Personal Budgets to assess the adequacy, application and effectiveness of the controls in place to ensure clients are paid the correct amount and mitigate the risk of overpayment/loss to the authority.

**Pensions**

A review of the pensions process.

**Transformation Programme – Implementation of Savings (SR 7, 10),**

A review looking at the success of the implementation of savings identified from transformation projects.

**Communications (SR 6, 7, 8, 9)**

A review of the effectiveness of communication across the council.

**Carbon Reduction Commitment (SR 3)**

A review of the governance processes for the Councils carbon reduction commitment.

**Green Travel Plans (SR 11)**

A review of the development and application of the Council's green travel plans.

**Social Care Petty Cash/Client Finances**

A specific review of petty cash and client finances to determine whether robust financial controls are in place.

### **Housing use of Temporary Accommodation**

A review of the use of temporary accommodation by Housing to ensure appropriate controls in place over allocation and VFM is obtained.

### **Contract Monitoring**

A review of contract monitoring processes across Community and Environment.

### **Energy Procurement**

A review of the process for procuring energy.

### **Equalities Framework**

A review of the accuracy and robustness of data collected for assessment against the Equality Framework for Local Government and an assessment of Council's likely success in achieving an 'excellent' external assessment.

## **SCHOOLS**

As the Financial Management Standard in Schools (FMSiS) has been discontinued Audit focus at schools has been changed to reflect the high risk areas identified by the FMSiS assessments, the review of Risk Registers and risks identified by management.

- **Income and Expenditure Reviews**

Review of a sample of schools to assess the adequacy, application and effectiveness of controls in place relating to income and expenditure.

- **Petty Cash**

Review a sample of schools to assess the adequacy, application and effectiveness of controls in place relating to petty cash and petty cash cheque expenditure.

- **Schools Financial Services Health Checks**

Review to assess the adequacy, application and effectiveness of procedures in place relating to the health checks carried out at schools to mitigate the risk of poor financial practices.

- **Schools Interface with Council**

A review of the interface between the schools' SIMS system with the Council's SAP system with particular emphasis on information security.

## **SUPPORT, ADVICE & FOLLOW-UP**

An allowance will be made in the plan for support and advice to managers across the Council and for the development of the Internal Audit service:

**Suspected Financial Irregularities + Control Reviews**

Guidance will be provided, in liaison with CAFT, to managers undertaking investigations and specific investigations will be undertaken on behalf of managers. Plus system control reviews will be undertaken where weakness have been identified as a result of fraud.

**Professional Advice**

Professional advice will be provided to managers, as required, on risk and control management/issues with particular emphasis being given to providing control advice for Lean Review outcomes.

**Follow-up**

Follow-up of Red and Amber reports to ensure implementation of agreed audit recommendations

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**Strategic Risk/Opportunity Register – Draft 4 November 2010**

(Incorporates updates by Risk Champions)

**Owner: Corporate Strategy (Performance) Board**

Reviewed by CRSG: N/A

Reviewed by CSB: N/A

Next CRSG Review Date: 8 February 2011

Next CSB Review Date: 9 March 2011

**Corporate Priorities 2009/10 – 2012/13**  
 1 – Deliver cleaner and safer streets.  
 2 – Improve support for vulnerable people.  
 3 – Building stronger communities.

**1. Fail to pre-empt and effectively plan for adverse developments in the wider economy (AT)**

**2. Fail to address the funding gap in the medium term (MB)**

**3. Fail to actively contribute to sustaining the environment (BH)  
 (Recommend SR3 is closed – replaced by COR 17)**

**4. Ineffective partnership working within our Strategic Partnership (TW)**

**5. Impact of changing demographics not anticipated (PN)**

**6. High profile service failure (CD)**

**7. Failure to achieve a culture in the organisation that supports the Council’s vision and priorities (TW)**

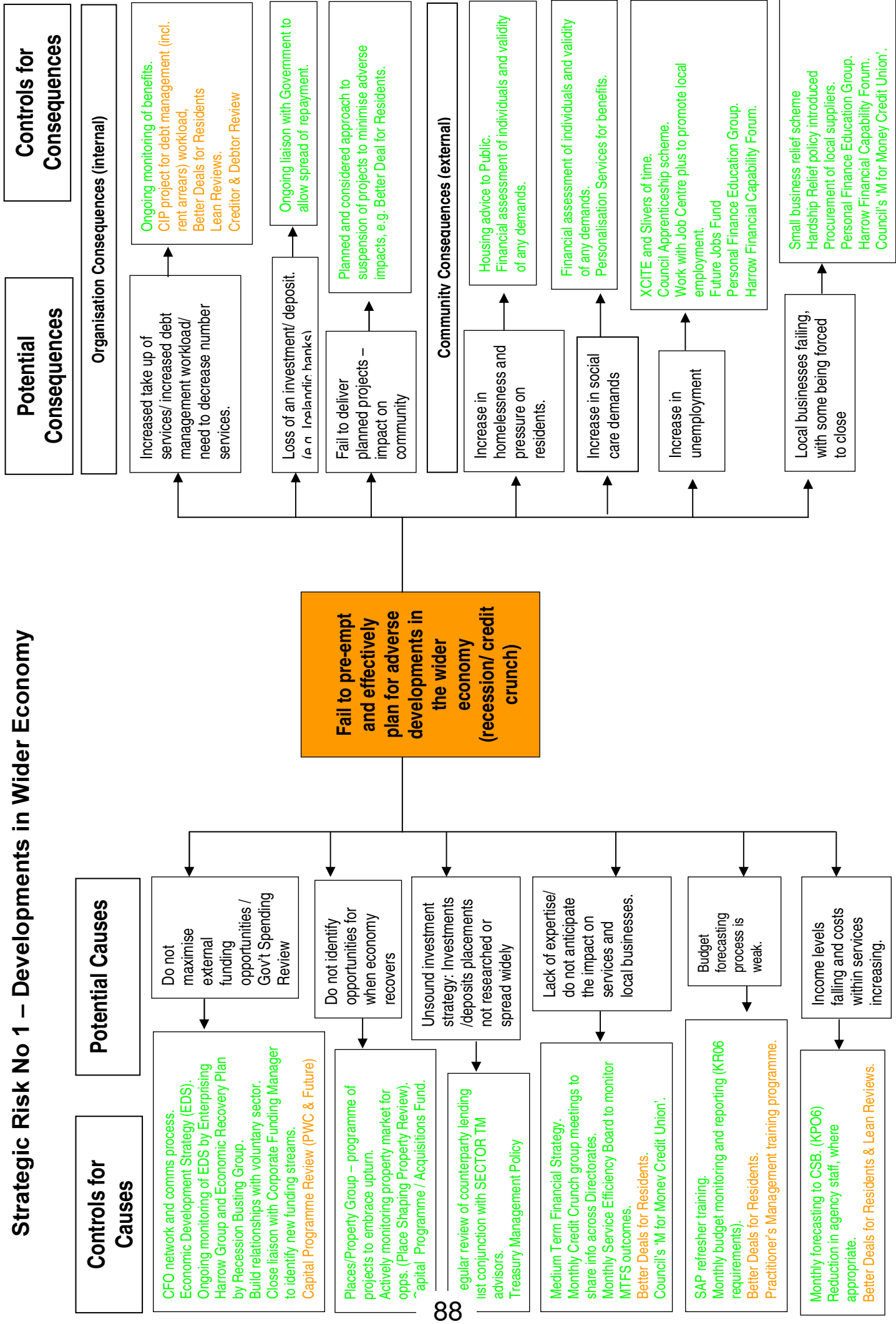
**8. Failure to attract and retain quality and diverse staff (TW)**

**9. Damage to Council reputation (HP)**

**10. Limited capacity to deliver the Council’s Transformation Programme**

<b>LIKELIHOOD</b>				
<b>A</b> Very High			2	1
<b>B</b> High			4	2
<b>C</b> Significant			6, 7, 9, 10	2
<b>D</b> Low		8	1, 3, 5	3
<b>E</b> Very Low				4
<b>F</b> Almost impossible				4
				<b>IMPACT</b>
				4 Negligible Impact / Benefit
				3 Marginal Impact / Minor Benefit
				2 Critical Impact / Major Benefit
				1 Catastrophic Impact / Exceptional Benefit

# Strategic Risk No 1 – Developments in Wider Economy



<b>Corporate Priority:</b>	<b>Current Risk Rating:</b>	<b>Target Risk Rating:</b>	<b>Risk Champion:</b>	<b>Risk Owner:</b>	<b>Control Key</b>
All	D2	D3	Andrew Trehern	CSB	Controls in place / Existing controls. Controls underway / Work ongoing Controls planned / Needs actioning

### Strategic Risk 1 Action Plan – Adverse Developments in Wider Community

#### **Controls already in place to address risk:**

- CFO network and communications process, procurement of local suppliers, and ongoing monitoring of benefits & liaison with Govt to allow spread of repayment.
- Economic Development Strategy (EDS), Medium Term Financial Strategy, Treasury Management Policy, Hardship Relief Policy
- Ongoing monitoring of EDS by Enterprising Harrow Group and Economic Recovery Plan by Recession Busting Group.
- Council Apprenticeship scheme, Small business relief scheme and work with Job Centre plus to promote local employment.
- Build relationships with voluntary sector and close liaison with Corporate Funding Manager to identify new funding streams.
- Places/Property Group (programme of projects to embrace upturn) and actively monitoring property market for opportunities (Place Shaping Property Review).
- Capital Acquisitions Fund and Future Jobs Fund, and reduction in agency staff (where appropriate).
- Regular review of counterparty lending list conjunction with SECTOR TM advisors and SAP refresher training.
- Monthly Credit Crunch group meetings to share info across Directorates and monthly Service Efficiency Board to monitor MTFS outcomes.
- Monthly budget monitoring and reporting (KR06 requirements) and Monthly forecasting to CSB. (KPO6)
- Planned and considered approach to suspension of projects to minimise adverse impacts, e.g. Better Deal for Residents.
- Housing advice to Public and financial assessment of individuals and validity of any demands; and Personalisation Services for benefits, XCITE and Slivers of time.
- Personal Finance Education Group, Harrow Financial Capability Forum and Council's 'IM for Money Credit Union'.

<b>What else we will do to address this risk?</b>	<b>How we will do it?</b>	<b>By when?</b>	<b>By who?</b>	<b>Update / Comments</b>
Capital Programme Review	PWC Review Review and prioritisation of future capital programming requirements post Spending Review outcomes via the Capital Forum.	Nov 2010 April 2011	Brendon Hills	
CIP projects for workload	Reduce number of projects/flagship actions	Nov 2010	CSB	Challenge panels, 2010/11 draft Capital Programme & Corporate Plan. (Will be linked to the new administration's manifesto.)
Better Deal for Residents and Lean Reviews	Reduce number of services delivered; Future Operating Model; cross cutting efficiency reviews, work streams	2013	Tom Whiting	Strategic BC complete; programme of outline and FBC commenced.
Place Shaping Property Review	Regular reporting to Leaders and Challenge Panel	Ongoing	Philip Loveland-Cooper	Capital Forum, Service Efficiency Board and Design Board approval process.
Practitioner's Management Training	Roll out training programme	December 2010	Jon Turner	
Creditor & Debtor Review	Identify the potential level of risk around creditor and debtor failure. Report findings to CRSG on 26/10/2010/	February 2011	Jenny Hyclari	Action 38 arising from CRGS meeting on 28/7/2010.

**Contingencies (to be activated if risk is realised)**

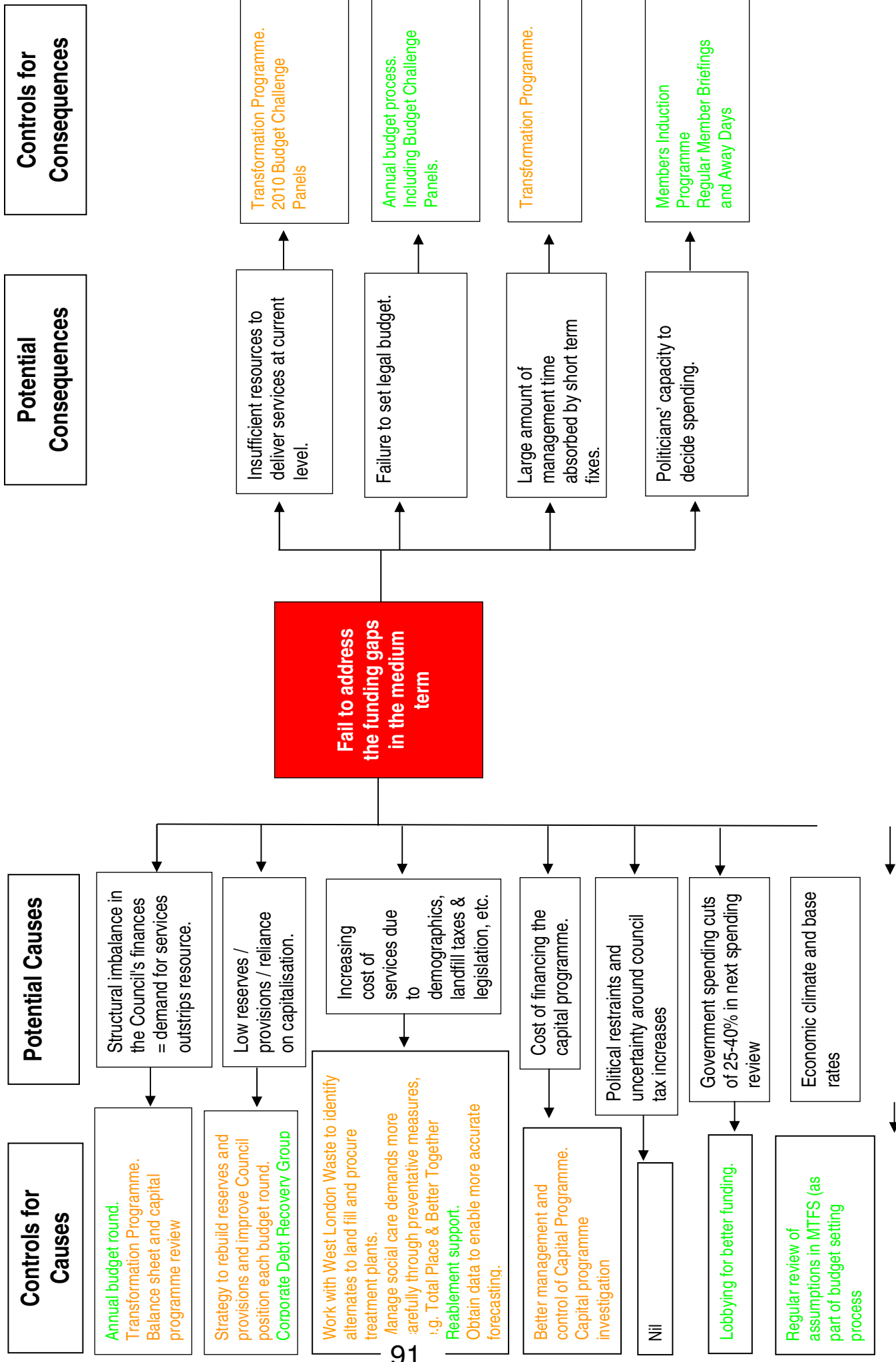
**By who?**

Review of resources and reallocation of budget and priorities.

CSB



# Strategic Risk 2 – Funding Gaps



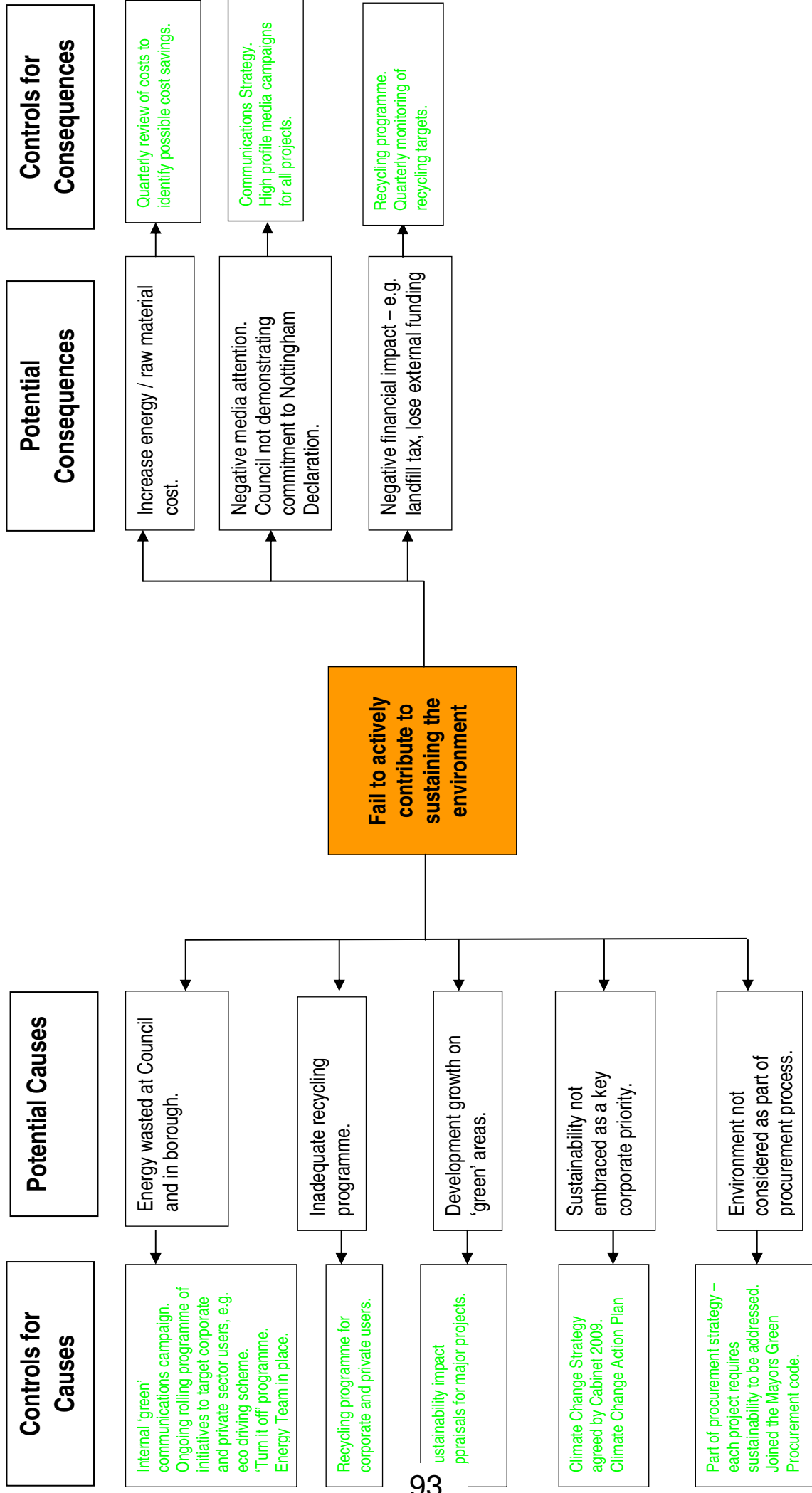
<b>Corporate Priority:</b> All	<b>Current Risk Rating:</b> B2	<b>Target Risk Rating:</b> D2	<b>Risk Champion:</b> Myfanwy Barrett	<b>Risk Owner:</b> CSB	<b>Control Key</b> Controls in place / Existing controls. Controls underway / Work ongoing Controls planned / Needs actioning
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### Strategic Risk 2 Action Plan – Funding Gaps

<p><b>Controls already in place to address risk:</b></p> <ul style="list-style-type: none"> <li>Annual budget round and budget process, including budget challenge panels.</li> <li>Corporate Debt Recovery Group.</li> <li>London efficiency challenge.</li> <li>Reablement support.</li> <li>Regular review of assumptions in MTFs (as part of budget setting process).</li> <li>Members Induction Programme and regular Member Briefings and Away Days</li> <li>Lobbying for better funding, through London Councils and targeting DSLG.</li> </ul>
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<b>What we will do to address this risk?</b>	<b>How will do it?</b>	<b>By when?</b>	<b>By who?</b>	<b>Update / Comments</b>
Improved management and control of Capital Programme.	Guidance to be issued linking Capital Programme with priorities of Council. Capital programme investigation.	Nov 2010	Steve Tingle	
Better Deals for Residents Programme	Review to run into the challenge panel period. Identify ways to fill funding gaps in medium to long term period.	Nov 2010 2013/2014	Myfanwy Barrett Myfanwy Barrett / Prog. Board	Milestone: Look at current position at CSB meeting 14/4/2010)
More accurate data forecasting	Children's & Adults enhancement of modelling.	October 2010	Paul Najsarek / Catherine Doran	
Strategy to rebuild reserves and provisions and improve Council position each budget round.	Build up contribution to reserves in each budget round.	2012/2012 & Ongoing	Myfanwy Barrett	
Work with West London Waste	Identify alternatives to landfill and start procurement process for treatment plants.	2010/2011	West London Waste / Myfanwy Barrett	
Manage social care demands more carefully through preventative measures,	Better Deals for Residents Programme - Total Place & Better Together.	2011/12	Myfanwy Barrett	Cuts in LLA grants may impact the Council's ability to adequately implement this action.
2010 Budget Challenge Panels	Review budgets and draft budget to Cabinet	Dec 2010	Tom Whiting / Myfanwy Barrett	
Spending Review Announcement / Settlements		Oct 2010	Myfanwy Barrett	
<b>Contingencies (to be activated if risk is realised)</b>				<b>By who?</b>
Escalate to CSB to implement additional cost cutting initiatives / budget reallocation.				CSB

# Strategic Risk 3 – Sustaining the Environment



<b>Corporate Priority:</b> 1	<b>Current Risk Rating:</b> C3	<b>Target Risk Rating:</b> E2	<b>Risk Champion:</b> Brendon Hills	<b>Risk Owner:</b> CSB	<b>Control Key</b> Controls in place / Existing controls. Controls underway / Work ongoing Controls planned / Needs actioning
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### Strategic Risk 3 Action Plan – Sustaining the Environment

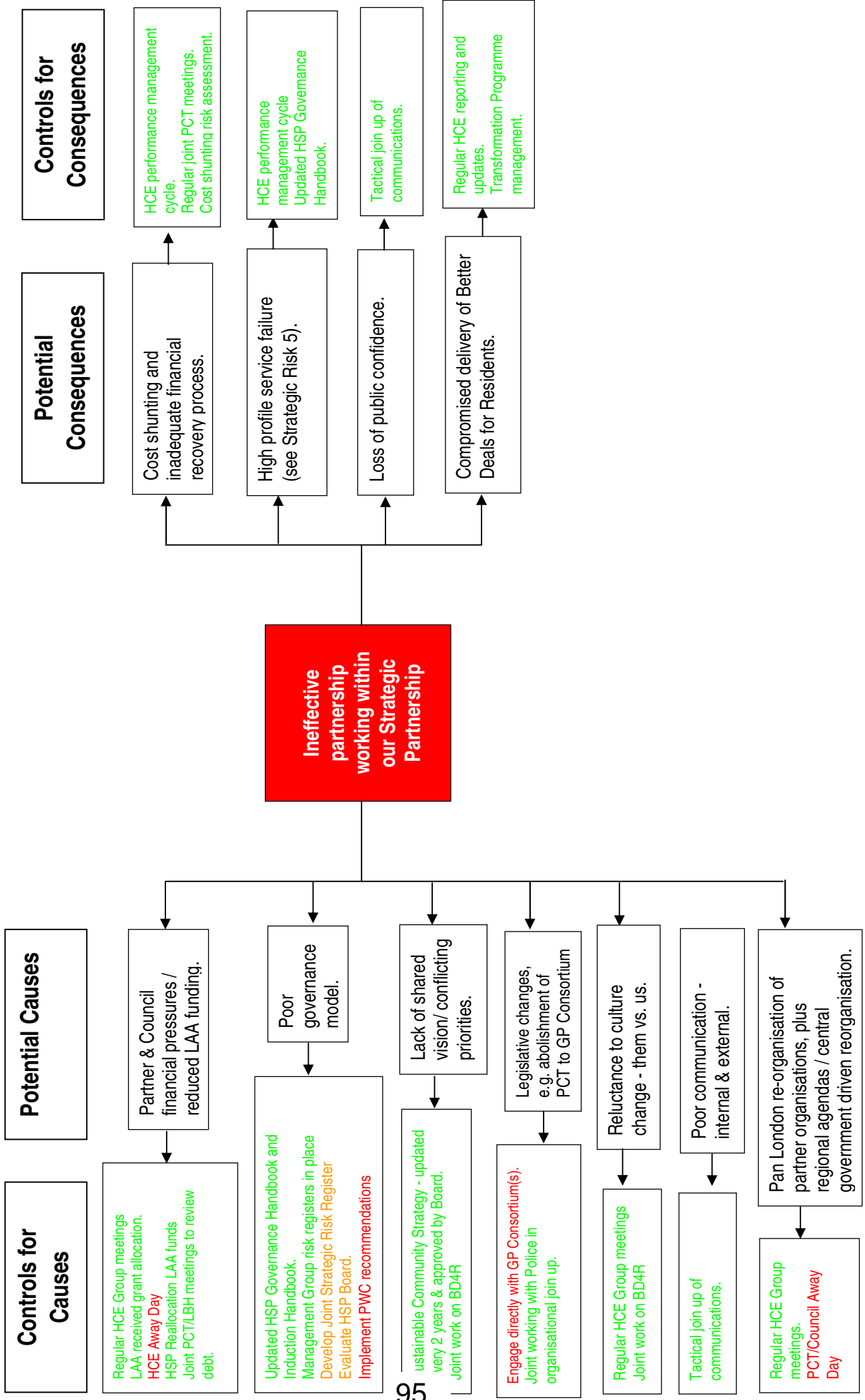
#### **Controls already in place to address risk:**

- Internal 'green' communications campaign and high profile media campaign for all projects.
- Ongoing rolling programme of initiatives to target corporate and private sector users, e.g. eco driving scheme.
- Recycling programme for corporate and private users, and 'Turn it off' programme.
- Climate Change Strategy (agreed by Cabinet 2009) and Climate Change Action Plan.
- Environmental implications considered on Cabinet reports with sign off.
- Part of procurement strategy – each project requires sustainability to be addressed.
- Joined the Mayors Green Procurement Code.
- Quarterly review of costs to identify possible cost savings.
- Energy Team in place.
- Quarterly monitoring of recycling targets.

<b>What we will do to address this risk?</b>	<b>How we will do it?</b>	<b>By when?</b>	<b>By who?</b>	<b>Update / Comments</b>
Climate Change Strategy Action Plan.	Updated Action to Cabinet for approval. Implement action plan.	Nov 2010 2014	Andrew Baker	
<b>Contingencies (to be activated if risk is realised)</b>				
Escalate to CSB				<b>By who?</b> Risk Owner



# Strategic Risk 4 – Partnership Working (HSP)



<b>Corporate Priority:</b> All	<b>Current Risk Rating:</b> B2	<b>Target Risk Rating:</b> D2	<b>Risk Champion:</b> Tom Whiting	<b>Risk Owner:</b> CSB	<b>Control Key</b> Controls in place / Existing controls. Controls underway / Work ongoing Controls planned / Needs actioning
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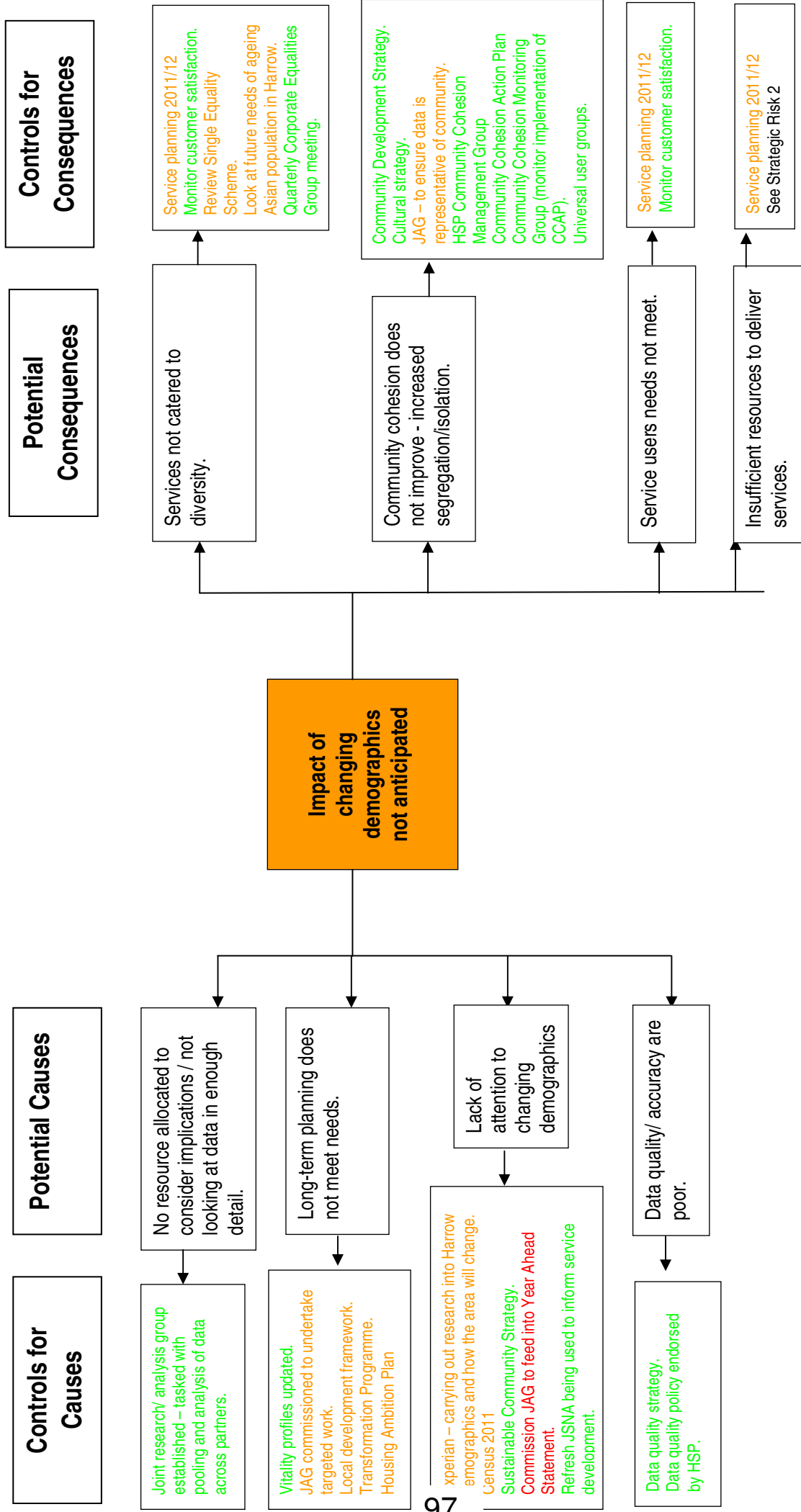
### Strategic Risk 4 Action Plan – Partnership Working (HSP)

<p><b>Controls already in place to address risk:</b></p> <ul style="list-style-type: none"> <li>Regular HCE Group meetings and updates.</li> <li>LAA received grant allocation and HSP reallocation of LAA funds</li> <li>Joint PCT/LBH meetings to review debt.</li> <li>Updated HSP Governance Handbook and Induction Handbook.</li> <li>HSP Management Group risk registers in place.</li> <li>Sustainable Community Strategy - updated every 2 years &amp; approved by Board.</li> <li>Joint work on BD4R.</li> <li>Joint working with Police in organisational join up.</li> <li>Tactical join up of communications.</li> <li>HCE performance management cycle.</li> <li>Cost shunting risk assessment.</li> <li>Updated HSP Governance Handbook.</li> <li>Transformation Programme management (PMO)</li> </ul>
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What else we will do to address this risk?	How we will do it?	By when?	By who?	Update / Comments
Cost shunting risk assessment.	Risk assessment (PCT) as part of budget round.	2010/11 & Ongoing	Paul Najsarek	
Develop HSP Joint Strategic Risk Register	Joint working with Interim Risk Manager, HCE and Policy & Partnerships	December 2010	Interim Risk Manager / Trina Thompson	
HCE Away Day	Away day.	December 2010	Michael Lockwood	
Engage directly with GP Consortiums.	Ongoing liaison with PCT to identify when to engage with GP consortiums.	Ongoing	Michael Lockwood	
Evaluate HSP Board	Evaluate effectiveness of HSP Board.	April 2011	Alex Dewsnapp	
Implement PWC recommendations		April 2011	CSB	

<b>Contingencies (to be activated if risk is realised)</b>				<b>By who?</b>
Escalate to HCE and Partnership Board				CSB

# Strategic Risk 5 – Changing Demographics



<b>Corporate Priority:</b> All	<b>Current Risk Rating:</b> D2	<b>Target Risk Rating:</b> D2	<b>Risk Champion:</b> Paul Najsarek	<b>Risk Owner:</b> CSB	<b>Control Key</b> Controls in place / Existing controls. Controls underway / Work ongoing Controls planned / Needs actioning
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## Strategic Risk 5 Action Plan – Changing Demographics

### **Controls already in place to address risk:**

- Vitality profiles updated, monitor customer satisfaction and joint research/ analysis group established (tasked with pooling and analysis of data across partners).
- Data Quality Strategy, Data Quality Policy endorsed by HSP
- Sustainable Community Strategy, Community Development Strategy, Race Equality Scheme and Cultural Strategy.
- Quarterly Corporate Equality Group meeting and refreshed JSNA being used to inform services development.

<b>What we will do to address this risk?</b>	<b>How we will do it?</b>	<b>By when?</b>	<b>By who?</b>	<b>Update / Comments</b>
Joint Analysis Group (JAG) commissioned to undertake targeted work. (Ongoing JAG work commissioned by HCE.)	Ensure data is representative of community.	Ongoing	Liz Defries / David Harrington	Harrow Vitality profile reports to be available for 2010 Members Induction. JAG work completed: Strategic assessment into crime data, and analysis into borough population trends.
Local development framework.	Develop core strategy for Secretary of State, who will then appoint an independent inspector for examination in public and approval for adoption.	December 2011	Matthew Patterson	Core strategy to Cabinet in November 2010 for pre-submission to Secretary of State.
Better Deals for Residents Programme.	Continue to link with Better Deal for Residents	2011/12	Paul Najsarek	Finalising Phase 1 – based demographics for next 3 years.
Experian – carrying out research into Harrow demographics and how the area will change.	Demographic profiling informing service development taking a Phase 1 and 2 approach.	2010/11	Ben Jones	
Census 2011 – Conduct independent study, possibility using the Mayhew Study (similar to Westminster and Brent) in order to challenge census results.	Possibilities of government grant to be considered as part of this work.	As resources allow.	Sue Kaminska	Funding not available at this time (£50K). To be further discussed at Census 2011 Working Group meetings.
Service planning 2011/12	Equality and Diversity implications included in service planning.	2011/12	Paul Najsarek	
Review Single Equality Scheme	Ensuring equality is a mainstreamed part of customer service, community leadership and as an employer.	December 2010	Mohammed Ilyas	Initial report provided to CSB.
Look at future needs of ageing Asian population in Harrow.	Developing a proposal for culturally appropriate service delivery within Adult Services.	Q2 2011/12	Jane Fernley / Carol Yarde	While there are lobby groups and work being done around single issues, there is a lack of a strategic joined up approach to this issue.
Sub Regional Housing Market Assessment (SHMA)	Conduct research into affordable housing, which is informed by Borough comments and obtain sign off on final report by West London Boroughs.	End November 2010	Alison Pegg	Research completed. Final draft report being revised with Borough comments by Sept 2010. Formal sign off by West London Boroughs by late Autumn 2010.

**Contingencies (to be activated if risk is realised)**

**By who?**



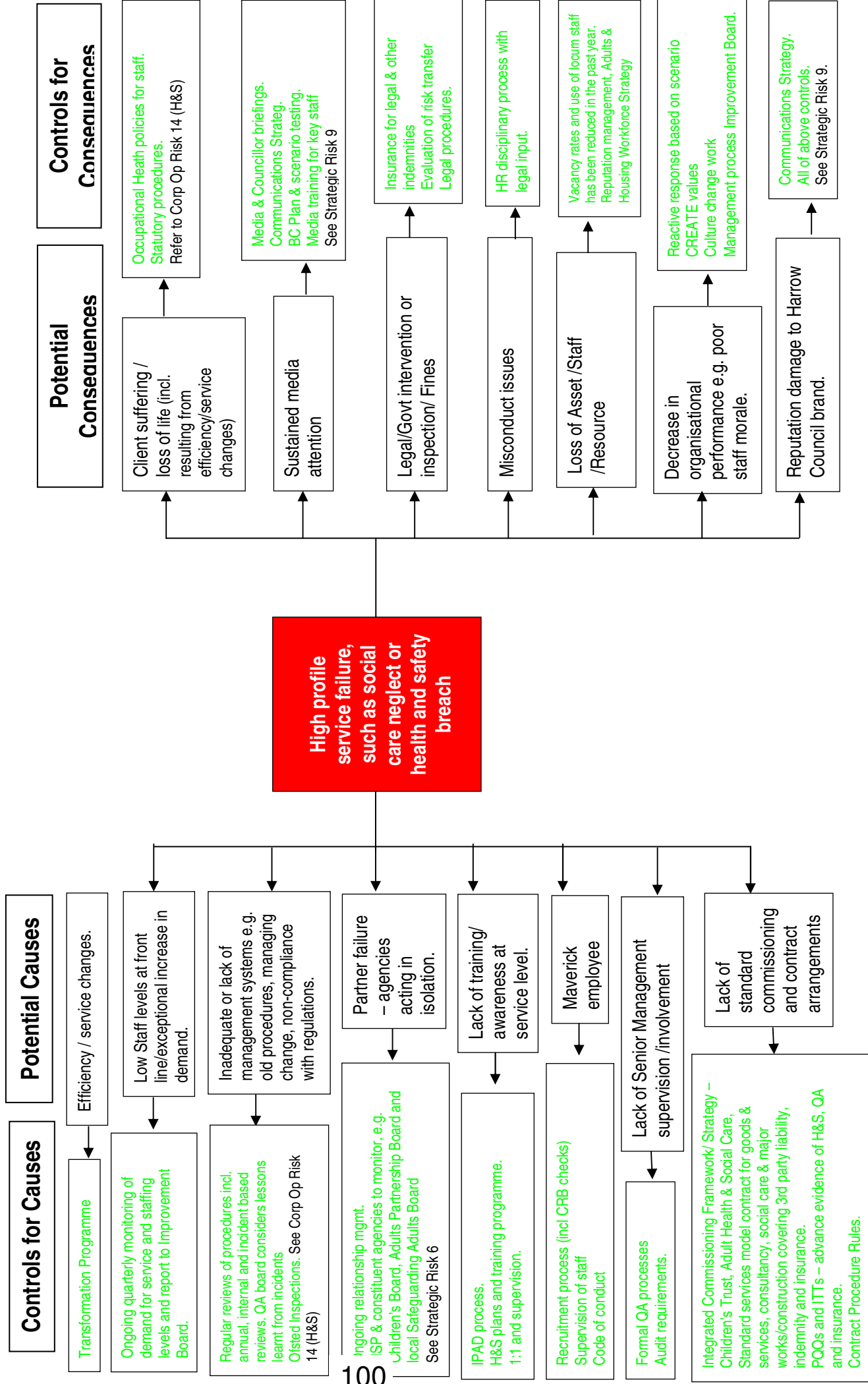
Single Equality Scheme and budget setting process.

CSB

# Strategic Risk 6 – High Profile Service Failure

## RECOMMENDATION: CLOSE RISK.

This risk has been replaced with Corporate Operational Risk 17: Fail to address carbon reduction commitment (CRC).



<b>Corporate Priority:</b>	<b>Current Risk Rating:</b>	<b>Target Risk Rating:</b>	<b>Risk Champion:</b>	<b>Risk Owner:</b>	<b>Control Key</b>
2	C2	D2	Catherine Doran	CSB	Controls in place / Existing controls. Controls underway / Work ongoing Controls planned / Needs actioning

### Strategic Risk 6 Action Plan – High Profile Incident

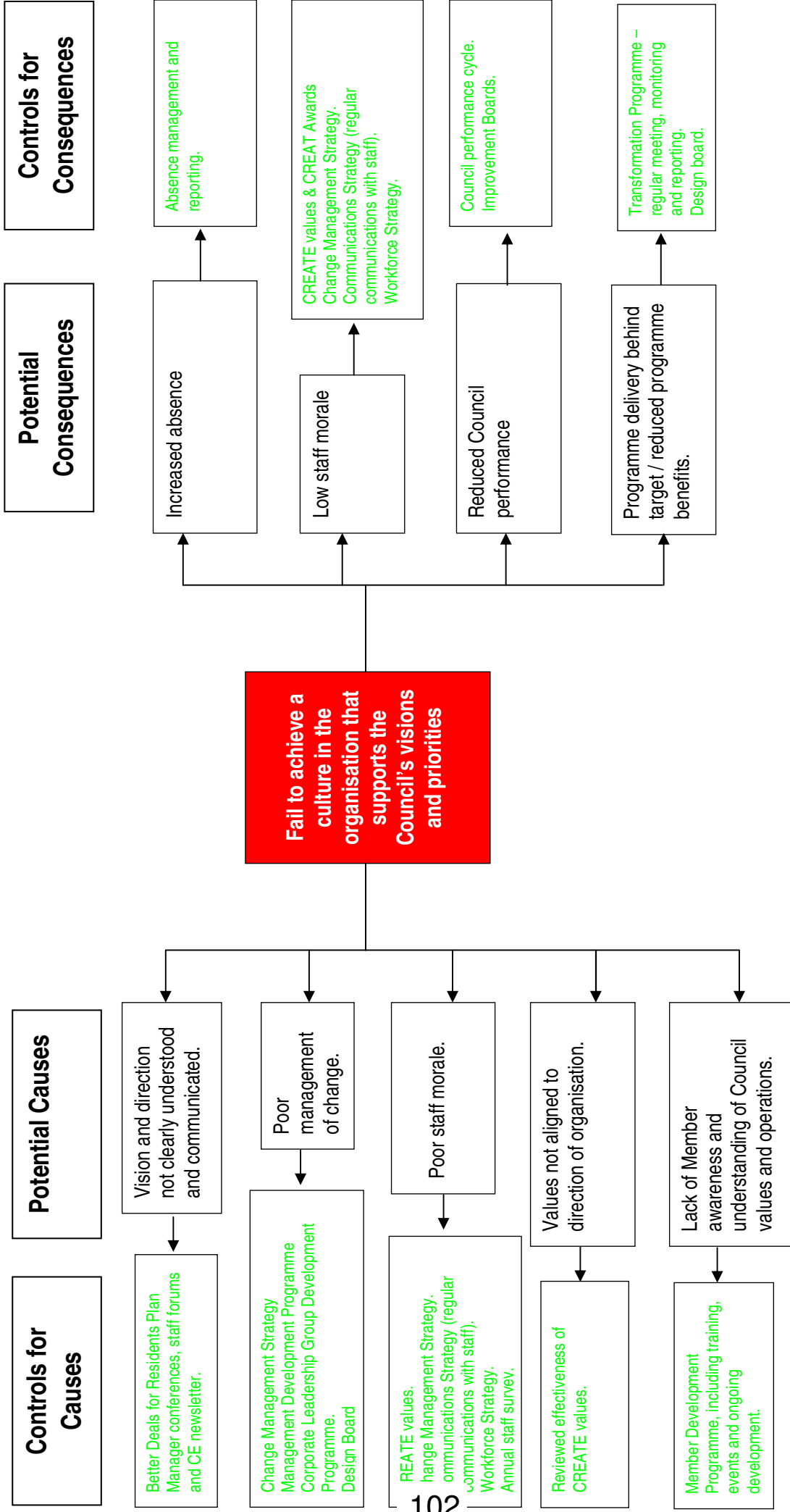
#### **Controls already in place to address risk:**

- See Strategic Risks 4 and 8, and Corporate Operational Risk 14.
- Ongoing quarterly monitoring of demand for service and staffing levels and report to Improvement Boards.
- Regular reviews of procedures, including annual, internal and incident based reviews.
- Formal QA and QA board considers lessons learnt from incidents
- Ongoing relationship management and IPAD process.
- HSP and constituent agencies to monitor, e.g. Children’s Board, Adults Partnership Board and local Safeguarding Adults Board
- H&S plans and training programme, and occupational Health policies for staff.
- Recruitment process (including CRB checks), 1:1 meetings and supervision.
- Code of conduct and audit requirements.
- Legal procedures and statutory procedures.
- Media & Councillor briefings, Media Strategy and media training for key staff
- Crisis scenario planning and reactive response based on scenario.
- Communications Contingency Plan, internal/external communications and Communications Plan.
- Insurance for legal & other indemnities, and evaluation of risk transfer
- HR disciplinary process with legal input, CREATE values and culture change work.
- Vacancy rates and use of locum staff has been reduced in the past year. Reputation management, Adults & Housing Workforce Strategy
- Management Process Improvement Board.

<b>What we will do to address this risk?</b>	<b>How we will do it?</b>	<b>By when?</b>	<b>By who?</b>	<b>Update / Comments</b>

<b>Contingencies (to be activated if risk is realised)</b>				
Responses to OH&S and Duty of Care Incidents – See Corporate Operational Risk 14.				
			<b>By who?</b>	
			Myfanwy Barrett	

# Strategic Risk 7 – Culture of the Organisation





<b>Corporate Priority:</b> All	<b>Current Risk Rating:</b> C2	<b>Target Risk Rating:</b> C2	<b>Risk Champion:</b> Tom Whiting	<b>Risk Owner:</b> CSB	<b>Control Key</b> Controls in place / Existing controls. Controls underway / Work ongoing Controls planned / Needs actioning
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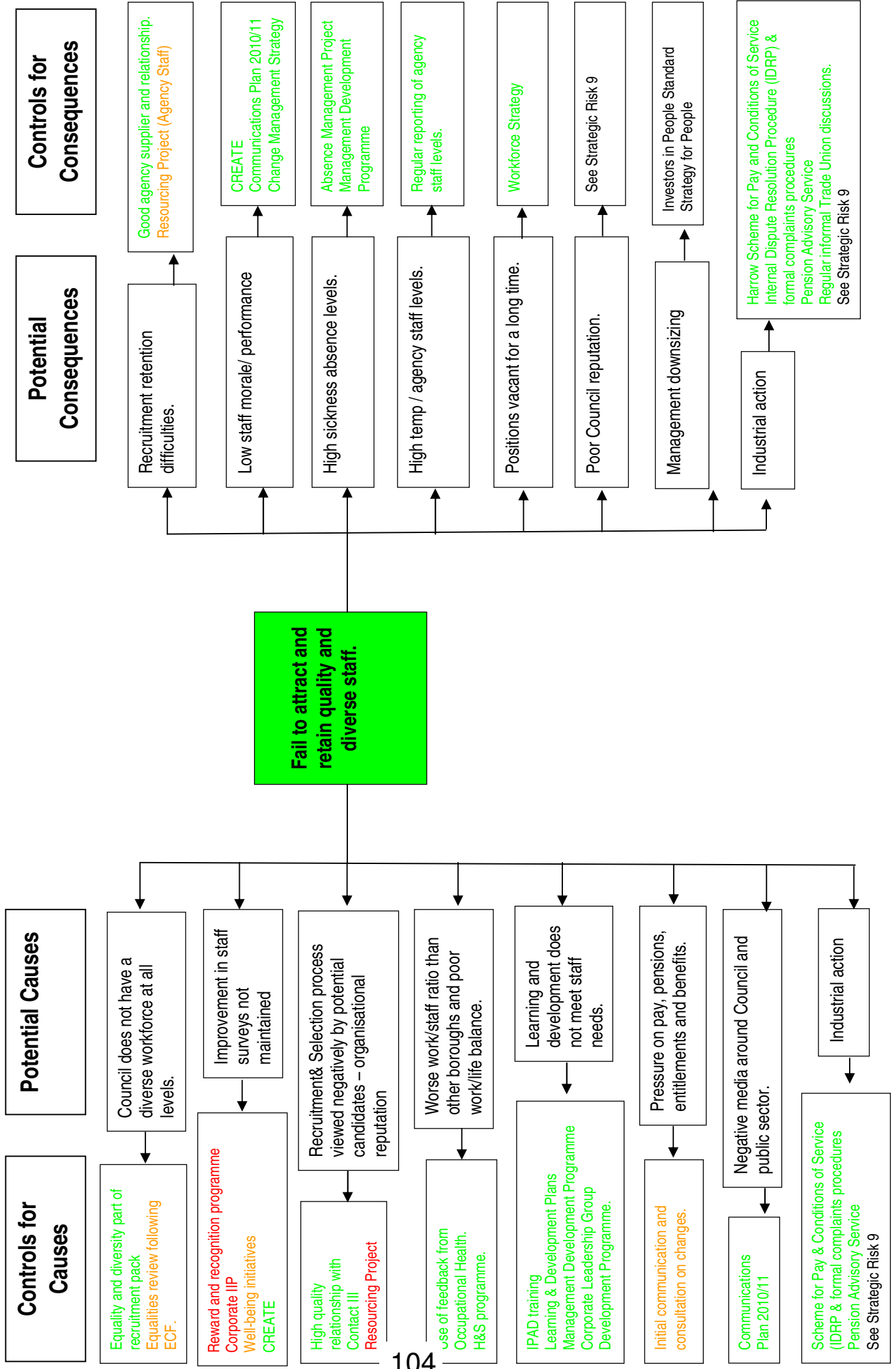
### Strategic Risk 7 Action Plan – Culture of the Organisation

<p><b>Controls already in place to address risk:</b></p> <ul style="list-style-type: none"> <li>• Better Deals for Residents Plan</li> <li>• Manager conferences, staff forums and CE newsletter.</li> <li>• Change Management Strategy and Workforce Strategy</li> <li>• Management Development Programme, Corporate Leadership Group Development Programme and Member Development Programme, including training, events and ongoing development.</li> <li>• Communications Strategy (regular communications with staff).</li> <li>• Workforce Strategy.</li> <li>• Annual Staffing Survey</li> <li>• Design Board.</li> <li>• Reviewed effectiveness of CREATE values</li> <li>• Absence management and reporting.</li> <li>• CREATE values &amp; CREATE Awards</li> <li>• Council performance cycle.</li> <li>• Improvement Boards.</li> <li>• Transformation Programme – regular meeting, monitoring and reporting.</li> </ul>
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What we will do to address this risk?	How we will do it?	By when?	By who?	Update / Comments

Contingencies (to be activated if risk is realised)		By who?
Escalate to CSB.		Risk Owner

# Strategic Risk 8 – Attract/retain quality/diverse staff



<b>Corporate Priority:</b> All	<b>Current Risk Rating:</b> D3	<b>Target Risk Rating:</b> D3 (Met)	<b>Risk Champion:</b> Tom Whiting	<b>Risk Owner:</b> CSB	<b>Control Key</b> Controls in place / Existing controls. Controls underway / Work ongoing Controls planned / Needs actioning
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### Strategic Risk 8 Action Plan – Attract/retain quality/diverse staff

#### **Controls already in place to address risk:**

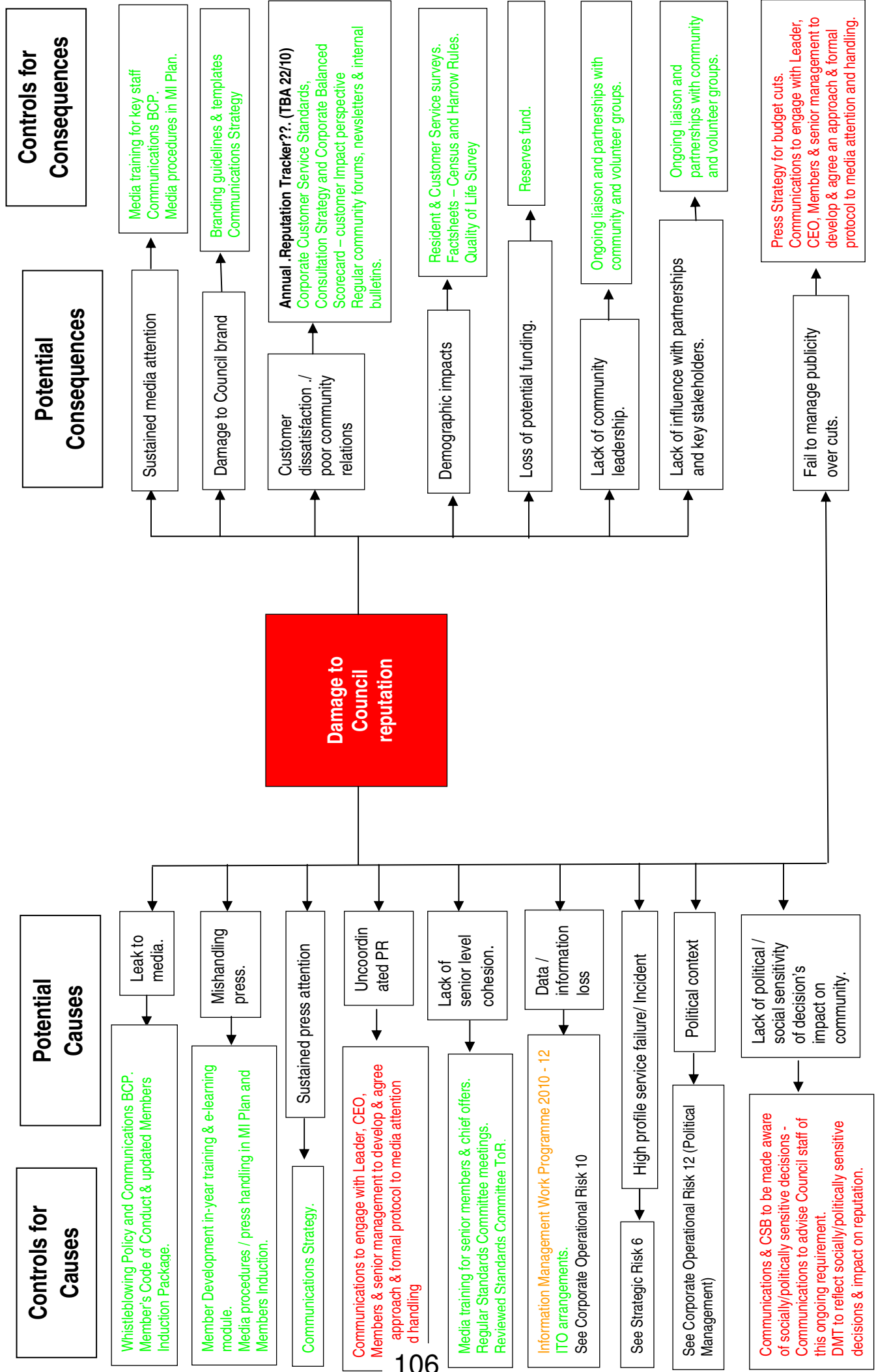
- Equality and diversity part of recruitment pack.
- CREATE and staff survey data.
- High quality relationship with Contact III and good agency supplier & relationship.
- Use of feedback from Occupational Health and H&S programme.
- Management Development Programme and Corporate Leadership Group Development Programme.
- IPAD training, Learning & Development Plans.
- Workforce Strategy, workforce strategy groups and reporting of agency staff levels.
- Communications Plan 2010/11, Change Management Strategy, Absence Management Project and Management Development Programme.
- Regular informal Trade Union discussions.

<b>What we will do to address this risk?</b>	<b>How we will do it?</b>	<b>By when?</b>	<b>By who?</b>	<b>Update / Comments</b>
Reward and Recognition Programme	New CIP Project to implement a total reward framework	June 2011	Jon Turner / Lesley Clarke	Options still being considered by CSB.
Corporate IIP	Obtain formal accreditation.	July 2012	Jon Turner / Lesley Clarke	CWSG have advised a date of 2012 is more realistic for completion
Well-being initiatives.	Review and refresh annual Wellbeing plan	Jun 2010	Jon Turner	Reviewed by H&WG new plan in development Not commenced
Resourcing Project (Agency Staff)	New CIP Project including support to managers introducing wellbeing initiatives	Apr 2011	Jon Turner / Paul R Turner	
	Joint procurement of agency staff contract with Hammersmith & Fulham Council.	June 2011	Jon Turner / Varsha Dadlani	Lead Agency: Hammersmith & Fulham Council

**Contingencies (to be activated if risk is realised)**

**By who?**

# Strategic Risk 9 – Damage to Council Reputation





<b>Corporate Priority:</b> All	<b>Current Risk Rating:</b> C2	<b>Target Risk Rating:</b> E2	<b>Risk Champion:</b> Hugh Peart	<b>Risk Owner:</b> CSB	<b>Control Key</b> Controls in place / Existing controls. Controls underway / Work ongoing Controls planned / Needs actioning
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### Strategic Risk 9 Action Plan – Damage to Council Reputation

#### **Controls already in place to address risk:**

- Whistleblowing Policy, Member's Code of Conduct and Member Development - in-year training and e-learning module
- Communications Strategy, Consultation Strategy and media training for senior members, chief officers and key staff
- Communications Team Business Continuity Plan
- Branding guidelines & templates, Factsheets – Census and Harrow Rules, and regular community forums, newsletters & internal bulletins.
- Corporate Customer Service Standards and ongoing liaison and partnerships with community and volunteer groups.
- Corporate Balanced Scorecard (customer Impact Perspective)
- Resident and customer service surveys, and **Annual Reputation Tracker (??)**
- Reserves fund and updated Members Induction Package.
- Media procedures in MI Plan and press handling & media procedures in Members Induction.
- Regular Standards Committee meetings and reviewed their Terms of Reference.
- ITO arrangements.

<b>What we will do to address this risk?</b>	<b>How we will do it?</b>	<b>By when?</b>	<b>By who?</b>	<b>Update / Comments</b>
Communications to engage with Leader, CEO, Members and senior management to develop and agree an approach and formal protocol to media attention and handling.	Consultation with Leader, CEO, members and senior management.	Dec 2010	Cristian Marcucci	
Communications and CSB to be made aware of socially / politically sensitive decisions.	Communications to advise Council staff of this ongoing requirement.	Dec 2010	Cristian Marcucci	
Press Strategy for budget cuts.	Communications to develop strategy to proactively communicate to/with residents re: budget cuts	Dec 2010	Cristian Marcucci	
Information Management Work Programme 2010/11 and 2011/12	Implement work programme in agreed staged approach.	2012	Tony Monachello	Includes the development of a new suit of information policies and guidance, and information security and induction training
Customer Service Standards	Agree and monitor achievement of customer service standards across those areas in the Council outside Access Harrow. Benchmark with London Benchmark Club to identify adequacy of the Council's responses to complaints against London benchmark and report to Nov 2011 Improvement Board. Embed across the Council	Nov 2010 Nov 2010 2011/12	Carol Cutter	

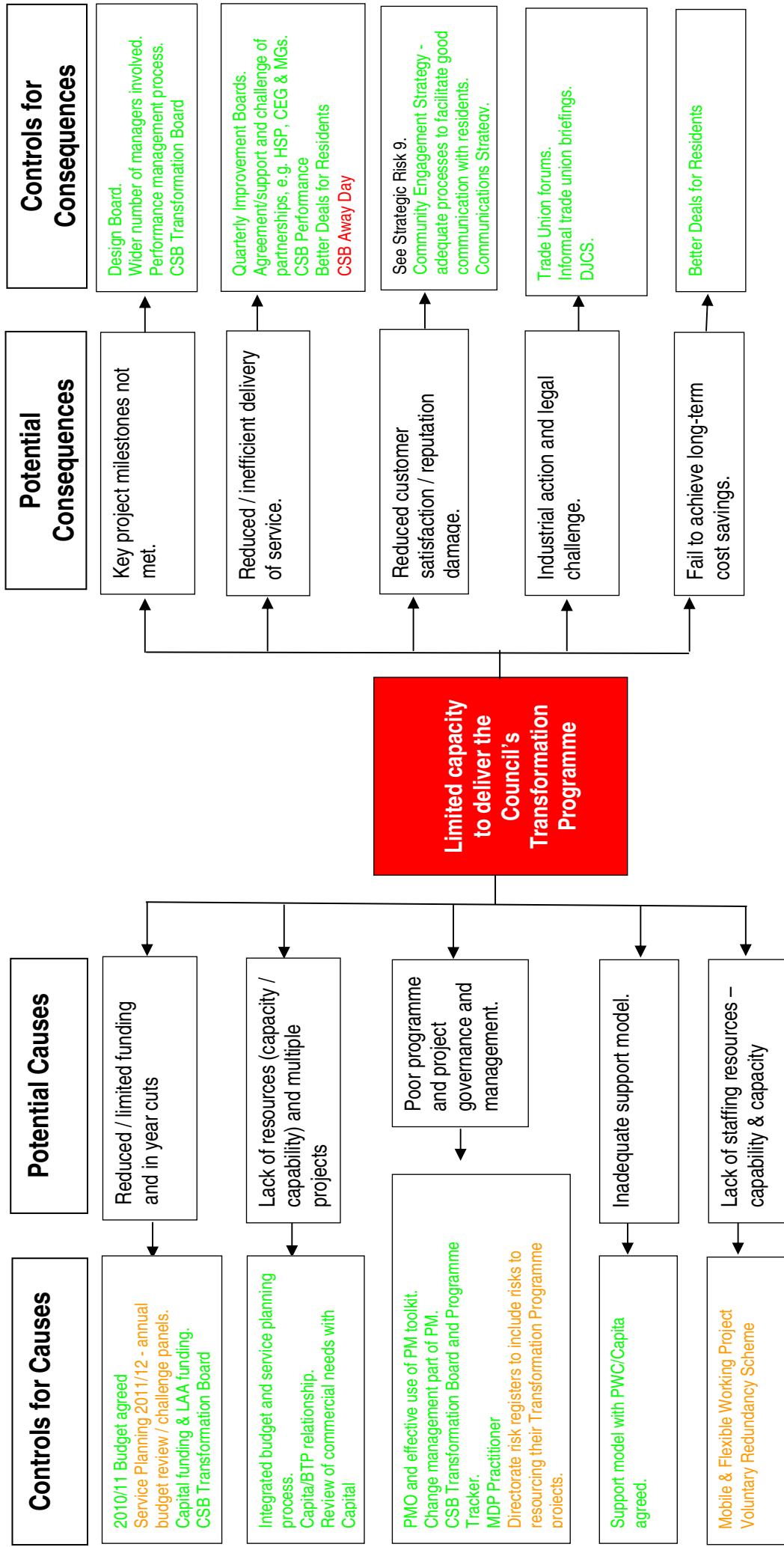
**Contingencies (to be activated if risk is realised)**

**By who?**

Escalate to CSB

Risk Owner

# Strategic Risk No 10 – Resourcing the Transformation Programme



## Strategic Risk No. 10 Action Plan

<b>Corporate Priority:</b>	<b>Current Risk Rating:</b>	<b>Target Risk Rating:</b>	<b>Risk Champion:</b>	<b>Risk Owner:</b>	<b>Control Key</b>
All	C2	E2	Tom Whiting	CSB	Controls in place / existing controls. Controls underway / Work ongoing Controls planned / Needs actioning

### Controls already in place to address risk:

- Effective use of PM toolkit and ensuring change management is part of PM.
- Matching ambition to capacity and Wider number of managers involved.
- Agreed support model with PWC/Capita - includes support in developing PIDs.
- 2010/11 Budget agreed, annual budget review / challenge panels and performance management process
- Design Board, CSB Transformation Board, and quarterly CSB Performance and Improvement Board meetings.
- Community engagement strategy and processes in place to facilitate good communication with residents, staff & unions.
- Agreement/support and challenge of partnerships, e.g. HSP, CEG & MGs.
- Conduct equality impact assessments, where appropriate.
- Trade Union forums, informal trade union briefings and DJCS.
- Better Deals for Residents.

What else we will do to address this risk (controls underway and planned)?	How we will do it?	By when?	By who?	Update / Comments
Service planning process for 2011/12	Starts July 2010 and includes annual budget reviews and challenge panels.	April 2011	CSB	
CSB Away Day to discuss future shape of organisation.	Horizon scanning for emerging risk(s) that will impact the achievement of TP Year 3 Plan objectives.	January 2011	CSB	Action agreed at CSB meeting 6/10/2010
Directorate risk registers to reflect the risks around the resourcing of their Transformation Programme projects.	Risk Manager to advise the Directorate Risk Champions.	End October 2010	Corporate Directors via Risk Champions	Action agreed at CSB meeting 6/10/2010
Mobile & Flexible Working Project	Implementation commences Jan 2011	April 2012	Andrew Trehern	
Voluntary Severance Scheme		December 2010	Jon Turner	

### Contingencies (to be activated if risk is realised)

- \* Allocate pro-rata'd saving targets to each target.
- \* Funded backfill for business case development and implementation.
- \* Investigate alternate funding options.

By who?

CSB





Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
2	All	Major fraud and corruption incident within the Council and Partnerships.	<ul style="list-style-type: none"> <li>* Corporate Anti-Fraud Policy &amp; Corruption Strategy.</li> <li>* National Fraud Initiative (NFI).</li> <li>* CAFT annual programme of proactive fraud investigation.</li> <li>* Internal Audit Plan.</li> <li>* Publicity of successful prosecutions in local/national media.</li> <li>* Corporate Governance system.</li> <li>* Quarterly GARM meetings.</li> <li>* Ongoing liaison and joint working with internal and commercial partners.</li> <li>* Fraud awareness training - New Starters (corporate) Induction.</li> <li>* Ongoing liaison and close working on joint cases by CAFT with Partners, including DWP, UK Borders Agency, Metropolitan Police, etc.</li> <li>* Independent investigation by PWC into alleged Partner fraud.</li> </ul>	C3	C3	<ul style="list-style-type: none"> <li>* Information Management Programme - IT security (Tony Monachello - 31/3/10).</li> <li>* Develop fraud awareness e-learning tool (Justin Phillips - Q3 2010/11).</li> <li>* Fraud awareness in Managers and Members Induction (2011/12)</li> <li>* LAA grant appln process to obtain evidence of capacity &amp; capability to deliver project, including Board &amp; staff capability. (2012)</li> <li>* HSP SLAs to include the Council's risk appetite for fraud, action to be taken in the event of fraud, clarity on ownership of assets purchased by grant monies &amp; return of unspent monies, and provision of audited annual accounts (for full term of SLA). (Dec 2010)</li> <li>* Develop &amp; implement evidence based performance monitoring &amp; reporting arrangements by HSP MGs - standing agenda item. (Dec 2010)</li> <li>* Consultation with voluntary &amp; community sectors on review of LAA grants process, commissioning of key services &amp; separate capped grants programme for small, one off grants (Dec 2010).</li> <li>* Improved transparency of regular financial reporting to the HSP MGs. (Dec 2010)</li> </ul>	David Ward / Justin Phillips / Susan Dixon / Trina Thompson	E2	2011/12	Myfanwy Barrett	11/10/2010 - Updated by CAF Service Manager. 26/10/2010 - CRSG agreed with a risk rating of C3 (Amber).

Risk (Event)

Further Actions

Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments	
		Abuse of position. Lack of data security. Inadequate internal control framework. False documentation, claims & applications.				* HSP MGs ToR to include role in regular performance monitoring, project delivery & scrutiny of financial reports from the grantee finance system, & conduct independent checks as req'd (Dec 2010) * Clarify protocols for conflicts of interest, e.g. where HSP MG member is a grantee. (Dec 2010) * IA Service Mgr to inform partnership work on performance monitoring & reporting requirements and advice sought from RAF Service Managers as appropriate. (Ongoing) * Consistent approach to be taken for LAA and other grants, including SLA and evidence based performance monitoring & reporting - report to Overview & Scrutiny Leadership Group. (Nov 2010) * Identify impact of Central government changes to benefit fraud and welfare reform policies and loopholes in Council policies/processes. (Justin Phillips/Griselda Colvin - March 2011) * Escalate to Divisional Director Audit & Risk, Corporate Director of Finance and/or Chief Executive for decision. * Investigate under the provisions of the Local Government Act 1972 (where appropriate).						
		Negative Media. Financial loss. Reputation damage. Theft of assets, including cash. Fraudulent claims.										

Cause(s)

Consequence(s)

Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
5	All	<p><b>Successful legal challenge of a Council decision.</b></p> <p>Poor legal &amp; technical advice, including misunderstanding of case circumstances. Uncertainty of court outcomes, including test cases. Potentially contentious decisions by Cabinet. EU procurement legislation tight for suppliers to take legal action in UK courts for breaches of EU rules. Public Contracts Regulation 2009 increased the effectiveness of legal challenge by suppliers. Increased collaborative procurement by local councils, allowing larger contracts/frameworks resulting in larger impact on supplier's business. Greater supplier awareness of available legal responses and appetite for legal action. Lack of Member/staff training and awareness.</p>	<ul style="list-style-type: none"> <li>* Legal clearance of Member reports.</li> <li>* Legal input to major project groups.</li> <li>* Corporate Equalities Group</li> <li>* File reviews.</li> <li>* Management Development Programme.</li> <li>* Corporate Managers Induction includes a session on legal requirements and decision making.</li> <li>* Monitoring Officer part of CSB.</li> <li>* Monthly Executive briefing sessions.</li> <li>* Training sessions for Directorate management teams on decision making (provided by Democratic Service).</li> <li>* Improved legal input to decision making.</li> <li>* Ongoing work with the Leadership Group and CLG around governance and legal input into decisions.</li> <li>* High level analysis/lessons learnt from recent significant challenges by the CRSG going forward.</li> <li>* Continual update and training of legal staff.</li> <li>* Strategic Procurement Board established.</li> </ul>	B2	B2	<p>* Continued discussions with the Leadership Group on risk appetite for legal challenge (Hugh Peart - ongoing).</p> <p>* Discussion with CSB on handling Cabinet decisions (Hugh Peart - Nov 2010)</p> <p>* Develop Procurement Strategy (Richard Hawtin - 2011/12)</p> <p>* Develop Contract Management Strategy (Richard Hawtin - 2011/12)</p> <p>* Develop Procurement Target Operating Model (Richard Hawtin - 2011/12)</p> <p>* Identify whether insurance arrangements are adequate for potential successful legal challenge and resulting damages/costs. (Karen Vickery / Richard Hawtin- Dec 2010)</p> <p>* Publish a voluntary transparency notice for direct awards to ensure observance with associated standstill periods).</p> <p>* Investigate option of pre-agreeing contractual provisions dealing with a declaration of ineffectiveness, which are not inconsistent with the primary order. (This seeks to undermine the effects of declaring a contract ineffective or shortened). (Stephen Dorrian)</p> <p>* Ensure procurement procedures/guidance reflect the court's findings, e.g. Montpellier v Leeds City Council [2010] EWHC 1543 (QB). (Richard Hawtin /Stephen Dorrian)</p>	Hugh Peart / Richard Hawtin / Stephen Dorrian	E2	2012/13	Hugh Peart / Myfanwy Barrett	26/10/2010 - CRSG agreed with the risk rating of B2 (Red), but queried whether additional actions could be implemented to mitigate this risk. Risk Champion, Legal & Governance Directorate, to advise the Interim Risk Manager of any additional controls (underway or planned) to mitigate Corporate Operational Risk 5.

Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
		<p>Economic pressures on businesses &amp; unsuccessful bidders demanding payment of bidding costs. Judicial review of major decisions.</p> <p>Poor (procurement) project management.</p> <p>Lack of specialist expertise/knowledge.</p> <p>Non-centralised procurement practices breach procurement rules.</p>				<p>* Ensure contractual terms clearly allocate risk in the event that remedies under UK legislation is imposed, specifically: (Stephen Dorrian)</p> <ul style="list-style-type: none"> <li>- establish which of the consequences of termination (detailed in the contract) apply in the event of a declaration of ineffectiveness, including those relating to the transfer of assets;</li> <li>- without giving any warranty of compliance with the procurement rules, limit by value (or calculation) the Council's liability to pay compensation or restitution to the contractor;</li> <li>- deal with the types of loss that the Council wishes to exclude liability for, including future earnings that the supplier may otherwise have generated under the contract;</li> <li>- establish dispute resolution procedures to be followed in the event of disagreement relating to the pre-agreed terms;</li> <li>- establish that the provisions apply where the contract is shortened, in addition to a declaration of ineffectiveness;</li> </ul>					
		<i>Cause(s)</i>				<i>Further Actions</i>					



Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
		<p>Legal costs/fines.            Negative media and reputation damage.            Delay to decisions/projects.            Increased supplier incentive to start/threaten legal action / claims for contract ineffectiveness.            Successful legal challenge - fines, order shortening/cancelling contract, damages.            Inability to deliver cost effective and value adding services.            Future procurement activities fail to seek better value.</p> <p><i>Consequence(s)</i></p>				<p>* Engage insurer as necessary.            * Utilise reserves fund.            * Judicial review of process.</p> <p><i>Contingencies</i></p>					

Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
6	All	<p><b>Business Continuity planning/disaster recovery is not resilient in the event of a business interruption.</b></p> <p>Natural disaster. Pandemic. War/terrorism.</p>	<ul style="list-style-type: none"> <li>* All 34 BCPs at departmental level completed.</li> <li>* Ongoing business continuity workshops for service managers and above (new/upon promotion).</li> <li>* Corporate BIA reviewed Feb 2009 &amp; corporate BCP approved by Cabinet Jan 2010.</li> <li>* BC awareness part staff induction &amp; BC info on the Hub.</li> <li>* Nightly data back up arrangements.</li> <li>* SAP disaster recovery plans.</li> <li>* Business critical plans have been identified and are in place.</li> <li>* Annual review of all BCPs and testing of SAP data recovery at remote data centre by Capita.</li> <li>* Quarterly &amp; ongoing liaison with West London boroughs and annual forum with all London boroughs to share best practice and lessons learnt.</li> <li>* Ongoing liaison by Emergency Team with Directorates.</li> <li>* Table top testing of Corporate and Directorate BCP completed Feb 2010.</li> <li>* HIPS Business Continuity Plan in place.</li> <li>* Sanguard arrangements agreed and in place.</li> <li>* Harrow IT Disaster Recover Plan now part of Capita ITO arrangements.</li> <li>* ERO training 7/10/2010.</li> <li>* Joint BC-vulnerable people exercise with PCT (13/10/2010)</li> </ul>	D2	D2	<p>* All BCP Plans to be reviewed (Oct 2010).</p> <p>* New evacuation procedures for Civic Centre to be informed by lessons learnt from the bomb threat on 10/6/2010, including those in relation to the Council's security arrangements. (Oct 2010)</p>	David Ward / Kan Grover	D3	Oct-10	Myfanwy Barrett	13/10/2010 - Updated by Civil Contingencies Service Mgr. 26/10/2010 - CRSG agreed with the current risk rating of D2 (Amber).
		<p>Unable to deliver services. Loss of Council buildings, IT or staff.</p>				<p>Implement business continuity plans. Utilise Safeguard recovery site.</p>					

Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
7	2	<p><b>Inadequate emergency planning in place to deal with major incidents.</b></p> <p>Severe weather, explosions, terrorism and pandemic.</p> <p>Community disruption. Reputation damage.</p>	<ul style="list-style-type: none"> <li>* Annual review of Major Incident Plans, including emergency response procedures.</li> <li>* Emergency response officer volunteer rota/Duty Director rota in place &amp; updated biannually.</li> <li>* Participation in London-wide and regional training &amp; exercises - Safer City (Mar 09) and Preparer (Oct 09).</li> <li>* Annual CSB &amp; Tier 2 and CSB &amp; CLG training days - Feb 09.</li> <li>* Stanley Road report recommendations implemented - Nov 09.</li> <li>* Codeman now live and producing management information.</li> <li>* Ongoing liaison &amp; consultation with GOL Resilience Team, Cabinet Office.</li> <li>* All Duty Directors up to date on EP training.</li> <li>* Participated in Safer City exercise (London-wide March 2010).</li> <li>* Annual hands-on testing exercise for senior managers.</li> <li>* Members training (June 2009, March 2010, June 2010)</li> <li>* Senior management training (June 2010)</li> <li>* All plans in place and regularly reviewed, with regular training provided to all senior manager, including involvement in testing exercises.</li> </ul>	D2	D2	<ul style="list-style-type: none"> <li>* Multi-agency senior managers exercise on a CBR incident (19/11/2010).</li> <li>* Council wide BC phone cascade test (23/11/2010).</li> <li>* Member Development Programme sessions (30/11/2010)</li> </ul>	David Ward / Kan Grover	D3	Oct-10	Myfanwy Barrett	13/10/2010 - Updated by Civil Contingencies Service Mgr. 26/10/2010 - CRSG agreed with the current risk rating of D2 (Amber).
						Further Actions					
						Contingencies					

Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
8	2	Failure to achieve the decent homes targets by 2010.	<ul style="list-style-type: none"> <li>* Detailed programme of works in place.</li> <li>* Cross Directorate Partnership Board in conjunction with Kier involving Members.</li> <li>* Clear objectives and targets to achieve by 2010.</li> <li>* Financial resources in place.</li> <li>* Weekly monitoring of decent homes delivery.</li> <li>* Detailed monitoring of Capital Programme spend.</li> <li>* In year contingency planning.</li> <li>* Codeman now live and able to produce management information.</li> <li>* Continuing improvement of stock data.</li> <li>* 2010/11 Capital Programme approved.</li> <li>* Mill Farm transferred 26/4/2010.</li> <li>* Kier Partnership Governance Action Plan delivered.</li> <li>* Kier delivered 2009/10 target.</li> <li>* Revisited governance review of Kier partnership alongside Asset Management restructure.</li> </ul>	D2	D2	<ul style="list-style-type: none"> <li>* Continuing improvement of stock data. (Dec 2010)</li> <li>* Responsibility for repairs and maintenance being transferred to Housing Services (2010/11)</li> <li>* Continuing improvement of stock data.</li> <li>* Discussions underway with TSA re delays at Francis Rd and one other site.</li> </ul>	Carol Yarde / Howard Beresford	D2	Met	Paul Najsarek	26/10/2010 - CRSG agreed the risk rating should be changed from C3 (Amber) to D2 (Amber).
						Further Actions					
						Contingencies					

Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
9	2	Failure to deliver an effective response maintenance service within budget and to required standards.	<ul style="list-style-type: none"> <li>* 2010/10 budget agreed - based on more detailed unit cost and volume data (£700k increase and control expenditure within revise budget).</li> <li>* Kier Improvement Plan in place.</li> <li>* Appointment of Head of Asset Management within Housing Services.</li> <li>* Weekly budget monitoring meetings taking place between Housing and Property Services.</li> <li>* Implementation of Lean Review - ongoing.</li> <li>* IT reviewed by Capita.</li> <li>* Tenants Handbook updated and distributed to tenants.</li> <li>* Asset Management Team restructure.</li> <li>* Transferred resident services into Access Harrow as 1st point of contact for tenants.</li> <li>* Tenants Handbook updated.</li> <li>* Transfer of Mill Farm following a very positive ballot.</li> <li>* 2 year Housing Ambition Plan (HAP) launched 12 May 2010.</li> <li>* HAP monitoring framework in place with clear targets and timescales and reported to Improvement Board.</li> <li>* HAP Communication and Engagement Plan in place.</li> <li>* Identified additional resources to support HAP.</li> <li>* Increased scorecard KPIs around response maintenance.</li> <li>* Monthly and quarterly performance monitoring of response maintenance against scorecard KPIs.</li> <li>* Completed LEAN Efficiency Review.</li> <li>* Ongoing analysis of profile of activity by trades / numbers of jobs completed / spend carried out allow more accurate management of budgets.</li> </ul>	D3	D3	<ul style="list-style-type: none"> <li>* Responsibility for repairs and maintenance being transferred to Housing Services (2010/11)</li> <li>* Housing Ambition Plan (Improvement Programme) being delivered to be the best service in London (2012).</li> <li>* Implement recommendations of LEAN Efficiency Review (March 2011)</li> <li>* Staff consultation on new Asset Management structure. (Dec 2010)</li> <li>* Review Tenant's Handbook (Dec 2010)</li> </ul>	Carol Yarde / Howard Beresford	D3	Met	Paul Najzarek	26/10/2010 - CRSG agreed the risk rating should be reduced from C3 (Amber) to D3 (Green).
		Increased demands. Budget overspend. Lack of efficiency delivered from partnership working.				Further Actions					
		Not meet required standards. Increase in complaints and decrease in customer satisfaction. Potential legal/health and safety implications. Non inclusion in ongoing HARP implementation.				Contingencies					



Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
10	All	<p><b>Inadequate systems/procedures in place and embedded regarding data/information security.</b></p> <p>Lack of business buy in. Inadequate IT controls. Lack of awareness and training. Insufficient Cabinet guidance. Lack of appropriate access rights to personal information.</p> <p>Security breaches - loss of confidential information. Negative media portrayal. Fines by Information Commissioner's Office. Decreased customer satisfaction.</p>	<ul style="list-style-type: none"> <li>* Quarterly Information Governance Board.</li> <li>* Information Risk Policy, Information Security Policy and related guidance.</li> <li>* Ongoing information audits by Ciaos (Risk Champions).</li> <li>* Quarterly updated of Information Risk Action Plans by IAOs.</li> <li>* Annual update of Information Asset Register.</li> <li>* Corporate Induction and Managers Induction (Q1 2010).</li> <li>* Members provided with information handling procedures (2009)</li> <li>* Information management requirements included in Members Induction Package and in-year training (May 2009)</li> <li>* 2010/11 CoCo compliance attained.</li> <li>* Updated Member's Rights to Confidential Information (A Guidance Note for Officers) to reflect new Members email protocols.</li> <li>* Developed Information Security e-course.</li> <li>* Appointed an Information Architect</li> </ul>	<b>C2</b>	C2	<ul style="list-style-type: none"> <li>* Implement Information Management Work Programme for 2010/11 and 2011/12.</li> <li>* Personal acceptance IT solution (November 2010) - dependant on resources.</li> <li>* Assist C&amp;E Directorate develop their Information Asset Register and Information Risk Action Plan (Dec 2010)</li> <li>* Develop Council Information Asset Register (Dec 2010)</li> <li>* Clarification of issues around access to personal information through Crystal Reporting. (Dec 2010 - T Monachello)</li> <li>* Revising Member's Acceptable Use Policy (Dec 2010)</li> <li>* Escalate to SIRO for IGB decision.</li> </ul>	David Ward / Tony Monachello	<b>D2</b>	<b>2011/12</b>	Myfanwy Barrett	11/10/2010 - Updated by Information Manager. 26/10/2010 - CRSG agreed with risk rating of C2 (Red).
11	All	<p><b>Failure to ensure ERP related interfaces are operating to full effect (Framework-i).</b></p> <p>Insufficient IT service. Lack of understanding of interfaces and functionality of ERP systems.</p> <p>Do not meet CIP milestones. Mistakes due to manual intervention Disruption to service areas.</p>	<ul style="list-style-type: none"> <li>* ICS Project Team</li> <li>* Manager's Induction (April 2010)</li> <li>* Information on Intranet.</li> <li>* ERP health checks.</li> <li>* SAP Tutor Player.</li> <li>* Framework-i guides.</li> <li>* ERP Development Plan.</li> <li>* Children's Services - monthly reporting to data champions and managers against data quality indicators.</li> <li>* User Acceptance Testing (Framework-i) completed (July 2010)</li> <li>* Coursebooker interfaced with SAP (July 2010)</li> </ul>	<b>C2</b>	C2	<ul style="list-style-type: none"> <li>* Ongoing work to resolve outstanding issues with interface, with training and data input continuing.</li> <li>* Framework-i Improvement Plan (2010/11)</li> <li>* Project to ensure full operation of Framework-i and SAP interfaces for debtor information (Feb 2011).</li> <li>* IA review of interface between Framework-i and SAP (Apr 2011).</li> <li>Escalate to CSB.</li> </ul>	Jo Fitzgibbon  Bernie Flaherty Tim Beard  Susan Dixon	<b>D2</b>	<b>2010/11</b>	Paul Najsarek	26/10/2010 - CRSG agreed with a risk rating of C2 (Red).

Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
12	All	ineffective political interface (including opposition) / failure to maintain good working relationship with administration and opposition. Change of leadership / political control. Lack of Member awareness of council frameworks/processes. Conflicting priorities - tensions between local, regional and national agenda.	* Regular meetings between Leader & Deputy Leader (Administration & Opposition) and Chief Executive. * Ongoing review of Senior Officer/Member roles at Away Days. * Regular meetings between Corporate Director and portfolio holders. * Regular Away Days with Executive Members and Senior Officers. * Regular Cabinet briefings. * Informal Cabinet meetings. * CSB Leadership development programme. * Legal Services continue to work with the Leadership Group on governance. * Quarterly Member briefings and showcases.	D2	C2	* Joint leadership development programme to be agreed by end 2010. * Develop a Member's Cabinet Induction programme by end 2010. * Continued engagement with Leadership Group to develop and maintain good working relationship. * Meet with Leader, Chief Executive, CSB and Cabinet. <i>Contingence</i>	Hugh Peart	D3	2010/11	Hugh Peart	26/10/2010 - CRSG agreed with risk rating of D2 (Amber) and advised that the risk description should be changed to 'ineffective political interface ... etc'.
14	All	inadequate OH&S management system to ensure appropriate asset management and meet duty of care obligations. Fail to attract and retain quality staff. High staff turnover. Lack of organisational capacity and capability for long term OH&S programme management. Ineffective asset management and maintenance. Poor financial and budget management. Over dependency on key contractors, such as Connaught Compliance. New OH&S legislation for Councils.	* Staff development (1-2-1s, induction) services and action taken * Monthly monitoring of key projects - Weekly management of H&S priorities * Monitoring of contractor/contract performance, e.g. EAS & OH&S. * Sickness monitoring, including RTWs and reviews * Health and Safety Management System approach agreed * H&S budgets and action plans in place. * Regular review of risk assessments in line with Group H&S Plans. * Management inspections * Insurance in place * Corporate Health and Safety Group and coverage * KPIs set. * Ongoing H&S advice from in-house team. * Communication and consultation strategies * Provision of general/specific training for staff, managers and members.	B1	C1	* Efficiency Review being conducted by independent party. (Nov 2010) * Review of staff capability/capacity and utilisation of contract staff as needed (Nov 2010) * Deliver H&S improvements in consultation & communication with stakeholders (Nov 2010) * Delivery of Health and Safety Team (within RAF) Objectives & Targets * Rolling programme of policy & procedure reviews - asbestos, fire, accidents, legionella, etc (2011/12). * Development of internet/intranet OH&S content (2011/12) * Review and update Corporate H&S Group ToR (November 2010) * Approval of new fire management procedures by H&S Board (Nov 2010) <i>Further Actions</i>	David Ward / Mark Riordon	D2	2011/12	Myfanwy Barrett	26/10/2010 - CRSG agreed that the risk rating should be increased from to C1 (Red) to B1 (Red).

Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
		<p>Reputation damage. HSE prosecution and civil legal proceedings, including financial penalties. Inability to achieve objectives and deliver OH&amp;S service to required standard. Failure to comply with legislation (new and existing). Increase dependency on key contractors and resultant increased costs, such as Connaught Compliance. Loss of corporate knowledge. Poor programme/project management. Asset disrepair/closure/value loss, etc.</p> <p style="text-align: right;"><i>Consequences</i></p>	<ul style="list-style-type: none"> <li>* Assessment of laws, policies and practices required to comply with legislation.</li> <li>* Allocation of responsibility for compliance with new legislation.</li> <li>* Dedicated staff to coordinate and progress new legislation</li> <li>* Standing agenda item on management meetings</li> <li>* Provision of information for partners</li> <li>* Communications with media &amp; community</li> <li>* Promotion and publicity</li> <li>* Internet and intranet development</li> <li>* Contract Procedure Rules</li> <li>* Business Continuity</li> <li>* H&amp;S Training Plan/Programme</li> <li>* Asset Management Plan</li> <li>* Press Office.</li> <li>* Contract agreed for joint provision of OH&amp;S Service with Brent Council.</li> <li>* Ongoing staff training (attendance levels increasing).</li> <li>* Corporate H&amp;S Committee and Directorate H&amp;S Groups.</li> <li>* Reviewing asbestos management arrangements in place</li> <li>* Asbestos &amp; Legionella Management Group in place.</li> </ul>			<p>to ensure legal compliance (November 2010)</p> <ul style="list-style-type: none"> <li>* Check asbestos register against main asset register to ensure asbestos register identifies all Council buildings with asbestos. (October 2010 - Report to CRSG).</li> <li>* IA review of asbestos management within Housing Services (Nov 2010).</li> <li>* HSE inspection follow up.</li> </ul>					
						<p>* Implement relevant response process to deal with: fatality, legionella outbreak, asbestos release, fire, etc.</p> <p>* Liaise with Communications to ensure appropriate responses to possible media attention.</p> <p style="text-align: right;"><i>Contingencies</i></p>					

Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
15	All	<p><b>Fail to deliver on budget in-year, including revenue.</b></p> <p>Economic climate. Reduced / limited funding. Budget overspend / unanticipated costs. Increased capital asset maintenance costs. Reduced income. Gov't Spending Review Forecast on revenue &amp; capital spend. Lack of staff awareness/training. Reputation damage. Government intervention. Cut in / unable to deliver services. Organisational change in response to budget cuts.</p>	<p>* Regular financial performance monitoring and reporting to CSB and DMTs.</p> <p>* Medium Term Financial Strategy. Budget Risk Register.</p> <p>* Comprehensive budget plan in place to close gaps.</p> <p>* Monthly DMT monitoring of financial position.</p> <p>* Financial Effectiveness Action Plan.</p> <p>* Debt Management Policy - council tax, business tax, rent, service charges, housing benefits &amp; sundry debts.</p> <p>* Myplanbudget 2010-11, planning signposts and planning &amp; budgeting guidance and templates.</p> <p>* Budget Challenge Panels.</p> <p>* Internal and External Audits.</p> <p>* PCT debt settlement agreed.</p> <p>* Budget forecasting - actual vs expected.</p>	<b>C2</b>	<b>A2</b>	<p>* Implement Financial Effectiveness Action Plan (March 2011)</p> <p>* Year Ahead Statement 2011/12 to be agreed by CSB &amp; Cabinet (Sept 2010).</p> <p>* Capital Programme Investigation by PWC (Nov 2010)</p> <p>* Identify impact of capital programme</p> <p>* Review and prioritise future capital programming requirements</p> <p>post Spending Review outcomes via the Capital Forum. (31/3/2011)</p> <p>Escalate to CSB.</p>	Myfanwy Barrett	<b>D2</b>	<b>31/03/10</b>	Myfanwy Barrett	26/10/2010 - CRSG agreed the risk rating should be reduced from A2 (Red) to C2 (Red). CRSG advised that a new risk should be included in relation to weaknesses in the capital programme control environment and the risk description of COR 15 should exclude '...and capital spend'.
16	All	<p><b>Fail to maintain CQC and Ofsted rate of progress.</b></p> <p>Changes to gov't policy/requirements. Inadequate evidence gathering. Reduction in service provision. Lack of resources. Reputation damage. Poor assessment score increased scrutiny.</p>	<p>* Housing Ambition Plan (June 2010)</p> <p>* Adults Excellence Plan (July 2010)</p> <p>* Revised Adults &amp; Housing Transformation Programme Plan to form Adults &amp; Housing Transformation Board.</p> <p>* Children's &amp; Young People's Plan</p> <p>* Adults &amp; Housing Communications Strategy</p> <p>* Budget Challenge Panels</p> <p>* Scrutiny Boards</p> <p>* Improvement Boards (qtrly)</p> <p>* DMTs - Children's Services/Adults (weekly) &amp; Adults &amp; Housing (monthly)</p> <p>* Children's Services Programme Board (fortnightly)</p> <p>* Children's Services and Adults Joint Committees (qtrly)</p>	<b>D2</b>	<b>D2</b>	<p>* Stakeholder Reference Group - Children's Services (Sept 2010)</p> <p>* Develop Children's Services Communications Plan (Sept 2010)</p> <p>* Major pre &amp; post consultation to agree the Transformation Programme for children &amp; young people; families; staff; Partners and adults.</p> <p>Escalate to CSB.</p>	Heather Clements / Carol Yarde	<b>E3</b>	<b>Sep-11</b>	Catherine Doran / Paul Najsarek	26/10/2010 - CRSG agreed the risk rating of D2 (Amber).

Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
17	All	<p><b>Fail to address carbon reduction commitment (CRC).</b></p> <p>Energy wasted. Financial arrangements within schools. Lack of capability to meet targets. Ineffective implementation of CRC initiatives. Lack of resources. Fail to recognise CRC within BDR / Transformation Programme. No CRC Plan. Age of assets, e.g. housing, schools and Council buildings. Inadequate routine maintenance programme (see COR 9). CRC not considered in corporate and asset management decision making &amp; planning. Lack of staff awareness/training.</p> <p><i>Cause(s)</i></p>	<ul style="list-style-type: none"> <li>* Climate Change Strategy.</li> <li>* Ongoing strategic planning policy development re: growth/CRC objectives.</li> <li>* Green Travel Plans.</li> <li>* Senior commitment to CR reduction.</li> <li>* Participant in Green Procurement Code.</li> <li>* Revised templates to Cabinet to include CR implications.</li> <li>* Bulk purchase energy using OGC guidance.</li> <li>* Community Assets Programme.</li> <li>* Internal 'green' communications campaign.</li> <li>* Ongoing rolling programme of initiatives to target corporate and private sector, e.g. eco driving scheme, turn it off programme.</li> <li>* Energy Team in place.</li> <li>* Sustainability impact studies for all major projects.</li> <li>* Qtrly cost review to identify cost savings and monitoring of recycling targets.</li> <li>* Recycling programme.</li> </ul>	D2	-	<ul style="list-style-type: none"> <li>* Public consultation on revised Climate Change Strategy (Andrew Baker - Feb 2011)</li> <li>* Revised Climate Change Strategy to Cabinet (Andrew Baker - March 2011)</li> <li>* Develop Climate Change Action Plan (Andrew Baker - 2011/12)</li> <li>* Implement revised Climate Change Action Plan (Andrew Baker - 2014)</li> <li>* CRC report to Cabinet (Andrew Baker - Dec 2010)</li> <li>* Upgrading lighting and heating controls (via Salix) (Andrew Baker / Mike Brown - Dec 2010)</li> <li>* ITT / mobile &amp; flexible working implementation programme, e.g. Webex (2012/13)</li> <li>* Re-fit Programme (Phase 1) (Andrew Baker - 2011/12)</li> <li>* Develop Procurement Strategy - to consider CRC (Richard Hawtin - 2011/12)</li> <li>* Identify if schools can be charged for full cost of CRS (Andrew Baker - April 2011)</li> <li>* Incorporate CRC into Capital Programme (John Edwards - Feb 2011)</li> <li>* Develop Communications Strategy focusing on CRC awareness within Council and the Harrow community. (Cristian Marcucci - Jan 2011)</li> <li>* CRC to be included as specific costs in budgets (John Edwards / Jenny Hydari - Feb 2010)</li> <li>* Develop CRC Plan (Andrew Baker - Dec 2010)</li> <li>* Property Disposal Strategy to incorporate CRC implications (Phil Loveland-Cooper - Sept 2011)</li> <li>* Develop appropriate CRC related performance indicators and incorporate into the Council's performance management framework. (Alex Dewsnap - 2011/12).</li> </ul>			2013/2014	Brendon Hills	3/11/2010 - Risk workshop was with John Edwards, Stephen Kelly, Andrew Baker, Anu Singh, Trina Thompson and the Interim Risk Manager to review Strategic Risk 6. Participants advised that the risk is not a strategic risk and relates specifically to the Council not achieving its carbon reduction commitment. Participants placed a new risk 'Fail to address carbon reduction commitment' on the Corporate Operational Risk Register and recommended that Strategic Risk 6 should be closed.



Risk No.	Objective No.	Risk Description	Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Controls (Underway or Planned) (Incl. Implementation Date)	Control Owner	Target Risk Rating	Target Risk Date	Risk Owner	Comments
		<p>Consequence(s)</p> <ul style="list-style-type: none"> <li>Financial or funding penalties.</li> <li>Financial implications of £2M carbon trading scheme.</li> <li>Reputation damage (see SR 9)</li> <li>Poor social and corporate responsibility and leadership.</li> <li>Increased energy prices.</li> <li>Damage to the environment.</li> <li>Diminished long term value of assets, e.g. property.</li> </ul>				Contingencies					

**REPORT FOR: GOVERNANCE, AUDIT AND  
RISK MANAGEMENT  
COMMITTEE**

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**Date of Meeting:** 29 March 2011

**Subject:** **Audit Fee Letter 2011-12**

**Responsible Officer:** Julie Alderson Interim Director of Finance

**Exempt:** No

**Enclosures:** **Appendix 1 - Audit Fees – Trend over 4 years**

**Appendix 2 - Audit Fee Letter 2011-12**

## **Section 1 – Summary and Recommendations**

This report gives the Committee an opportunity to comment on the proposed work plan and fees of the External Auditor for 2011-12.

**Recommendations:**

The Committee comment on and note the proposed work plan and fees

## **Section 2: Report**

### **Introduction**

1. The Audit Fee Letter has been provided by Deloitte LLP, the Council's appointed external auditor. It is attached at Appendix 2.
2. The planned work includes the audit of the financial statements for 2011-12 for the Council, the Pension Fund and grant claims.
3. The outputs from the work will be summarised in the Annual Audit Letter.

### **Options considered**

4. The External Auditor has assessed the time required to carry out the work and the risk level to arrive at the fee of £330,608 (2010-11: £367,342) which represents a reduction of £36,734 or 10%. This reduction mainly reflects:-
  - a. No inflationary increase from 2010/11;
  - b. Lower ongoing costs of International Financial Reporting Standard; and
  - c. The new approach to Value for Money work.
5. Appendix 1 shows the fees over a four year period.
6. The Audit Commission has defined the scale audit fee as the fee required by auditors to carry out the work necessary to meet their statutory responsibilities under the Audit Commission Act, in accordance with the Code. 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 that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.
7. The fee proposed for 2011-12 is 3% below the scale fee (2010-11: 10% above the scale fee). This variance in scale fee is within the acceptable level of variation set by the Audit Commission, which is 25%. The variance to the scale fee reflects the External Auditor's assessment of the level of audit risk. In the External Auditor's 2010-11 Accounts Opinion Audit Plan they identify ten significant audit risk areas (8 significant risk areas were identified in 2009-10).
8. In respect of the 2011-12 fees, the External Auditor is required to submit the letter to the Audit Commission at the end of April 2011. Therefore the Auditor will be able to reflect on any comments from the Committee in advance of submitting the fee letter.
9. During the year additional costs can arise if there are complications with the accounts or public enquiries to the auditor. The Auditor discusses such issues with the Interim Director of Finance before raising any additional bills. Any significant changes to the fee will be reported to the Governance, Audit and Risk Management Committee.

## Consultation

10. The Committee is being consulted on the work plan and the fee.

## Financial Implications

11. The Planned fee for 2011-12 is within budget.

## Section 3 – Statutory clearance

Name: Julie Alderson	<input checked="" type="checkbox"/> Chief Financial Officer
Date: 15 March 2011	
Name: Sarah Wilson	<input checked="" type="checkbox"/> On behalf of Monitoring Officer
Date: 17 March 2011	

## Section 4: Contact details and background papers

**Contact:** Jennifer Hydari (Divisional Director Finance and Procurement)  
tel: 020-8424-1573

### Background Papers:

None

**Audit Fees - Trend over 4 Years**

	2008-09 £000	2009-10 £000	2010-11 £000	2011-12 £000
Financial Statements	282	259	283	272
Use of Resources/ VFM Conclusion	67	111	80	54
Data Quality	43	included above	included above	included above
Whole of Government Accounts	5	5	5	5
<b>Total Audit Fee</b>	<b>397</b>	<b>375</b>	<b>368</b>	<b>331</b>
<b>% change</b>	<b>+13%</b>	<b>-5%</b>	<b>-2%</b>	<b>-10%</b>
National Fraud Initiative	1	2	2	2
Objections	4	8	7	
Capital miscoding and PFI work			45	
Grant Claims*	106	110	110	110
Pension Fund	38	38	35	35
<b>Grand Total</b>	<b>546</b>	<b>533</b>	<b>567</b>	<b>478</b>
<b>% change</b>	<b>+8%</b>	<b>-2%</b>	<b>6%</b>	<b>-16%</b>

## Note

\* Is an estimated figure based on 2009/10 audit.





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17 March 2011

Mr Michael Lockwood  
 Chief Executive  
 Harrow Council  
 Civic Centre  
 PO Box 57  
 Station Road  
 Harrow  
 HA1 2XF

Dear Michael,

### Annual audit fee 2011/12

Further to our discussions, we are writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Harrow Council. The fee has been set by the Audit Commission to reflect the work programme auditors are required to deliver and our assessment of audit risk.

The total indicative fee for the audit for 2011/12 is for £330,608 (exclusive of VAT) which compares to the planned fee of £367,342 for 2010/11 (10% reduction) and reflects:

- no inflationary increase from 2010/11;
- lower ongoing costs following the first year adoption of International Financial Reporting Standards (IFRS) in 2010/11; and
- the new approach to value for money (VFM) work following the abolition of the Comprehensive Area Assessment.

The fee is summarised in the table below.

Audit area	Planned fee 2011/12	Planned fee 2010/11
Financial statements	271,452	282,472
VFM Conclusion / Use of resources	54,286	80,000
WGA	4,870	4,870
<b>Total planned audit fee</b>	<b>330,608</b>	<b>367,342</b>
Certification of claims and returns (note 1)	-	-
Audit of Local Government Pension Scheme	35,000	35,000

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Note 1: our fees for certification of claims and returns are billed on the basis of time spent by different grades of staff using scale fees advised by the Audit Commission. The level of fees charged in a given year is dependent on the grant schemes falling within the audit requirement, the scope of procedures agreed between the Audit Commission and the grant paying body and the quality of working papers provided to us and timeliness with which audit queries are resolved. The hourly rates set by the Commission are unchanged from those applicable to 2010/11, as is the de minimis threshold of £125,000 below which individual claims will not require certification. The 2011/12 fee for grant certification work will be estimated based on the requirements of audit certification. The 2009/10 billed fee for grant certification work was £110,625.

The fee excludes:

- any additional work required to address questions and objections raised by local government electors which, due to uncertainty of timing and resource required, will be agreed separately;
- any work in relation to providing any specific accounting opinions, for example on PFI projects. Given the uncertainty of timing and input required, we will agree the scope of work and associated fee with you when you request the opinion;
- the cost of the National Fraud Initiative which is determined and billed by the Audit Commission;
- any work requested by you that we may agree to undertake. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

#### **Work programme and risk assessment**

The work programme has been published and copies sent directly to you by the Audit Commission. The programme includes:

- audit of the Authority's financial statements;
- work to support the value for money conclusion. This will be based on two criteria specified by the Commission covering the Authority's arrangements for:
  - securing financial resilience; and
  - prioritising resources within tighter budgets.

At this stage we have not identified any specific local risk-based value for money work; and

- work specified by the Commission on Whole of Government Accounts.

Our audit is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission. As the fee is based on the 2010/11 planned fee, it reflects our current assessment of audit risk but as we have not yet completed our audit for 2010/11 and we have not started our detailed audit planning process for 2011/12, this assessment could change. This process will continue as the year progresses and fees will be reviewed as necessary. Any significant variation in the assessment of risk may impact on the fee.

If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with Julie Alderson. We will prepare a report outlining the reasons why the fee needs to change for discussion with the Governance, Audit and Risk Management Committee. Any variation in fee would then need to be approved by the Audit Commission as they are responsible for setting audit fees.

We have also assumed that:

- Internal Audit undertakes appropriate work on all systems, and good quality working papers and records will be provided in accordance with our audit timetable;
- good quality working papers and records will be provided to support the financial statements by 2 July 2012.



A separate plan detailing our assessment of audit risk and proposed response to those risks will be issued following completion of our detailed audit planning in April 2012. Within this, we will set out a timetable of deliverables required from you which will ensure a timely and efficient audit process, and therefore minimise the fees charged to you. As part of our detailed planning discussions we will seek to identify with you any further areas where efficiency can be achieved in the year end reporting and audit process.

We will issue a number of reports relating to our work over the course of the audit:

Planned output	Indicative date
Audit plan	30 April 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	30 September 2012
Annual audit letter	November 2012
Annual certification letter	January 2013

### Audit Team

The key members of the audit team for the 2011/12 are:

Team member	Role
Paul Schofield	Engagement Partner
Matthew Hall	Audit Director
Anna Parker	Audit Senior Manager

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Paul Schofield in the first instance.

Yours sincerely



Deloitte LLP

cc Director of Finance

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**REPORT FOR: GOVERNANCE, AUDIT &  
RISK MANAGEMENT  
COMMITTEE**

---

**Date of Meeting:** 29 March 2011

**Subject:** **INFORMATION REPORT –  
Capital Investigation  
Implementation Plan**

**Responsible Officer:** Tom Whiting – Assistant Chief  
Executive

**Exempt:** No

**Enclosures:** Appendix 1- Capital Investigation  
Implementation Plan  
Appendix 2 – High Level Project Plan  
Appendix 3 – Draft Project Initiation  
Document (Capital Strategy and  
Governance Arrangements)

## **Summary**

This report sets out the progress against the Capital Investigation  
Implementation Plan.

**FOR INFORMATION**



## **Section 2 - Report**

### **Background**

Following the investigation into the overspend in the Children's Services capital programme Cabinet received a report in December 2010 setting out issues and the outcomes of two investigations, one focussing on project management, one on financial management.

The investigations made a series of recommendations, to avoid any recurrence of the issues which had affected the programme.

Cabinet requested that the GARM Committee monitor and report on implementation of the recommendations, supported by Internal Audit, who have been instructed to independently verify the process.

An initial report was made to GARMC in January 2011 outlining the recommendations and suggested action against each recommendation.

### **Current Situation**

Since January Internal Audit has been working with officers in Children's Services, Community and Environment and Finance to establish a robust and realistic implementation plan (Appendix 1) and to establish the current status of each agreed action. During the course of this work the recommendations have been reconciled back to the investigation reports to ensure all recommendations are covered and some have been combined to prevent duplication.

Senior interim managers, with extensive experience, have been appointed to key posts in Children's, Community & Environment and Finance and are working on the develop of robust process for the future whilst actively managing the ongoing projects.

In addition to the detailed implementation plan a high level project plan (Appendix 2) has been developed to address the issues on a comprehensive basis across the Council. The plan covers the development of a Capital Strategy, an Asset Management Plan, and a Corporate Allocation Model for capital; a review of governance at a corporate and a project level; a review of the process for the agreement of the capital programme; a review of reporting arrangements and training and communication requirements. The project plan also covers ongoing oversight by Internal Audit, formal review by Internal Audit (in 2012/13) as well as reporting to GARMC.

A draft project initiation document has also been developed covering the implementation of a capital strategy and governance arrangements (Appendix 3). This recognises that 2011/12 will be a transitional year during which the new arrangements are devised and agreed by the Council. In essence this will provide: -

- a) The framework for agreement being reached on a 5 year capital programme as part of the budget preparation arrangements for 2012/13 and the MTFS.

- b) The introduction of robust corporate arrangements for the governance and regular monitoring and reporting of the capital programme.

With the main objectives of the project as being to devise and put into place for 2012/13 onwards a high quality capital strategy to provide an objective framework for decision making and robust arrangements for managing the overall delivery of the Council's capital programme.

A project team has been established and three main sub groups set up to manage the project:

- Capital Strategy & Model (workstream 1)
- Corporate Governance (workstream 2)
- Project Governance (workstream 3)

Where relevant the detailed implementation plan (Appendix 1) indicates which working group will deal with the planned action.

Finance have produced a Capital Project Approval 2011/12 document (currently in draft) which includes a flow chart to ensure that controls are in place to manage the approval of capital projects for the transitional year. This has been reviewed by Internal Audit.

The Chair and Vice Chair of GARMC have been updated on the progress at two meetings since the January meeting.

## **Conclusion**

The updated implementation plan is more robust and reflects realistic timings for planned actions and the high level project plan puts the detailed actions into context and addresses the council wide issues.

Internal audit will continue to monitor the progress of the implementation of the planned actions, seeking evidence of action taken and reviewing proposed processes as they are developed.

Progress of the planned actions, with particular emphasis on those that may impact on the Value for Money (VFM) assessment, and evidence obtained will be shared with the External Auditors to support their work.

## **Financial Implications**

The processes set out in this report can be supported within existing resources.

## **Risk Management Implications**

Given that the recommendations arise from issues which were material in the problems identified in the December Cabinet report, the Council is exposed to some risk so long as they remain outstanding. Accordingly the Corporate Strategy Board is closely monitoring the situation, in addition to the steps outlined above.

Overall this is considered sufficient to manage the current risks.

## **Corporate Priorities**

The work of Internal Audit contributes towards all the corporate priorities.

### **Section 3 – Statutory Officer Clearance**

Name: Julie Alderson



Chief Financial Officer

Date: 16/03/11

### **Section 4 - Contact Details and Background Papers**

**Contact:** Susan Dixson, Service Manager Internal Audit, 020  
8424 1420

**Background Papers:** None

## IMPLEMENTATION PLAN

Item No	Recommendation	Priority rating	Planned action / response	Implementation date	Lead Officer	Wk stream	Current Status
<b>Specific Project Tasks</b>							
1. 8.1.1 RG	The Chief Executive and Director of Human Resources should determine whether any conduct investigations are warranted.	High	Evidence to be reviewed and conduct investigations instigated as necessary.	Dec 2010	JT	n/a	Action under conduct procedure ongoing.
2. 8.1.2 RG	Recruit an individual to take over the management of the children's services capital programme, setting up proper systems of control and management as well as identifying issues on other schemes.	High	Interim recruited from PWC	17/12/10	CD	n/a	Interim in post
3. 1.3 RG	Investigate whether there is any redress for the escalating costs of the temporary school.	Med	Documentation being reviewed, officers being interviewed and legal to be consulted. A report on the outcome will be prepared.	End March 2011	BH/DL	n/a	Review in progress.
4. 8.1.4 RG	Revisit the value for money assessments for the reviewed projects.	Low	Review the existing assessments and comment accordingly	September 2011	JA	n/a	Rescheduled implementation deadline to allow all necessary data to be collected. Timing to feed into External Audit VFM report.
5. 8.1.5 RG	Check that the Council has complied with the grant conditions and is not carrying any risk from having waived the contribution from the church schools	Low	All grant funding to be reviewed by the Business Partner - Financial Accounting, Treasury and Pension Fund.	Dec 2010	MB	n/a	Review complete - confirmed grant conditions complied with and there is no risk to the Council (to be confirmed by Legal).
<b>Contract Management Evidence Required:</b>							
6. 2. PWC	A clear approval date should be included within the Gateway documentation.	Low	Amendment of the commissioning form incorporated within the Gateway documentation, inclusive of Gateway 0, 1, 2 or any revisions so presented for approval within	June 2011	BH/DL	3	Amendment actioned. To be picked up as well by wider review of process.

APPENDIX 1

				delegated authority to include the approval date.					
7. 3. PWC 8.2.8 RG	The Instructing Department should be required to authorise all project Gateways.  The client service department should authorise the Gateway and any other commitments being made on their behalf	High	High	Currently AH signing off Gateway documentation on behalf of instructing department (Children's) but no specific place on forms. Revision to Gateway 0, 1 and 2 sign off page <b>to include</b> Budget Holder's signature that is to be sought in advance of submission to HoS or Director.	June 2011	BH/DL	3	Amendment actioned - a more comprehensive review of signatories is to be picked up by wider review of process.	
8. 4. PWC	Any subsequent revisions to the Gateway documentation should be completed through the use of a dedicated revision form that documents the need for the revision and the cost and schedule implications	Med	Med	A dedicated revision form will be used which documents the reasons for the revision and details all implications relating to that revision. In addition, the workstream 3 team will consider at what point in a project revisions to the gateway documentation should take place (eg once a certain level of instructed changes to the project have taken place, or if there is a material change to the project etc).	March 2011/ June 2011	BH/DL	3	These are currently being completed towards the end of a project rather than during the currency and this will be reconsidered as part of the wider project governance review.	
9. 5. PWC	It should be ensured that appropriate contractual arrangements have been established prior to any project work actually commencing.	High	High	Process reiteration of instruction to all staff reminding the Client Representative that Pre Possession Agreements or similar contract documents <b>cannot</b> be issued to the constructor unless the approved Gateway 0, 1 or 2 is in place. Process known by staff and in place. Core Groups to align approval lead in time to project timetable. Framework core group to monitor and ensure that this is in place.	June 2011	BH/DL	3	Currently being actively managed by interim service heads.  Roles & responsibilities to be picked up as part of the wider project governance review.	
10. 7.	The Gateway 2 documentation should include a provisional sum for works to be	High	High	All non-provisional sums (ie firmly costed works) to be included in	June 2011	BH/DL	3	Currently being actively managed by interim heads of	



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PWC	completed directly by the Council and appropriate contingency for any risks transferred to the Council.		gateway whether in AMP, or direct works by the client. Provisional sums should also be included in the same way based on the best estimate. The uncertain element of the provisional sum to be transferred to the risk register with the appropriate contingency being allowed based on quantity and probability of occurrence.				service. To be picked up as part of the wider review of project governance (workstream 3 – project governance).
11. PWC	The change order authorisation procedure should be appropriately used on all projects, including formal acceptance by the instructing party.	High	Remains subject to further process reviews to fully meet this recommendation. The change procedure will be revised to ensure that appropriate authorisation by the budget holder is in place. The exact detail of this will be considered in workstream 3 of the capital programme review.	June 2011	BH/DL	3	Currently being actively managed by interim heads of service. To be picked up as part of the wider review of project governance.
13. PWC	It should be ensured that all change orders instructed by Schools are collated and recharged where appropriate. (6.3 In reviewing the final accounts for Park & Cannons (ii) we did not identify any evidence that the Council had actively sought to recharge the School for changes directly requested by the school)	Med	Any changes required by the school will be processed in the same way as all other project changes. Where appropriate and agreed by the school and budget holder, the payment for the change will be transferred prior to work taking place such that it is held within the central budget. Authorisation by the budget holder as details in the above recommendation will ensure that the controls are in place. This will be established within the new process resulting from the project governance workstream 3 review.	June 2011	BH/DL	3	Currently being actively managed by interim heads of service. To be picked up as part of the wider review of project governance.
13. PWC	An internal project completion procedure should be established which requires the authorization of the instructing department prior to Property Services	Med	Formal project close out procedures to be considered as part of workstream 3 (project governance) and will include the	June 2011	BH/DL	3	Currently being actively managed by interim heads of service. To be picked up as part of the

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	formally signing off projects.		relevant authorisation from the budget holder as well as consultation with the relevant stakeholders.				wider review of project governance.
14. 20. PWC	An up to date risk register should be maintained throughout all projects & schemes.	High	Review of risk register to be carried out as part of the Core Group agenda. The contents of the risk register will be reviewed as part of the workstream 3 project governance to ensure that all possible risks are considered with appropriate contingency and mitigation measures in place.	June 2010	BH/DL	3	Currently being actively managed by interim heads of service.  To be picked up as part of the wider review of project governance.
15. 16. PWC	Adopt a consistent project filing system for papers & electronic records in C&E	High	Consistent approach to document handling and filing to be adopted as part of the wider review of the Property Service function within C & E. The exact procedures are to be considered by workstream 3, and will complement the wider council project management procedures wherever practicable.	June 2011	BH/DL	n/a	Wider service review commenced.
<b>Financial Management</b>							
16. 8.3.3 RG	Review the process for issuing codes.	High	Process to be reviewed.	Jan 2011	MB	n/a	Review complete – codes to be provided only once scheme has received appropriate approvals. To be added to Capital Project Approval 2011/12 document.
17. 8.3.5 RG	Review, clarify and communicate how contracts and capital schemes should be committed within SAP.	Med	All capital scheme managers provided with refresher training in May/June 2010 and reminded of the need to raise purchase orders in SAP in advance of any work commencing. Also covered in 1:1s with Finance Officers.	July 2011	JA (NH/KH to lead)	n/a	Further training is required for both finance staff and capital managers, this includes budget managers and project managers - this will take place on a compulsory basis once wider issues have been clarified.
18. 8.3.6 RG	The monitoring system should provide for the facility to allocate the budget across key	Low	SAP has been amended to allow the use of sub-codes for capital schemes to aid monitoring.	April 2011	MB JH to	n/a	Complete. To review budget control to

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	headings, which will provide more information for budget monitoring and control purposes; to show the schemes' budget across financial years from inception, in order to have a complete overview of a scheme both approved budget and costs incurred		It is possible to show scheme budgets across financial years in SAP. The cabinet report on the 2011-12 to 2015-16 capital programme will show scheme budgets across years where information is available. Monitoring reports are being altered to include pre year, current and future year spend.	Operative from April for 11/12 programme Monitoring report changes will be in report to Cabinet Sept 2011 (quarter 1)	lead SAP review	consider whether it is working/adding value.. ( This is in place – but has not been required yet for new schemes)
19. 8.3.7 RG	Consider the cost benefit of being able to profile the budget across quarters – this will enable the financial information to be integrated with the cash flow within the AMP and provide information for treasury management purposes.	Low	Further work is required to investigate how this process can be implemented on SAP To be undertaken in conjunction with Interim Head of Property.	September 2011	JA	More work is required to assess the benefits of profiling and how this could be achieved in SAP.
20. 8.3.10 143	Consider putting in place some checks and balances based on such things as: Exception reports, where purchase orders are declined for insufficient budgets, so that Finance can use these at monthly monitoring meetings and alert senior managers; Exception reports where the purchase order date is the same as or after the invoice date; Reports on blocked invoices; Reviews of transfers; and A requirement to complete a post completion report once the budget has been fully committed.	Low	Reminders have already been issued to all SAP users on the importance of raising purchase orders in advance. Controls on expenditure to be reviewed for efficacy in controlling budgets as per 18 above. Exception reports being produced by CAP/CAR. As part of the procurement project, additional checks and controls will be put in place in relation to purchase orders. (Not all points in recommendation appear to be covered.) Agreed	Compliance systems to be developed during 2011-12	JA Finance BPs to liaise with Shared Services LD CAP/CAR VD Procurement	Exception reports are now being issued to managers on a regular basis on purchase orders – need to ensure Shared Services and Finance are joined up. Journal controls have been enhanced. Finance Business Partners to bring together in one response monthly to Corporate Directors. NB, Post Completion Reports are responsibility of C&E and not Finance.
21. 8.3.14 RG	Where projections are not provided by budget holders, this should be escalated and be presented as “budget holder has not provided a projection”.	Low	Agreed	Jan 2011	MB	Complete – FBPs are ensuring that forecasts are completed. Where they are not this will be escalated by FBPs to JH +

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							Corporate Director on a monthly basis (not yet happened)
22.1. PWC	A single Master code should be established for each project with appropriate sub-codes that allow an analysis of sub-categories of costs as required.	High	To affect this the Capital Scheme must be constructed to show all relevant funding streams and there must be a transparent process to show how this has been authorised and agreed. Commissioning form to record Master and sub-codes for the project. Commissioning pro-forma to be signed by Budget Holder to verify code and budget amount(s). Budget amounts to be <u>clear</u> on inclusive or exclusive of fees (both internal and external).	April 2011 ie in relation to 11/12 capital programme.	MB	n/a	Complete. (Relates to funding streams.) To be applied to 11/12 schemes
23.19. PWC	Comprehensive and contemporaneous project finance reports should be produced for all projects which specifically detail budgeted cost, actual cost to date, committed costs and a forecast outturn. It should be ensured that such reports are actively discussed and considered at core project meetings as a matter of course.	High	Ensure the use of project cash flow – to be produced by the constructor that aligns with the project programme and is reviewed as part of: 1. The project Core Group agenda 2. Presented to the Budget Holder 3. Use of SAP to monitor commitment and spend from SAP by the Budget Holder. 4. Capital Forum	April 2011 to introduce meetings with finance, budget holders and project managers as appropriate. Systems for reporting being rolled out by Project Management Office. ( date for implementation to be agreed)	JA JH to lead	n/a	There is a need to introduce more effective project reporting to sit alongside finance reporting (as for transformation programme).  Finance to make more use of spend to date information and compare this with project management reports.

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24. 11. PWC	Project costs should be coded to the appropriate project code. (6.3 i) we noted that there was a different finance code utilised for the final account settlements for both schools. In both instances the code utilised was Whitmore High.)	High	Accountability for cost codes will be clearly allocated to budget holders, and they will be responsible for Purchase Orders and invoice processing. Appropriate training will be given to ensure that they understand their responsibilities and the implications of miscoding. Close working relationships between budget holders and the finance team will assist in ensuring no deviance takes place. Workstream 2 will consider the processes currently in place to ensure that any obstacles to required flexibilities to make this workable are addressed.	June 2011	BH/DL	3	This is currently being actively managed by budget holders. Rationalisation of the input of purchase orders and better budgeting will assist to ensure the need for miscoding is removed. These will be considered as part of workstream 2 and 3 relating to the financial control of the projects.
25. 8.3.9 + 3	The overall programme, coding and monitoring should be focused on schemes/projects rather than funding streams.	Med	The cabinet report on the 2011-12 to 2015-16 capital programme will show total scheme budgets, and monitoring reports will report at scheme level ( already implemented).	Monitoring report changes 2010 -11 (quarter 3) shows scheme level.	MB	n/a	Complete <b>Evidence: Cabinet report</b>
26. 8.3.18 + 8.3.19 RG	The capital budget monitoring to members should present the whole programme across the financial years of the approved programme, and include sufficient information to facilitate proper challenge and scrutiny.	Med	The cabinet report on the 2011-12 to 2015-16 capital programme will show total scheme budgets, and monitoring reports will be enhanced during 2011-12.	Monitoring report changes September 2011 (quarter 1) CSB from April	MB HS to lead	n/a	On target <b>Evidence: Cabinet report</b>
27. 8.3.20 RG	Review all grants schemes being developed or in the pipeline having regard to funding risks, ongoing revenue implications and grant conditions/penalties.	Medium	This will be addressed in the decision making process for business cases with the template designed to identify/quantify these issues/risks.	July 2011	CSB	2/3	Workstreams 2 & 3 established
<b>Governance</b>							
28. 8. PWC	The Council must ensure that a comprehensive understanding of the contractual arrangements with Kier/new contractor is established through a review	Low	This was clearly set out in Cabinet reports for procurement of both Kier and Apollo and the Terms and Conditions of the	June 2011	BH/DL	n/a	Wider service review commenced.



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8.2.1 RG	<p>of the existing contract. This will ensure that the Council is maximising the opportunities to achieve value for money within the framework of the current contract.</p> <p>Assure itself that the current Partnership arrangement delivers value for money, having regard to all the costs incurred in this arrangement and the way that the Partnership is operated.</p>		<p>contract made available to staff at the time.</p> <p>This will be picked up through the review and restructuring of the Property Service function to meet the ongoing needs of the Council. Includes a fundamental review of the existing procurement arrangements so that the service can be redesigned to drive value for money in the delivery of construction requirements to meet the Council's need for accommodation.</p> <p>A desktop review of the Gardiner &amp; Theobald sign off of the Whitmore School has been undertaken and the results are positive.</p> <p>This will be addressed as part of the review of corporate and project governance arrangements</p>	June 2011	BH	2/3	Workstreams 2 & 3 established.
14 8.2.3 RG	<p>Review the expectations from the Strategic Partnership Board and Contract Management Group, ensuring these are fit for purpose and their role clearly understood within the organisation. A more formal monitor of all projects using key indicators should be used.</p>	Medium	<p>This will be picked up through a combination of a review and restructuring of the Property Service function to meet the ongoing needs of the Council and updated corporate and project governance through workstreams 2 and 3.</p>	June 2011	BH/DL	2/3	Wider service review commenced and workstreams 2 and 3 established.
30. 8.2.4 RG	<p>Review the operation and performance management of the Special Projects Team, including: the application of clear and consistent procedures; formal reporting to the client on a regular basis; and ensuring that there is an overall high level schedule being reported on key aspects of each project and that this is used for exception reporting and discussion.</p>	Medium	<p>The project governance processes and procedures will be</p>	May 2011	BH/DL	3	Workstream 3 established – being actively managed by
31. 17.	<p>A clear governance structure and chart of responsibilities should be agreed for each</p>	High					

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PWC	project managed by C&E.			reconsidered as part of the workstream 3 review. Clear roles and responsibilities will be generated as part of all processes and procedures relating to this and the other workstreams as applicable carefully considering the interfaces between project management and financial control or projects.				interim service heads.
32. 15. PWC	A review of the existing documented procedures within C&E should be undertaken.	Med		This will be picked up through a combination of a review and restructuring of the Property Service function to meet the ongoing needs of the Council and updated corporate and project governance through workstreams 2 and 3. It should be noted that the Gateway process was subject to an Internal Audit review dated 21/07/2010 with recommendations discharged.	June 2011	BH/DL	3	Wider service review commenced and workstream 3 established.
33. HP	Review what is reported to members & CSB, and its completeness, relevance and accessibility.	High		This is being picked up by the review of corporate governance which will establish updated and appropriate arrangements for the monitoring and reporting of information in respect of capital projects across the Council.	June 2011	CSB	2	Workstreams 2&3 established
34. HP	Consider the future roles of Internal Audit & the Overview & Scrutiny Committee in monitoring what is reported to CSB and Members.	Medium		Internal audit to review 33 above, involving O&S as appropriate	After June 2011	TW	n/a	IA review will take place once recommendation 33 implemented
35. HP	Review the Council's governance structure to ensure that member time is focussed on priority areas.	Low		Undertake comprehensive Governance/assurance review, for consideration by CSB.	To be determined by CSB	HP	n/a	CSB initial consideration 16/03/11

APPENDIX 1

36. 8.2.2 RG	Review project governance structures with its Construction Partner to ensure these are concise and clear, making any necessary changes to agreed documentation as a result. This should complement the expectations within the Council's governance framework.	Medium	This is being picked up through the review of the Property Service function and the project governance workstream. Any additional requirements from the Constructor will be agreed and incorporated into the Contract where necessary.	June 2011	BH/DL	3	Wider service review commenced and workstream 3 established.
37. 8.2.5 RG	Create an exemption process with senior management sign off for when agreed processes are not being followed due to practicalities in delivery e.g. starting on site.	Medium	To be picked up through workstreams 2 & 3 and covered in revised Financial Regulations.	June 2011	BH/DL	2/3	Workstreams 2 & 3 established.
38. 8.2.6 RG	Clearly set out & reconcile with the financial regulations the authority to sign prepossession agreements, agree and sign AMP documents, and issue briefs and budget codes.	Med	To be picked up through workstreams 2 & 3 and covered in revised Financial Regulations.  Scheme of delegation to be revised and reissued to capture these activities. Ensure Financial Procedures to support the end to end process are issued which support the Financial Regulations	June 2011  April 2011	BH/DL  JA JH to lead	2/3	Workstreams 2 & 3 established.  In progress
39. 8.2.7 RG	Incorporate into the Financial Regulations contract authorisation arrangements in relation to the Construction Partnership.	Med	Full review of financial regulations to be carried out – to be reported to Cabinet in May. Full Council approval required in July.	July 2011	JA JH to lead	n/a	In progress
40. 8.3.1 RG	Clearly set out within the Council's Governance documents, the arrangements for agreeing the details of the Capital Programme at scheme and project level e.g. Cabinet, Portfolio or Director decision.	Medium	Once all work completed this will be reflected in the constitution.	September 2011	HP	n/a	
41. 8.3.2 RG	Combine the scheme identification and business case processes which form part of the capital budget development with the Gateway 1 and 2 processes in order to have an integrated process that:	Medium	This is a wide ranging requirement which is affected by project processes from conception to completion. All aspects will be picked up through	June 2011	BH/DL	2/3	Workstream 2 & 3 established and being actively managed by interim service heads.

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	improves cost estimates, provides for feasibility studies where appropriate, avoids duplication, and ensures that there is a single view of the overall budget and funding available and that expenditure is kept in line with this.			workstreams 1, 2 & 3 with the detailed processes and procedures and resulting roles and responsibilities ensuring correct strategies and selections of projects, and efficient and comprehensive project management to completion.				
42. 8.3.4 RG	Business cases should be required to include information about the complete scheme, irrespective of funding, as well as ongoing revenue implications. Consideration should be given to completing these prior to the Cabinet agreeing the Capital Programme in order to inform decision making.	High	June 2011	As above this is a wide ranging requirement which is affected by project processes from conception to completion. All aspects will be picked up through workstreams 1, 2 & 3 with the detailed processes and procedures and resulting roles and responsibilities ensuring correct strategies and selections of projects, and efficient and comprehensive project management to completion.	BH/DL	2/3	Workstream 2 & 3 established and being actively managed by interim service heads.	
43. 8.3.8 RG	The Capital Programme procedure notes to support the Financial Regulations need to be reviewed in the light of what has happened, to include roles and responsibilities and the approval of virements. These procedures notes should make as much use of flowcharts as possible to ensure clarity and ease of reading.	Medium	May 2011	The Capital Programme procedure notes will be revised and reissued.	JA NH to lead	n/a	Training presentation to be updated and appended to procedure notes – however this is dependent on wider changes being clarified	
44. 8.3.11 RG	Agree terms of reference for the Capital Forum if it continues to exist along with a clearly defined corporate responsibility and clarity as to the role of attendees and the Chairman.	Medium	June 2011	Again this is a wide ranging requirement which is affected by project processes from conception to completion. All aspects will be picked up through workstreams 1, 2 & 3 with the detailed processes and procedures and resulting roles and responsibilities ensuring	BH/DL	2	Workstream 2 & 3 established and being actively managed by interim service heads.	

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45. 8.3.12 RG	Review membership of the Forum to ensure it is appropriate having regard to the terms of reference.	Medium	correct strategies and selections of projects, and efficient and comprehensive project management to completion. A Project Mandate has been agreed by CSB and a P1D in development to come to CSB in Feb 2011. As above.	June 2011	BH/DL	2	Workstream 2 & 3 established and being actively managed by interim service heads.			
46. 8.3.13 RG	The Capital Forum should consider undertaking detailed project reviews on a cyclical risk based approach having particular regard to rephased projects. This should consider project milestones.	Medium	As above.	June 2011	BH/DL	2	Workstream 2 & 3 established and being actively managed by interim service heads.			
47. 8.3.15 3	The monitoring schedules should incorporate intelligence from the cash flow and milestones within the projects.	Low	Monitoring schedules should include comments on actual spend to date and achievement of key project milestones. More work is required to understand the resources required to support this and establish a suitable procedure.	April 2011 – on risk assessed projects	JA JH to lead	n/a	Need to decide how project management information will be collected and reported alongside financial information.			
48. 8.3.16 RG	There needs to be more involvement of senior management in capital monitoring, which at present appears focused on the client service representative, the Capital Forum and Cabinet. There should be reviews at both departmental and corporate management levels.	High	As above this is a wide ranging requirement which is affected by project processes from conception to completion. All aspects will be picked up through workstreams 1, 2 & 3 with the detailed processes and procedures and resulting roles and responsibilities ensuring correct strategies and selections of projects, and efficient and comprehensive project management to completion.	June 2011	BH/DL	2	Workstream 2 & 3 established and being actively managed by interim service heads.			
49. 8.3.17 RG	Finance should review the current support provided to the capital programme to ensure there is clarity of roles,	Med	Roles have been clarified within Finance. This needs to align with the wider review of governance	April 2011	MB	n/a	New process being developed for 2011/12 with IA input – in draft.			



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	expectations are clear and there is adequate strategic oversight.		for the capital programme to ensure that all involved have a clear understanding of the requirements				
50. 8.4.1 RG	Review the adequacy of the corporate reporting and monitoring of strategic, high profile projects.	High	As above this is a wide ranging requirement which is affected by project processes from conception to completion. All aspects will be picked up through workstreams 1, 2 & 3 with the detailed processes and procedures and resulting roles and responsibilities ensuring correct strategies and selections of projects, and efficient and comprehensive project management to completion.	June 2011	BH/DL	2	Workstream 2 & 3 established and being actively managed by interim service heads.
51. 8.4.2 RG	Reinforce its expectations of project management methodology being used on capital projects.	High	As above	June 2011	CSB	2	Workstream 2 & 3 established and being actively managed by interim service heads.
52. 8.5.1 RG	Address purchase orders not being raised or being raised after invoices have been received. In addressing this, the Council should consider the approach to adopt, because the inclusion of commitments is only of value in monitoring and checking, if there is clarity about timescales and deliverables. By way of illustration, a project which has a commitment showing 80% of spend, could still be overspent, if spend is expected to be evenly incurred and the commitment is only up to period 6.	Medium	Reminders have already been issued to all SAP users on the importance of raising purchase orders in advance.  As part of the procurement project, additional checks and controls will be put in place in relation to purchase orders.	Compliance systems to be developed during 2011-12	JA Finance BPs to liaise with Shared Services	n/a	Reports are now being issued to managers on a regular basis on purchase orders – need to ensure Shared Services and Finance are joined up. Ensure one compliance report that covers everything goes to DMTs for discussion/action.
<b>Organisational Development</b>							
53. 8.5.2 RG	Implement in the CS and C&E teams performance management of individuals using regular 1:1s and IPADs.	High	All mid-year reviews in P&I completed Jan 2011. 1:1 in place.	June 2011 and Ongoing	CD & BH	n/a	Action being taken in both CS and C&E to ensure that staff in the teams concerned all have up to date IPAD's and regular 1:2:1 meetings.
54.	Develop a shared understanding of	Medium	Commission an OD project for all	June 2011	BH/DL	2	Workstream 2 established

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HP	appropriate senior officer oversight and reporting of work undertaken by junior staff.		managers. To be picked up as part of workstream 2.					
55. HP	Consider how to support & develop management accountability	Medium	To be considered at CSB away day, but start by agreeing action points & action owners at CSB.	Jan 2011 and ongoing	CSB	n/a	n/a	A new emphasis on compliance was agreed at the CSB away day to be piloted as part of the procurement initiative.
56. 8.5.3 RG	Consider what action is needed specifically and more generally to ensure that individuals comply with controls and the responsibilities as set out eg in the Financial Regulations. This includes taking proactive action when there is evidence of issues of concern or failure to comply with the relevant systems and procedures. The overriding objective should be to promote the best interests of the Council.	Low	To be consider at the next CGG meeting early April.	July 2011	CGG	n/a		
57. 152 VC	An assessment of the quality of advice provided by G&T (cost consultants) for the school capital programme should be undertaken.	Medium	The action arises from a potential discrepancy between planned and built floor areas. Action being taken to identify the correct figures, a decision can then be taken on appropriate follow up action in terms of an assessment of the quality of the advice given.	June 2011	BH/DL	n/a	n/a	In progress
58. 18 PWC	It should be ensured that job descriptions for all individuals across the Council are appropriate and up to date.	Medium	The roles and responsibilities resulting from the review will need to be incorporated into job descriptions as appropriate.	September 2011	BH/DL CSB	n/a	n/a	Management responsibility HR to advice accordingly. Wider implications across the council to be considered.
59. 22 PWC	A comprehensive communication plan should be developed.	Medium	A specific action through workstreams 2 and 3 will be to devise a strategy and action plan for both communication and training across the Council on the updated arrangements for managing projects.	June 2011	BH/DL	2/3	2/3	Workstreams 2 & 3 established.
60. 23. PWC	The Council should consider introducing a programme of independent project assurance that would provide assurance	Medium	Systematic annual process to be set up for peer group review of a randomly chosen sample of	June 2011	BH/DL	2/3	2/3	Workstreams 2 & 3 established.

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	that projects are being managed in accordance with the Council's established procedures and also highlight opportunities to share best practice amongst projects and departments.		projects across the Council.			
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**KEY**

- MB Corporate Director Finance (now left)
- JA New Director of Finance
- BH Corporate Director Community & Environment
- CD Corporate Director Children's
- HP Director of Legal & Governance Service
- TW Assistant Chief Executive
- JH Divisional Director of Finance & Procurement
- DL Interim Head of Property (Community & Environment)
- ΔH Interim School Capital Programme Team Manager (Children's Services)
- 1 S Business Partner - Financial Accounting, Treasury and Pension Fund
- 3 F Finance Business Partner Community & Environment
- LD Service Manager - Pensions & Corporate Accounts Payable Receivable
- VD Service Manager - Procurement
- NH Interim Capital Project Manager (Finance)
- CSB Corporate Strategy Board
- CGG Corporate Governance Group
- CAP/CAR Corporate Accounts Payable/Receivable

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RESPONSE TO THE CAPITAL INVESTIGATION												APPENDIX 2						
HIGH LEVEL PROJECT PLAN																		
Timeline	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	
<b>Actions</b>																		
<b>Capital Strategy and AMP</b>																		
Devise Capital Strategy and update AMP																		
Consultation with stakeholders																		
Cabinet Approval																		
Council Approval																		
<b>Corporate Allocation Model for Capital</b>																		
Devise proposed model																		
Consultation with Stakeholders																		
Cabinet Approval																		
Council Approval																		
<b>Corporate Governance</b>																		
Review of Constitution and Financial Regulations																		
Consultation with Stakeholders																		
Cabinet Approval																		
Council approval																		
<b>Governance arrangements at project level</b>																		
Review of existing processes																		
Stakeholder consultation																		
Cabinet Approval																		
<b>Agreement of Capital Programme</b>																		
Submission of bids based on business cases																		
Capital Forum review of bids																		
Directorate revenue/capital challenge panels																		
CSB review of bids																		
Cabinet approval of capital programme																		
<b>Reporting Arrangements</b>																		
Capital Programme monitoring report to Cabinet																		
Monthly monitoring reports to CSB, Capital Forum, DMT's etc																		
<b>Training and Communication</b>																		
Internal wide communication on new arrangements																		
Member and officer training																		
<b>Review of Arrangements</b>																		
Oversight by Internal Audit																		
End of project review by Internal Audit																		
Reporting to GARM																		
<b>Timeline</b>																		



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## **DRAFT PROJECT INITIATION DOCUMENT**

### **IMPLEMENTATION OF A CAPITAL STRATEGY AND GOVERNANCE ARRANGEMENTS**

**Project Sponsor:** Brendon Hills Corporate Director on behalf of CSB.

**Project Manger:** David Lewis Interim Head of Property

**CSB are asked to consider and agree the proposals set out in this report.**

#### **Background**

The recent Capital Investigation highlighted serious shortcomings and a lack of robustness in the current arrangements for managing the capital programme with serious financial and reputational risks for the Council. At a meeting on 5<sup>th</sup> January CSB endorsed the recommendations in an initial report and agreed the overall strategy for responding to the findings involving the introduction of a corporate policy framework for capital investment and robust arrangements for delivery of the capital programme. This is an integral part of the wider review of governance across the Council being overseen by the Director of Legal & Governance Services.

Although the particular problems emerged in the delivery of projects in the Children's Service area there is a need to address the issues on a comprehensive basis across the Council. This Project Initiation Document therefore proposes a corporate solution involving all capital expenditure in both the General Fund and Housing Revenue Account. Rather than address the various findings on an individual basis a fundamental overhaul of existing arrangements is proposed in order to ensure that the serious risks identified are addressed comprehensively.

The strategy involves 2011/12 being a transitional year during which the new arrangements are devised and agreed by the Council. In essence this will provide: -

- a) The framework for agreement being reached on a 5 year capital programme as part of the budget preparation arrangements for 2012/13 and the MTFS.
- b) The introduction of robust corporate arrangements for the governance and regular monitoring and reporting of the capital programme.

Such action will put in place a clear and transparent framework for how the capital programme is compiled. Actions being taken now progressively mitigate the risks identified during 2010/11 (see attached high level project plan) so that there are robust processes in place which will prevent both lack of governance, i.e. proper approval processes, and financial mis-reporting. This means there will be a low level of risk in respect of the financial management of the capital programme and its delivery. An ongoing review of the arrangements by Internal Audit has been requested by GARM and there will be regular monitoring of the implementation of the plan and reports back to GARM during 2011/12 in order to verify that the risk mitigation measures have been successful it is proposed that a specific review of the arrangements is undertaken in the first quarter of 2012/13 and the outcome reported to GARM.

### **Project Definition**

#### **Objectives**

The objective of this project is to devise and put into place for 2012/13 onwards a high quality capital strategy to provide an objective framework for decision making and robust arrangements for managing the overall delivery of the Council's capital programme. This will involve both development of new arrangements and their implementation in a timely manner during 2011/12 to facilitate budget preparation and monitoring and reporting of the capital programme.

#### **Project Links**

By introducing an overall policy framework for capital investment and robust arrangements for delivery of the capital programme the project will underpin delivery of all of the Council's corporate priorities

#### **Scope**

This is a corporate project encompassing all capital investment by the Council both General Fund and HRA. It includes funding from all sources including specific grant allocations and disposal receipts.

#### **Outcomes**

Removal of the current risks with improved value for money from capital investment in support of the Council's policy objectives.

#### **Deliverables**

A 5 year strategy to provide a corporate policy framework for decision making on capital investment to support the delivery of services.

Robust governance arrangements at programme and project level including appropriate levels of stakeholder engagement in relation to grant allocations.

A corporate allocation model for capital resources to ensure objective prioritisation of projects in line with corporate strategy.

A 5 year capital programme (possibly rising to 10 years) with the introduction of robust monthly monitoring and reporting arrangements to CSB, Capital Forum and DMT's etc with quarterly monitoring reported to Cabinet. It is also intended that monitoring will be regularly reported to appropriate forums within directorate areas e.g. the Schools Forum.

Regular reporting to GARM on progress of the project.

### **Key Milestones**

Please see the attached high level project plan the headlines are: -

Introduction of robust quarterly programme monitoring reports to Cabinet by April 2011.

Cabinet agreement of a draft Capital Strategy by June 2011.

Cabinet agreement of a corporate allocation model for capital resources by June 2011

Cabinet agreement on a corporate capital programme by February 2012.

Review of arrangements and risk mitigation verification in 2011/12 and first quarter 2012/13 by Internal Audit.

### **Benefits**

The project will mitigate the current high level of risk around the capital programme and secure improved value for money through more accurate capital investment to support the Council's policy objectives.

### **Roles and Responsibilities**

Project Board	CSB
Project Sponsor	Brendon Hills, Corporate Director on behalf of CSB
Project Manager	David Lewis, Interim Head of Property
Project Team	Amanda Henton, Jennifer Hydari, Shirley Jenkins, A N Other covering the HRA, David Lewis with others co-opted as needed to ensure the right expertise e.g. project management advice.

**Risk management**

The project itself is a risk mitigation strategy designed to comprehensively address the findings of the recent Capital Investigation. It will have its own risk register which will be maintained and reviewed/updated on a regular basis by the Project Team. The Project Board will review the key risks every time they consider a progress report on the project. The Governance, Audit and Risk Committee will receive regular updates on progress including a review of key risks.

**Equalities Impact**

Assessment to be undertaken but project is expected to have a positive impact on equalities.

**Dependencies/Interdependencies**

This is a project of paramount importance which feeds into the overall governance review and needs to be undertaken as a matter of priority to comprehensively address the findings of the Capital Investigation thereby reducing the risks to the Council. Whilst there will be a range of interdependencies across the Council this project will provide the critical path for putting in place structured and robust arrangements for the management of capital investment in the delivery of services.

**Stakeholder Engagement and Communications**

Cabinet, Governance, Audit and Risk Management Committee, CSB and appropriate Directorate Forums through regular reporting – see key milestones above.