Governance, Audit and Risk Management Committee AGENDA

DATE: Thursday 29 March 2012

TIME: 7.30 pm

VENUE: Committee Room 5
Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chairman: Councillor Sachin Shah

Councillors:

Sue Anderson	Chris Mote
Mano Dharmarajah	Richard Romain
Thaya Idaikkadar (VC)	Yogesh Teli

Reserve Members:

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

Contact: Daksha Ghelani, Senior Democratic Services Officer
Tel: 020 8424 1881 **E-mail:** daksha.ghelaniharrow.gov.uk

Harrow COUNCIL
LONDON

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;
(b) all other Members present.

3. MINUTES (Pages 1 - 8)

That the minutes of the meeting held on 26 January 2012 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

To receive references from Council and any other Committees or Panels (if any).

8. INFORMATION REPORT - AUDIT OPINION PLAN 2011/12 (Pages 9 - 60)

Report of the Interim Corporate Director Resources.

9. INFORMATION REPORT - RISK MANAGEMENT UPDATE (Pages 61 - 106)

Information Report of the Assistant Chief Executive.

10. INFORMATION REPORT - INSURANCE RISKS (Pages 107 - 118)

Information Report of the Assistant Chief Executive.

11. DRAFT INTERNAL AUDIT PLAN 2012/13 (Pages 119 - 128)

Joint Report of the Assistant Chief Executive and Interim Corporate Director Resources.

12. INFORMATION REPORT - FUTURE APPOINTMENT OF EXTERNAL AUDITORS (Pages 129 - 152)

Joint Information Report of the Assistant Chief Executive and Interim Corporate Director Resources.

13. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

14. EXCLUSION OF PRESS AND PUBLIC

To resolve that the press and public be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

Agenda Item No	Title	Description of Exempt Information
15.	Information Report – Insurance Risks	Information under paragraph 3 - contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

AGENDA - PART II

15. INFORMATION REPORT - INSURANCE RISKS (Pages 153 - 232)

Appendix 2 to the Information Report of the Assistant Chief Executive at item 10 above.

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GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE

MINUTES

26 JANUARY 2012

Chairman: * Councillor Sachin Shah

Councillors: * Sue Anderson, * Mano Dharmarajah, * Thaya Idaikkadar, * Chris Mote, * Richard Romain, * Yogesh Teli

* Denotes Member present

136. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

137. Declarations of Interest

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

138. Minutes

RESOLVED: That the minutes of the meeting held on 1 December 2011, be taken as read and signed as a correct record.

139. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions were received, questions put or deputations received under the provisions of Committee Procedure Rules 17, 15 and 16.

140. References from Council and other Committees/Panels

None received.

RESOLVED ITEMS

141. INFORMATION REPORT - Annual Audit Letter 2010/11

The Committee received an information report of the Interim Director Finance, setting out the Annual Audit Letter of the Council on the 2011 Audit, as issued by the Council's external auditor Deloitte LLP.

The Chairman invited representatives from Deloitte LLP to brief Members on the Annual Audit Letter, which set out the conclusions and the main messages following their audit of the Council for the financial year 2010/11.

Representatives from Deloitte LLP briefed Members on the key aspects of the Executive Summary, as follows:

- that they were pleased to have been able to issue unqualified opinions in relation to the Council's financial statements, value for money, pension scheme annual report and the Council's consolidated return for the purposes of the Whole of Government Accounts as at 30 September 2011;

- that due to an objection in relation to the 2008/09 accounts, which remained unresolved, it had not been possible to certify the closure of the audit for 2010/11 accounts nor for 2009/10 and 2008/09;

- that in relation to Grants certification, Grants HOU01and PEN05, had now been certified and therefore all grants had been signed off without qualification.

Members asked questions about the Local Government Pension Scheme annual report and sought clarification on the objection, which had resulted in the Council's accounts not being certified. In response, a representative from Deloitte LLP and the Interim Director Finance stated that anyone could object to the Financial Statements of a local authority and explained that, in relation to Harrow Council, the matter related to an objection against the charging of a fee for the use of a credit card to pay parking and traffic penalty charges. The Interim Director explained the background to the case, the advice the government had given in relation to such charges and the anomaly of the law. She explained that whilst the amount involved was small, the accounts could not be certified until the matter had been resolved but, noted this was not an uncommon situation. With regard to the Pension Scheme annual report, Deloitte LLP had been satisfied that there were no significant issues arising as a result of which an unqualified opinion had been issued in advance of the 1 December 2011 deadline.

The representatives from Deloitte LLP responded to additional questions from Members. They confirmed that the financial statements presented by the Council under the International Financial Reporting Standards (IFRS) for the first time had been handled positively and they welcomed the production of a timetable by the Council in meeting various deadlines. The Finance

Directorate had undertaken a number of changes to the previous accounts to meet the requirements of the new Code of Practice.

Members agreed that the delay in publishing the accounts on the Council's website, governed by regulations, was unacceptable and should not happen again. They enquired how the implementation of the Bribery Act 2011 would be monitored and enforced by the Council's external auditors. In response, the Divisional Director Risk, Audit and Fraud stated that the requirements of the Act would be incorporated in the Council's policy on Fraud. A representative from Deloitte LLP stated that they would review the procedures in place and advised that this element would also be built into their own Plans. He did not consider that this area would require a significant amount of focus, provided the procedures put in place were robust. The practical impact of the Act was that the Council should review their anti-corruption policies to ensure regulatory risk was mitigated.

The Chairman thanked representatives from Deloitte LLP for their contributions.

RESOLVED: That the report be noted and the Interim Director Finance be requested to ensure that there were no delays in the publishing of accounts on the Council's website in the future.

142. INFORMATION REPORT - Risk, Audit and Fraud Division Activity Update

The Committee received an information report of the Assistant Chief Executive, which set out the current work streams of the Risk, Audit and Fraud Group of services. The report set out the progress made and future work planned in respect of the Group, as the Committee was responsible for monitoring this area. Confidential appendices were also considered by Members.

The Divisional Director highlighted the key achievements in relation to the insurance service procurement for property and liability cover which would be reported to Cabinet in February 2012, raising awareness in relation to the carrying of sensitive data, progress made in implementing a two year Health and Safety Plan which was on track, achievements of the Anti-Fraud Service, Risk Management Strategy which included the Council's new draft risk appetite statement, incorporating a monitoring tool which would be presented to Cabinet in April 2012.

A Member thanked the Divisional Director Risk, Audit and Fraud for resolving the public liability insurance issue in relation to the use of Community Premises at 27 Northolt Road, South Harrow, for the benefit of the community groups.

A couple of the Members were of the view that whilst the anti-fraud elements were informative and addressed fully in the report, the report did not identify the types of insurable risks faced by the Council in detail, which was also an important aspect of the Committee's monitoring role. Moreover, the levels of self insurance needed to be identified in the report, including land value and building costs which appeared to be moving in different directions. The limits placed on the different types of insurance were also important. Additionally, the report proposed for Cabinet ought to initially be scrutinised by the Committee in future.

In response, the Interim Director Finance reminded Members that a comprehensive report had been submitted at the September 2011 meeting and was of the view that a balance had to be struck on the level of detail provided in reports.

The Chairman was of the view that the Committee's remit was wide and suggested that it might be beneficial to revisit the terms of reference at the future date. Moreover, informal posts of Lead Members had been set up to allow the Committee's role to be enhanced and not become cumbersome.

The Divisional Director undertook to provide a summary of the major classes of cover required, trends of claims and actuary review results which would be of interest to Members, with the September 2011 report being used as a basis whilst providing a refresh and an update. In response to a further question, he assured the Member that, following the implementation of a new team structure, the Health and Safety team appointment process to vacant posts was underway and should be completed by June 2012.

A Member sought officers' opinion on the types of risks faced by the Council and asked if a sixth risk, namely 'Counterparty or Stakeholder Risk', needed to be addressed. Moreover, the concept of risk was not widely understood and the Member suggested that the Committee would benefit from a presentation in this regard. The Chairman agreed with this approach and asked that the Interim Risk Manager be invited to the next meeting.

Members noted that Harrow had been successful in tackling tenancy fraud and had received good publicity in previous years. Members were informed that a great deal of evidence gathering was required to ensure success. They asked about the financial aspects and thresholds set against risks and were advised that these details would be submitted to the next meeting in the form of a matrix setting out the parameters under which the Council operated.

Another Member enquired how the 'Public Purse' would be protected once the Audit Commission had been disbanded. The Divisional Director Risk, Audit and Fraud stated that currently, the Audit Commission produced an annual document 'Protecting the Public Purse', which focused on fighting fraud against local government. Once the Audit Commission had been disbanded, it was likely that this area of work would devolve to local authorities who were lobbying for it, with Fraud Teams based locally. Networking arrangements could be put in place with the Department of Works and Pensions (DWP) issuing a national plan which local authorities would adhere to.

Members also discussed the confidential appendices, particularly the report relating to the major incident at Belmont Circle on 3 October 2011. The Emergency Planning and Business Continuity Service Manager informed Members that a number of lessons had been learnt from the incident, the majority of which had been implemented. Only one action remained outstanding. In response to question, the officer informed Members that in terms of providing accommodation to a large number of people during an incident, mutual aid arrangements were in place. Moreover, there were regional aid agreements should the number of people to be accommodated went beyond a figure of 1,200 people. Schools too had arrangements in place, particularly in relation to the exam timetable. Trained police officers and those from the Fire Brigade were charged with dealing with the vulnerable. Members welcomed the post incident training they had received and agreed that an aide-memoire of the 'Do's and Don'ts' of handling a major incident ought to be issued to Members, as it would particularly assist those who had not been trained. The Chairman stated that mandatory training for Members ought to be introduced on an annual basis. Furthermore, it would be appropriate for Members to observe officers helping during an incident.

Members felt that the incident had been handled well and was considered to be a good news storey. It was important that residents were briefed on this matter through the Council's 'Harrow People' magazine. The Divisional Director undertook to take this request forward.

RESOLVED: That

(1) the report be noted;

(2) the next meeting of the Committee be themed on Risk with a presentation being made by the Interim Risk Manager, including an examination of the Council's risk register;

(3) the Member Development Panel be advised of the view that the training provided to Members in dealing with major incidents be made mandatory.

143. Half Year 2011/12 Treasury Management Activity

Members considered a report of the Interim Director Finance, which set out the half year summary of the Treasury Management activity for 2011/12. Members were asked to consider the report and review the recommendations made by Cabinet to Council and prior to the consideration by Cabinet of the 2012/13 Strategy in February 2012.

The Treasury and Pension Fund Manager introduced the report and outlined the key aspects of the report, particularly the Creditworthiness and Counterparty policy and long term borrowing. He added that, at its December 2011 meeting, the Committee had agreed to recommend to Council a revised Counterparty Policy. Maximum maturities for the Council's bank would be limited to 36 months for the nationalised banks and three months for all other counterparties and would only be extended with the approval of Cabinet. Additionally, the government had changed the housing subsidy system, as a result of which the Council would have to pay £89 million to the government by 28 March 2012. This would entail the Council borrowing long term from the Public Works Loan Board (PWLB), as this method was seen as the most appropriate way forward.

A Member urged caution on the use of advisors and remarked that the financial markets were continuously changing and understanding them was a real challenge for all, including specialist advisors. He considered the views of the credit rating agencies to be an important aspect of any future financial planning. The same Member stated that he would seek further clarification separately on various aspects of the report from the Interim Director Finance, but confirmed that he could not support Credit Default Swaps (CDS).

In response, the Treasury and Pension Fund Manager advised that officers thought it prudent to look at all credit rating agencies, and that the Creditworthiness and Counterparty policy was 'owned' by officers and Members and not advisors. In this case, Sector, a leading and independent provider of capital financing, treasury advisory and strategic consulting services to UK public services organisations, had advised the Council. He assured the Member that officers discussed appropriate limits and examined relevant and available information before embarking on or proposing changes to existing policy. The officer also informed the Member that Council did not have proper custody arrangements in place or resources to hold Bonds.

In reply to a question from the same Member, the Interim Director Finance stated that the internal borrowing, as represented by the difference between the Capital Financing Requirement and external borrowing, had been accumulated over many years and impacted by changing Local Government accounting rules and would be difficult to rationalise.

RESOLVED: That

(1) the half year Treasury Management activity for 2011/12 be noted;

(2) in reviewing the recommendations made to Council by Cabinet, namely to approve the revised Counterparty Policy for investments and the increase in authorised limit of £378m and operational boundary of £366m for external debt, the Committee noted the comments made by individual Members in the preamble above.

144. Any Other Urgent Business

Lead Members 2011/12

Due to the need to make progress on this matter, Members agreed to consider this item as urgent business.

The Chairman stated that it was important that the following Lead Member positions were filled from with the Committee's membership and, where appointments had already been made, regular meetings between relevant officers and Members should commence.

Function	Member
Governance	[Position Vacant]
Risk Management	[Position Vacant]
Emergency Planning and Business Continuity	Councillor Richard Romain
Anti Fraud	Councillor Sue Anderson
Health and Safety	Councillor Yogesh Teli
Internal Audit	[Position Vacant]
Insurance	Councillor Mano Dharmarajah
Information Management	Councillor Yogesh Teli
Treasury Management	Councillor Richard Romain
Finance	Councillor Richard Romain

RESOLVED: That

(1) the Divisional Director Risk, Audit and Fraud write to all Members and Reserve Members of the Committee with a view to enlisting them on the previously agreed Lead Member positions;

(2) regular meetings between relevant officers and Lead Members commence with immediate effect.

145. Exclusion of Press and Public

RESOLVED: That, in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item for the reasons set out below:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
9.	INFORMATION REPORT - Risk, Audit and Fraud Division Activity Update – Appendices 1 and 5	Information under paragraphs 1 (relating to any individual) and 7 (action taken ot to be taken in connection with the prevention, investigation and prosecution of crime).

146. INFORMATION REPORT - Risk, Audit and Fraud Division Activity Update

The Committee received confidential appendices to the report of the Assistant Chief Executive outlining the response to the Belmont Circle incident and details of fraud cases.

RESOLVED: That the appendices be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 9.08 pm).

(Signed) COUNCILLOR SACHIN SHAH
Chairman

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

Date of Meeting:	29 March 2012
Subject:	**INFORMATION REPORT** Audit Opinion Plan 2011-12
Responsible Officer:	Julie Alderson, Interim Corporate Director Resources
Exempt:	No
Enclosures:	Appendix 1 - Accounts Opinion Audit Plan 2011-12 Appendix 2 - Pension Fund Annual Report Audit Plan 2011 -12 Appendix 3 - Audit Report on Grants Certification 2010-11

Section 1 – Summary and Recommendations

This Report provides the Committee with the opportunity to see the 2011-12 Accounts Audit Opinion Plan 2011-12 and the Pension Fund Annual Report Audit Plan 2011-12.

Recommendations:

The Committee is asked to note:

(i) the 2011-12 Accounts Audit Opinion Plan and Pension Fund Annual Report Audit Plan
(ii) the Grants Certification Report for 2010 -11

To keep the Committee informed of current issues in relation to the Audit of the Council's Accounts.

Section 2 – Report

Audit Plan for 2011-12

1. The Accounts Opinion Audit Plan provides the Council with clarity about how the external audit of the accounts for 2011-12 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 2011-12 accounts, and the Council is working to address the key audit risks.

3. Committee will receive a verbal presentation of the report.

Grant Certifications 2010-11

4. The Report on Grant Certifications in relation to 2010-11 is attached as appendix 3 to this report. Eight grant claims and returns were certified for 2010-11 of which five resulted in an unqualified opinion. Adjustments were made to three grant claims, only one of which resulted in a financial impact (an increase of £2,000). These mainly related to incorrect information kept on the system and are being followed up by the relevant officers.

Financial Implications

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

Section 3 - Statutory Officer Clearance

Name: Julie Alderson Date: 12 March 2012	x	Chief Financial Officer
Name: Jessica Farmer Date: 12 March 2012	x	on behalf of the Monitoring Officer

Section 4 - Contact Details and Background Papers

Contact: Jennifer Hydari: Divisional Director Finance and Procurement.
Jennifer.hydari@harrow.gov.uk
Telephone:02084241393

Background Papers: None.

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London Borough of Harrow Council

Report to the Governance, Audit and Risk Management Committee

Audit Plan for the 2011/12 Pension Fund Annual Report Audit

January 2012

Deloitte.

Contents

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 2012.

Audit scope		
Our audit scope is unchanged from last year	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.	Section 1

Key audit risks		
We summarise the key audit risks identified at this stage	The key audit risks which we have identified as part of our overall audit strategy are: 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 audit risk. 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. 3. Previously, the pension fund has invested in private equity and derivative financial instruments. 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. 4. Management override of key controls. This is a presumed area of risk within auditing standards.	Section 2

Timetable		
Our work will be carried out at the same time as our audit of the Authority	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.	Section 5

Executive summary (continued)

Materiality and prior year uncorrected misstatements and disclosure deficiencies		
Planning materiality set at £5.3m **Reporting threshold set at £0.22m**	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 £5.3 million (2011: £6.1 million). We will report to the Governance, Audit and Risk Management ("GARM") Committee on all unadjusted misstatements greater than £0.26 million (2011: £0.23 million). 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.	

Prior year uncorrected misstatements and disclosure deficiencies		
No prior year issues	There were no significant unadjusted misstatements or uncorrected disclosure deficiencies reported to you in respect of the 2010/11 accounts.	

Independence		
We reconfirm our independence	Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in the "Independence policies and procedures" section included at Appendix 1. We will reconfirm our independence and objectivity for the year ending 31 March 2012 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.	Appendix 1

Fee		
Fee in line with prior year	We propose a fee of £35,000 excluding VAT (PY: £35,000) which is in line with the fee scale advised by the Audit Commission.	

Engagement team		
	Paul Schofield will lead the audit and will be supported by David Hobson who will be the day to day contact on the engagement.	

Matters for those charged with governance		
Briefing on audit matters	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 & Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements.	Appendix 1

1. Scope of work and approach

Overall scope and approach

Audit objectives are explained in more detail in our "Briefing on audit matters" document attached as Appendix 1.

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

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

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

Our audit objectives are set out in our "Briefing on audit matters" document attached as Appendix 1.

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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the "Code of Practice").

For pension fund statements, we have initially considered the net assets of the fund as the benchmark for our materiality assessment as this benchmark is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. However, we have restricted our estimate of materiality to the amount set for the Authority's financial statements as a whole, which is £5.3 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. 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.

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 financial statements.
- The financial statements included in the pension fund annual report are prepared on the basis of the same proper practices - the Code of Practice - as the financial statements included in the statement of accounts.
- Consider whether the annual report has been prepared in accordance with the Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

2. Key audit risks

Based upon our initial assessment we will concentrate specific audit effort in 2011/12 on the following areas:

Contributions

Tiered contribution rates increase complexity	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, and a benefit structure with tiered contribution rates, we have identified this as a specific risk.
Deloitte response	We will perform the following procedures to ascertain whether employer and employee contributions have been calculated, scheduled and paid in accordance with the schedule: • Review the design and confirm the implementation of key controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly. • Recalculate contributions for a sample of individual members to ensure they are calculated in accordance with the schedule of rates. • Perform analytical review procedures to gain assurance over the total contributions received in the year. • Reconcile the membership movements in the year to the Financial Statements, ensuring that these include members from the admitted bodies. We note that the Authority is not responsible for the calculation of contributions and will therefore perform such tests with the assistance of the other scheduled and admitted bodies.

Benefits

There are a number of complexities to the calculation of both benefits in retirement and ill health and death benefits.	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. The Government has also completed the process to amend the revaluation and index factors for statutory minimum uplift from the Retail Price Index to the Consumer Price Index. This change has further increased the complexity of benefit calculations.
Deloitte response	We will perform the following procedures to ascertain whether benefits payable have been calculated correctly in accordance with the fund rules. • Review the design and confirm the implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits. • Test a sample of new pensioner calculations and other benefits paid by tracing to supporting documentation and reviewing the calculation, to ensure it is in line with the scheme rules. • Perform analytical review procedures over the pensions paid in the year based on prior year audited numbers adjusted for changes in pensioner numbers and any pension increases.

2. Key audit risks (continued)

Financial instruments	
Private equity and derivatives are complex to value	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.

Management override of controls	
Audit guidance includes a presumed risk of management override of key controls.	Auditing standards recognise that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports. They include a presumption of a risk of management override of key controls.
Deloitte response	We will focus our work on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties.

3. Consideration of fraud

3.1 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 to us 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 which include:

- Anti-fraud and corruption policy
- Codes of conduct
- Whistle-blowing procedures

3.2 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.

3.3 Fraud inquiries

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
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; Management's process for identifying and responding to the risks of fraud in the entity; Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; Management's communication, if any, to employees regarding its views on business practices and ethical behaviour; and Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.	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.	How those charged with governance 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; and Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.

3. Consideration of fraud (continued)

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

3.4 Process and documentation

We will gather this information through meetings and review of relevant documentation, including meeting minutes.

3.5 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 and involves:
  - officers;
  - employees who have significant roles in internal control; or
  - 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.

4. Internal control

Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters" (Appendix 1), 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 necesary, test the operating effectiveness of selected controls
- 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 will be collated and the impact on the extent of substantive audit testing required will be considered. At this stage, we do not propose to carry out tests on the operating effectiveness of controls and will obtain our assurance wholly from substantive testing procedures. We have selected this approach as the most efficient.

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

5. Timetable

		2012								
		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 2011/12 audit								■	
Pensions Committee	Audit plan			■						
	Report to the GARM Committee on the 2011/12 accounts audit									■

Our work during these visits will be closely co-ordinated with the work carried out on other parts of main audit of 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
January 2012

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 members 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.
- 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.
- 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 objectiv 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 of key decisions takes place 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

Deloitte.

Harrow Council

Report to the Governance, Audit and Risk Management Committee on the 2011/12 Audit

Planning Report

16 January 2012

Contents

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 2012. 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 risks and uncertainties and reliance on estimates, assumptions and forecasts. Whilst the guidance was issued to assist company directors serving on audit committees, this should be considered best practice for the Governance Audit and Risk Management (GARM) Committee.. This report will describe the work we undertake in order to support this activity.

Audit scope		
Our audit scope is unchanged from last year	Our audit will be carried out in accordance with the Audit Commission's Code of Audit Practice 2008. There are no changes to scope compared to last year. Our primary audit responsibilities are also summarised in the "Briefing on Audit Matters" paper which was circulated to you as an appendix to our final report on the 2010/11 audit. In summary, under the Audit Commission's Code of Audit Practice we have responsibilities in two main areas: • the financial statements and the Annual Governance Statement • aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The audit of the Council's Local Government Pension Scheme is dealt with in a separate audit plan and not in this one. In our fee letter presented in April 2011, we proposed an audit fee of £330,608 (2011: £367,342) for the audit of the Council's financial statements, the assurance report on the whole of government accounts return and the value for money conclusion which is equal to the scale fee set by the Audit Commission. Further information on fees is provided in Appendix 1.	Section 1 App 2

Key audit risks		
We summarise the key audit risks identified at this stage in our planning work	The key audit risks which we have identified as part of our overall audit strategy are: 1. Revaluation of properties. The valuation is inherently sensitive to judgements on key assumptions. 2. Valuation of the pension liability. This continues to be an audit risk in view of the size of the liability and complexity of judgements in this area and the sensitivity to small changes in assumptions. 3. Presumed risk of fraud in revenue recognition, specifically around the recognition of grant income. This is a continuing audit risk in view of the need for judgements on recognition to be made on a grant-by-grant basis. 4. Management override of controls. This is a presumed area of risk within auditing standards. 5. Capital mis-coding remains a risk until the new controls introduced to strengthen processes relating to the approvals, recording and reporting of capital have been tested. Issues arose as a result of systematic mis-coding noted in 2009/10 audit.	Section 2

Executive summary (continued)

Materiality and prior year uncorrected misstatements and disclosure deficiencies		
Based on budgeted expenditure we have set materiality at £5.3m and will report all adjustments in excess of £220k to you	For the 2012 financial statements, we have determined materiality of £5.3m (2011: £6.1m). We will report to the audit committee on all unadjusted misstatements greater than £265k, (2011, £305k) and other adjustments that are qualitatively material. We take this opportunity to remind you of the misstatements identified in the prior period. Identified uncorrected misstatements reduced cost of services by £695k and increased net assets by £695k. Whilst there were no major disclosure deficiencies in the prior year financial statements, we propose to work with management in advance of the year end audit to ensure that the presentation of the second set of IFRS financial statements incorporates best practice from across the sector. Further details of the 2011 uncorrected misstatements and disclosure deficiencies are included in Appendix 1 for reference. In addition, for your information, we would like to report that at the end of the prior period audit process, adjustments with a net credit to the Income and Expenditure Statement of £5.1m were recorded following discussion and agreement with management.	Section 1 App 1

Internal control		
Evaluation of the design and testing of the implementa-tion of key controls relevant to the audit will inform the design of our substantive testing	To assist us in planning our work, we will evaluate the design and test the implementation of key controls relevant to the audit, including controls which mitigate the significant risks of material misstatement we have identified. Once we have assessed whether controls are designed and implemented appropriately, we will obtain our assurance from substantive testing procedures rather than performing further detailed testing on controls. We have selected this approach as the most efficient. We continue to liaise with the Council's internal auditors to maximise our combined effectiveness and to inform our own audit risk assessment. We have received and reviewed the internal reports already concluded during the year, and will review the audit plan for 2012/13 before it is concluded. As noted below, in section 2, we plan to use the work that Internal Audit has performed around the capital accounting control environment.	N/a

Executive summary (continued)

Other matters for those charged with governance		
We confirm we are independent of the Council. We remind the Committee of the Briefing circulated in September 2011 which dealt with other matters we are required to communicate.	We have communicated to you separately in our publication entitled "Briefing on audit matters" those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). The document also provides detail of the safeguards and procedures we have in place to ensure our independence and objectivity. This was circulated with our report on the 2011 audit to the September 2011 meeting of the Committee. We confirm we are independent of Harrow Council and will reconfirm our independence and objectivity to the audit committee for the year ending 31 March 2012 in our final report to the audit committee.	N/a

New accounting and legal pronouncements		
We do not anticipate that changes introduced by the 2011/12 edition of the Code will impact significantly on the accounts	The 2011/12 edition of the CIPFA Code of Practice on Local Authority Accounting makes a number of amendments to the 2010/11 edition. The majority of changes are clarifications of (rather than revisions to) past accounting, presentation and disclosure guidance. We included more detail in relation to the changes in our report presented the Committee in September 2011. Other developments reported to the Committee in September 2011 remain on the horizon and we will ensure that both management and the Committee are made aware of these in more detail before implementation is required.	N/a

Communications		
We expect the timing of communica-tions to be largely consistent with the prior year	Section 5 sets out the form, timing and expected general content of our communications to you.	Section 5

1. Scope of work and approach

1.1 Auditing standards

We will conduct our 2011/12 audit in accordance with the Audit Commission's Code of Audit Practice 2008 and other guidance issued by the Audit Commission.

We have responsibilities in two main areas:

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

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

1.2 The financial statements and statement on corporate governance

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 audit opinion on the accounts we intend to issue will reflect the financial reporting framework adopted by Harrow Council, being the Code of Practice on Local Authority Accounting ("the Code") which is based on International Financial Reporting Standards ("IFRS").

For the 2011/12 financial statements we have determined a materiality of £5.3m based on budgeted gross expenditure. We will review and update this as applicable on the basis of the actual position recorded in the 2011/12 financial statements. This figure takes into account our knowledge of the Council, our assessment of audit risks and the reporting requirements for the financial statements. The concept of materiality and its application to the audit approach are set out in our Briefing on audit matters document.

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

1.3 The value for money conclusion

The Audit Commission has advised that in 2012 the auditors' statutory value for money ("VFM") conclusion will again be based on the following two criteria specified by the Commission:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2012
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

1.4 The whole of government accounts

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

1. Scope of work and approach (continued)

1.5 Certification of grant claims

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

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

During 2011/12 the internal audit department will be performing work to assess the application and effectiveness of the new capital controls and we will take into account the findings when planning our own work in relation to the capital mis-coding audit risk explained in section 2, below.

1.7 Fees

We propose an audit fee of £330,608 (2011 £367,372) for the audit of the accounts, the assurance report on the whole of government accounts and the value for money conclusion for the Council, which is equal to the scale fee set by the Audit Commission.

The 10% reduction 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.

This excludes the fee for the audit of the Local Government Pension Scheme, which is dealt with in a separate report to this Committee, and fees for the certification of grant claims. The total estimated and proposed amount for all these services for 2012 is analysed in Appendix 1.

An analysis of the fees charged will be included in our Final Report to those charged with governance.

2. Key audit risks

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

Revaluation of properties	
The valuation of properties is sensitive to judgements on key assumptions	The Council holds a substantial portfolio of properties, subject to a rolling revaluation programme that requires the application of specialist valuation assumptions. The current and recent economic volatility has affected property values, generally, and the Council has recorded significant gains and losses over the last few years. Current market sentiment suggests yields could soften and the expected increases in rental values may not come to fruition. These factors could lead to further falls in fair values during 2011/12.
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.

Valuation of the pension liability	
The valuation of the pension liability continues to be an audit risk in view of its size and the complexity of judgements in this area	The pension liability relating to the pension scheme is substantial so that its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment.
Deloitte response	We will consider the qualifications, relevant expertise and independence of the actuary engaged by the Council and the instructions and sources of information provided to the actuary. We will include a specialist from our team of actuaries within our engagement team to assist in the review of assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries.

Risk of fraud in revenue recognition	
A continuing risk in view of the need for judgements on recognition made on a grant-by-grant basis	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. It may also be necessary to take into account past practice by the Council and grant funder. There have not been any changes to accounting practice in this area, but CIPFA have clarified that the existing guidance for capital grants applies equally to revenue grants.
Deloitte response	We will 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. We raised a control recommendation in our prior year audit for all grants to be centrally maintained in addition to S106 grants being assessed as capital or revenue at inception to ensure accounted for correctly within SAP. 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.

2. Key audit risks (continued)

Management override of controls	
Audit guidance includes a presumed risk of management override of key controls	Auditing standards recognise that management may be in a position to override controls that are in place to present inaccurate or even fraudulent financial reporting. They include a presumption of a risk of management override of key controls in all audits. This is particularly relevant to our approach in a time of ongoing budgetary pressures.
Deloitte response	We will focus our work on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties. In testing journals, we will make use of computer assisted audit techniques to analyse the whole population of journals and to identify those which had features which can be indicators of possible fraud and to focus our testing on these. Our consideration of key accounting estimates will focus on the areas of significant judgement identified separately as areas of audit risk above. We consider through our detailed planning procedures and subsequent performance of substantive procedures whether there are any transactions where the business rationale was not clear. In the event that we do identify any such transaction, we will design and perform focused procedures.

Capital mis-coding	
As a result of the changes and improvements to the control environment, this remains an audit risk	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. The VFM opinion in our 2010/11 accounts was not qualified as a result of the actions taken by management in the short-term to resolve the issues. A risk remains for the 2011/12 as a result of the significant changes made to the control environment.
Deloitte response	In planning our audit we will perform testing around the design and implementation of the new controls to confirm that the control weakness has been addressed. We will liaise with internal audit in performing this work as they have been monitoring the process since the issue first arose. We will assess the work performed by internal audit in testing the application and effectiveness of the new procedures when planning our own work to ensure no duplication of work. We will also perform detailed substantive work in relation to capital spend against budget, challenging overspends and supporting these to approvals.

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 us 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:

- Anti-fraud and corruption policy
- Codes of conduct
- Whistle-blowing procedures

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 your auditor, 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
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 Management's process for identifying and responding to the risks of fraud in the entity Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity Management's communication, if any, to employees regarding its views on business practices and ethical behaviour Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity	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	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 Whether the GARM committee have knowledge of any actual, suspected or alleged fraud affecting the entity

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

3. Consideration of fraud (continued)

4.4 Process and documentation

We will gather this information through meetings and review of relevant documentation, including meeting minutes.

4.5 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. The previous issues around capital mis-coding remain a risk for 2011/12 as the capital control environment has been subject to significant change/improvement during the year.

4.6 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:
    - management;
    - employees who have significant roles in internal control; or
    - 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.

4. Internal control

Obtaining an understanding of internal control relevant to the audit

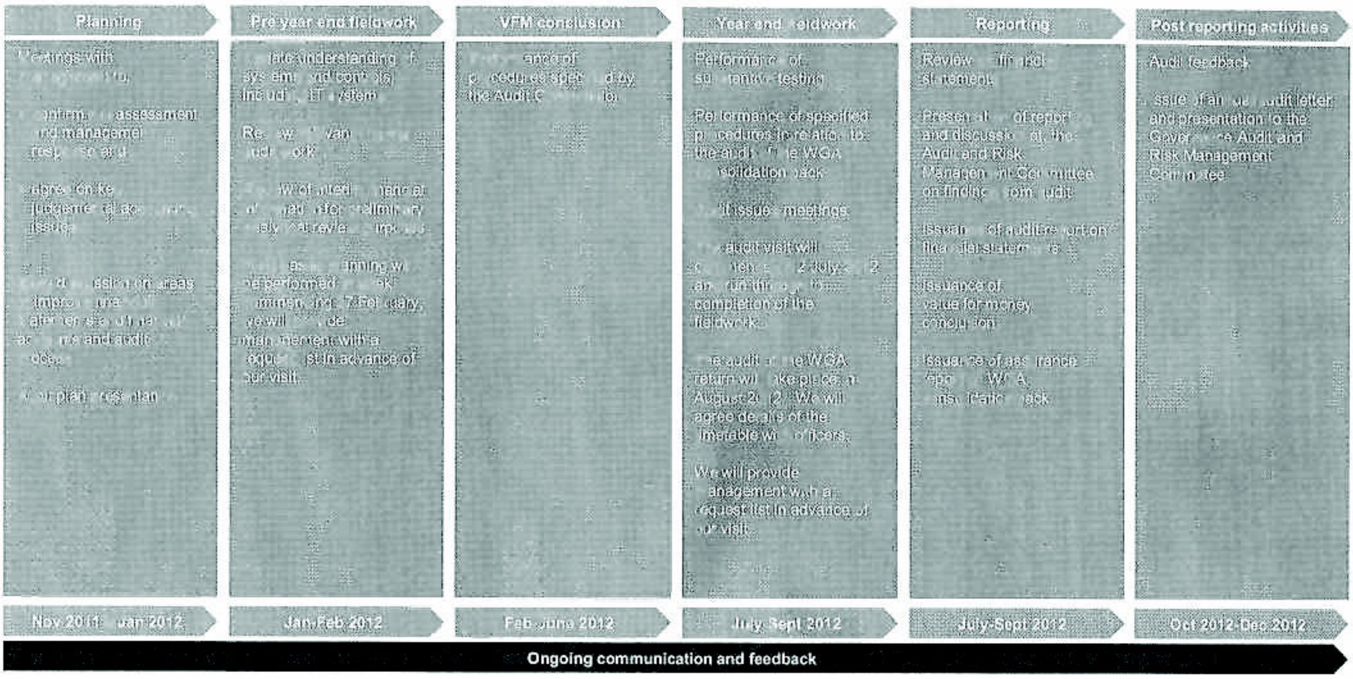
As set out in "Briefing on audit matters" circulated to you in September 2011, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I"). Our audit approach consists of the following:

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

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

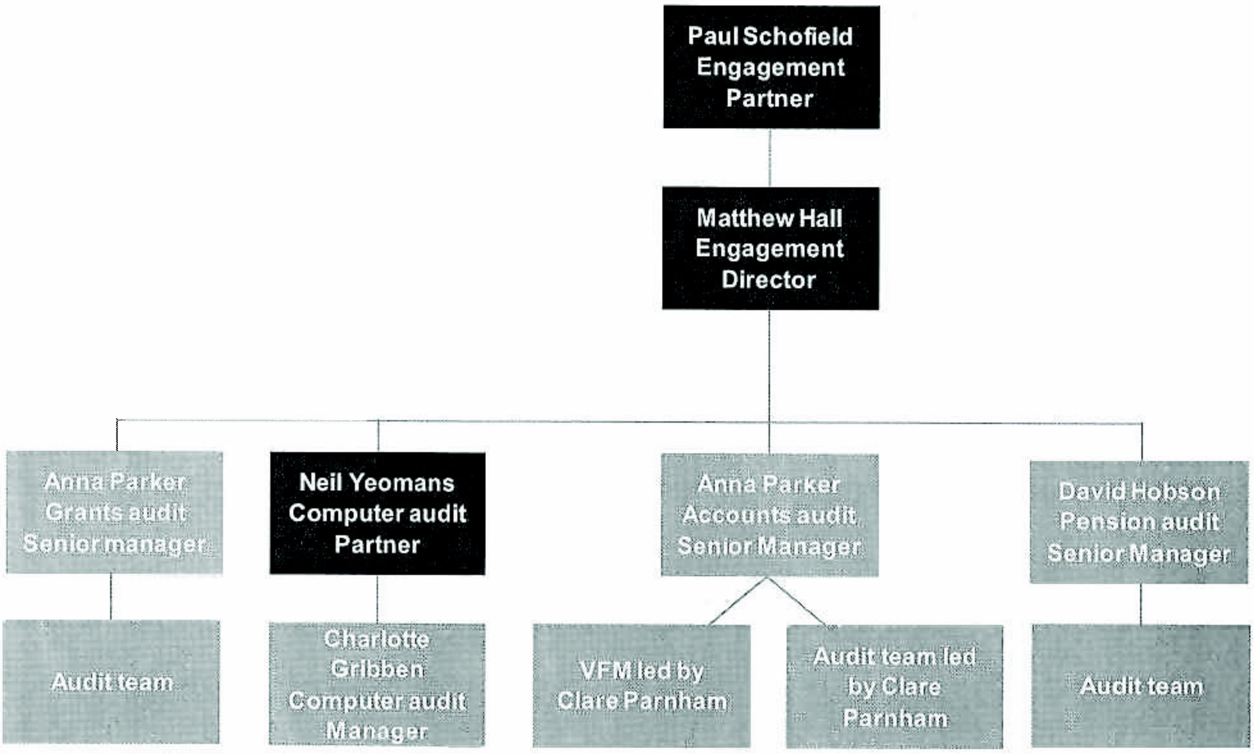
5. Communications timetable

Set out below is the approximate expected timing of our reporting and communication with Harrow Council.



6. Client service team

We set out below our audit engagement team.



7. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in September 2011 and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the board and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the members, 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. It should not be made available to any other parties without our prior written consent.

Deloitte LLP

Chartered Accountants

St Albans

16 January 2012

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 current year CIES £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) in collection fund £'000
Judgemental misstatements				
Debtor provisioning	[1]	(695)	695	-
Total		(695)	695	-

[1] Difference in judgement over the appropriate level of bad debt provision amounting to £2.3m:

- £695k in relation to rates, benefits and sundry debtors – impacting the main statements; and
- £1,644k in relation to NNDR and council tax – only impacting the collection fund.

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
Notes disclosing the breakdown of short term debtors and creditors (5.19 and 5.22) have changed format between the previous SORP and the new IFRS Code. Amounts are allocated differently under the new Code, and prior year balances have been reanalysed in the notes under this format. The accounts do not include reconciliation between the old and new format.	SORP and Code presentation differences	Qualitative

We obtained written representations from management confirming that after considering 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 2: Analysis of audit and grant certification fees

We summarise below our proposed audit fees as discussed with officers:

	2011/12 £	2010/11 £
Fees payable to the auditor for the audit of the Council's accounts, assurance report on the whole of government return and value for money conclusion *	330,608	367,342
Fees payable to the auditor for the audit of the Council's pension scheme	35,000	35,000
Fees payable to the auditors for the certification of grant claims **	110,000	110,000
Total fees for audit services provided to the Council (excl VAT)	**475,608**	**512,342**

* Included in the 2010/11 audit fee were items of a one of nature. At the time of writing this report there is ongoing work in relation to an objection to the 2008/09 accounts, not reflected in the 2011/12 fees stated above.

** Our fees for grant certification work 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 above figure is our current estimate for both 2012 and 2011.

Deloitte.

London Borough of Harrow

Report to the Audit Committee on the year ended 31 March 2011Certification work

Final Report

Issued 21 February 2012

Contents

1. Executive summary

We have pleasure in setting out in this document our key findings from our claims and returns certification work of the London Borough of Harrow ("the Authority") for the year ended 31 March 2011. This report is not intended to be exhaustive but highlights the most significant matters that have come to our attention.

Certification deadlines

We have certified all 8 claims and returns required under our contract with the Audit Commission (see Section 4 for details) for the year ended 31 March 2011. All claims and returns we reported on were certified by the original required deadline.

Results of our claims and returns certification work

As a result of errors identified through the performance of our procedures, adjustments were made to 3 of the 8 claims/returns prior to certification. A number of these adjustments related to the fact that incorrect information was kept on the system. We have summarised the number of adjustments identified and our conclusion on whether we were able to certify without a qualification letter in the table below. We have included additional comments below the table where we issued qualification letters on the claims/returns in 2010/11:

Claims/returns	Value of claim	Number of cells adjusted	Financial impact Increase/ (Decrease)£	Qualified in 2010/11	Qualified in 2009/10
Housing Finance Base Data return ("HOU02")	N/A	10	N/A	YES	NO
National Non Domestic Rates ("NNDR")	£43,898,755	2	£Nil	NO	NO
Housing and Council Tax Benefit Subsidy ("BEN01")	£145,050,837	8	£2,000	YES	YES

Summary of qualification letters

1. **Housing and Council Tax Benefit Subsidy ("BEN01")**

Our initial sample testing of 80 cases on this claim identified errors on two cases. One error was confirmed as isolated and amended on the subsidy claim. As a result of prior year errors, additional testing of 160 cases highlighted 6 errors. We have included details of the 7 errors in our qualification letter. The subsidy claim was not amended for these errors. We have included details of all 13 cases in our qualification letter.

2. **Housing Finance Base Data Return ("HOU02")**

We issued a qualification letter on the HOU02 return in respect of 1 point:

The Authority was unable to provide evidence of floor space measurement for some of the properties included in our sample which were used as a bass to categorise the properties on the return.

See Section 3 for more details.

Fees

Total fees charged in respect of the work performed on the 8 claims and returns (2010: 8) certified by Deloitte were £107,832 (2010: £110,625).

Section 4 of this report sets out the fees charged on each of the 8 claims and returns we certified; and summarises their value.

2. Introduction

Purpose of this report

This letter is addressed to the Audit Committee of the Authority and is intended to communicate key issues arising from our 2010/11 certification work. This Letter will be published on the Authority's website.

Our responsibilities

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

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

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

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

The scope of our work

Auditors appointed by the Audit Commission are required to:

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

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

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

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

3. Results of our claims and returns certification work

Claims and returns certified without adjustment or a qualification letter

We were able to certify the following 5 claims and returns without adjustment or a qualification letter:

- Pooling of housing capital receipts return ("CFB06").
- Disabled facilities return ("HOU21").
- Housing Revenue Subsidy ("HOU01").
- Teachers' Pensions ("PEN05").
- Sure Start, Early years, and Childcare grant and Aiming High for Disabled Children ("EYC02").

Claims and returns certified with adjustment and without a qualification letter

We were able to certify the following return with adjustments and without a qualification letter:

LA01 – National non-domestic rates ("NNDR") return	
Adjustment details	The original LA01 return was required to be submitted on 24 June 2011, the Authority met this deadline. In July 2011 Northgate issued additional guidance relating to a Cross Rail business rates supplement that had been included in the return. It is not appropriate for the Cross Rail supplement to be included within the return as, although it is collected by the Authority, it is not part of NNDR reporting. The adjustment of £23,574 to remove the Cross Rail supplement impacted on 2 lines within the return: i) gross rates payable in respect of 2010/11; and ii) small business rate relief in respect of 2010/11. The adjustment had no impact on the overall gross amount or contributions to the NNDR pool.
Deloitte response	We discussed the adjustment with the Authority who agreed with our assessment. The Authority updated its Northgate software to account for the adjustment and we agreed this to correspondence from Northgate. The Authority chose to amend the return to reflect the £23,574 adjustment. In our report on the return, we reflected the fact that the return had been amended but that no numerical amendment was made to the total amount of business rates payable into the pool.

3. Results of our claims and returns certification work (continued)

Claims and returns certified with adjustment and a qualification letter

The following claim and return were certified with adjustments and a qualification letter:

HOU02 – Housing finance base data return	
Adjustment details	Our procedures for the certification of the HOU02 return identified the following errors: 1. **Presentational error** – Our testing identified incorrect data being entered in a number of cells on the return. 2. **Calculation errors** – Our testing identified a few of Authority's calculations in the cells on the return were not in line with the HOU 02 certification instructions. 3. **Classification errors** – On a number of cells within the return we are required to check that the classification of the housing stock had been correctly stated. Our testing identified that for 2 out of 4 properties included in our sample, the recorded floor space was incorrect, and as a result the property was included in the wrong category on the return. **Qualification letter summary** We issued a qualification letter with respect to point 3 above, where properties were included in the wrong category on the return and where the Authority was unable to demonstrate an audit trail that was in accordance with DCLG guidance.
Management response	Although the claim was qualified on the basis noted above the authority subsequently tested a larger sample size of 47 from which it was noted 2 would have changed classification. The authority undertook this additional work because the original sample was deemed too small to be reliable and there was a concern that, had it been used by CLG to determine the final HRA settlement in 2012-13, it would have increased the figure to be paid by approximately £6m. Based on the results of this larger sample, the CLG has accepted that the original sample data would not be used to inform the Settlement and hence reduced it in line with the original expectation.
Deloitte response	We agreed the errors with the Authority and for 1 and 2 above; the Authority had made appropriate changes to the return. We raised a qualification for error 3, and in our report on the return, we reflected the fact that the return had been amended and that a qualification letter had been issued. We recommend that the Authority: updates its records on property floor measurements (which is the basis for distinguishing the properties into various categories on the return); and agrees all the data on the return is evidenced to the database before uploading it on the DCLG website.

3. Results of our claims and returns certification work (continued)

Claims and returns certified with adjustment and a qualification letter (continued)

The Housing and council tax benefit subsidy ("BEN01") was certified with 2 amendments and a qualification letter.

In 2010/11 we identified errors on 8 cases, 1 of which was amended (2009/10: 17 cases). We were able to group similar errors types together across the 8 cases to give a total of 2 different error types: income miscalculation and expenditure classification. Both of these errors resulted in an overstatement of an individual's benefit entitlement or subsidy or both.

Where errors are identified in our initial testing we are required by the Audit Commission to undertake prescriptive additional testing to ascertain whether the errors are isolated.

We undertook additional work on the overstated error types and concluded that one was wholly isolated – this was amended. We were not able to conclude that the other errors were isolated and hence we could not conclude that the claim was fairly stated. Accordingly, we were required to include in our qualification letter extrapolation calculations for 7 unadjusted errors (all of the overpaid or overstated errors where we did not test 100% of the population).

Given the nature of the population and the variation in the errors found, it is unlikely that additional work would have resulted in amendments to the BEN01 subsidy claim that would have allowed us to conclude that it was fairly stated. We have set out a summary of our findings in the table below:

BEN01 – Housing and council tax benefit subsidy	
Qualification details	**Rent rebates (Tenants of HRA properties – cell 066)** **Total expenditure £76,691** Our testing of rent rebates (tenants of HRA properties) ("rent rebates") identified 4 errors. 1 of the errors was amended as it was possible using Northgate reports to isolate the case and confirm that no other incidences remained unadjusted in the claim form. The 3 errors that were not adjusted were as a result of expenditure misclassification. As a result of the testing being undertaken in relation to prior year errors, no further testing was required. *Conclusion* The un-amended errors we determined were not isolated, so we included these within our qualification letter.
	Rent rebates (Tenants of non HRA properties – cell 011) **Total expenditure £757,487** Our testing of rent rebates NHRA (tenants of non HRA properties) identified errors on 3 cases. The errors all related to income miscalculation. As a result of the testing being undertaken in relation to prior year errors, no further testing was required. *Conclusion* We were not able to isolate the errors, so we included them in our qualification letter.
	Rent allowances (cell 094) **Total expenditure £107,840,892** Our testing of rent allowances ("RA") identified 1 error in relation to income assessment. *Conclusion* We were not able to isolate the error, so we included it in our qualification letter.

3. Results of our claims and returns certification work (continued)

BEN01 – Housing and council tax benefit subsidy	
Recommendations	Since certifying the claim form we have provided management with a summary of the errors found to allow early planning for next year's testing. We have also raised 2 control recommendations which we summarise below: • The 'BENCHK106' script should be run at the year end and entries arising from this report included in the claim form submitted for auditor certification. The script is designed to identify cases where an item has been mis-coded to claimant rather than authority error as Northgate is not able to do this automatically. The claim form for 2010/11 was amended for £2,354 under-claim before being certified • As noted above one error arising from testing of cell 066 was able to be isolated and the claim form amended. A 'Mass Calc' report is required to be run by Northgate as a quirk in the system means that errors arise in the handling of deductions affecting claims that are already closed. The benefits team sample test items flagged by these reports, however not all were tested and a transfer of £13,777 was made between the cells before the claim was certified. 'Errors' arising from not reviewing all items on the Mass Calc report can be individually large and hence should all be reviewed.
Deloitte response	Given the number of transactions and the volume of manual processing required for the benefit calculation, we understand that it is not unusual for the BEN01 subsidy claim to be qualified. Our experience with this on other Local Authorities indicates that the types of errors we have identified are similar to those identified at other Local Authorities. As a result of the work performed for the 2009/10 claim, the control environment was improved significantly in the latter part of the 2010/11 year.

4. Certification information

Our certification work on Authority's claims and returns for the year ended 31 March 2011 is now complete and the table below summarises the results of this work and our billings by claims and returns.

Certification instruction	Within Audit Commission framework	Claim/ return	2011 value of claim (£)	2011 results of audit work	2011 audit fee (£)	2010 audit fee (£)
BEN01	YES	Housing and council tax benefits subsidy	145,050,837	Qualified	50,490	49,560
CFB06	YES	Pooling of housing capital receipts	3,120,921	Satisfactory	5,460	4,425
EYC02	YES	Sure start, early years and childcare	12,637,384	Satisfactory	5,970	6,195
EYC02 (2009)	YES	Sure start, early years and childcare	n/a	n/a	0	1,770
HOU01	YES	HRA subsidy	-11,304,798	Satisfactory	5,420	5,310
HOU02	YES	HRA subsidy base data return	N/A	Qualified	7,505	7,965
LA01	YES	National non-domestic rate return	299,608,720	Amended	9,705	9,735
PEN05	YES	Teachers' pension return	18,903,302	Satisfactory	4,415	4,425
HOU21	YES	Disabled facilities	1,623,000	Satisfactory	7,010	7,080
General/admin					11,857	14,160
TOTAL					**107,832**	**110,625**

5. Responsibility statement

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 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 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.

Deloitte LLP

Deloitte LLP

Chartered Accountants

St Albans

21 February 2012

REPORT FOR:	**GOVERNANCE AUDIT AND RISK MANAGEMENT COMMITTEE**
Date of Meeting:	29 March 2012
Subject:	Risk Management Update – Information Report
Responsible Officer:	Tom Whiting, Assistant Chief Executive
Exempt:	No
Enclosures:	Appendix 1 – Q3 Corporate Risk Register Appendix 2 – High Level Risk Summary Report Appendix 3 - 2012-13 Risk Appetite Statement

Harrow COUNCIL
LONDON

Section 1 – Summary and Recommendations

The Governance Audit and Risk Management Committee (GARM) support Cabinet in its role by reviewing internal policies and arrangements.

This report is provided to ensure GARM is aware of the Council's progress in risk management and to ensure the Council's risk management framework continues to align with best practice, including production of an annual risk appetite statement on behalf of the Council in line with best practice in corporate governance and also ensuring risk information and reporting processes are streamlined and effective.

FOR INFORMATION

Section 2 – Report

The Corporate Risk Register & High Level Risk Summary Report

The Council's updated risk strategy (approved by the Cabinet in October 2011) provides for the merging of the former strategic risk and corporate operational risk registers into a single corporate risk register. This has now been undertaken and the new register is enclosed at Appendix One. The risk strategy also makes provision for the introduction of a new high-level summary risk report and this has now been similarly undertaken and is enclosed at Appendix Two.

The creation of single corporate risk register, focussing only on business critical risks and also containing positive risk opportunities, and also the new high level summary risk report, was reported to CSB in February as part of the Q3 Performance Morning. The new summary report above is relatively open and flexible in its theme and is intended to focus from quarter to quarter on risk areas that CSB themselves collectively decide upon. For Quarter 3 it addressed the new risk reporting area of positive risk opportunities.

The introduction of these new formats has been undertaken to streamline the level of relevant strategic risk information being reported to CSB, to target risk discussion more effectively, and to avoid information overload and other information inefficiencies (such as duplication) in the strategic risk reporting process.

2012-13 Statement of Risk Appetite

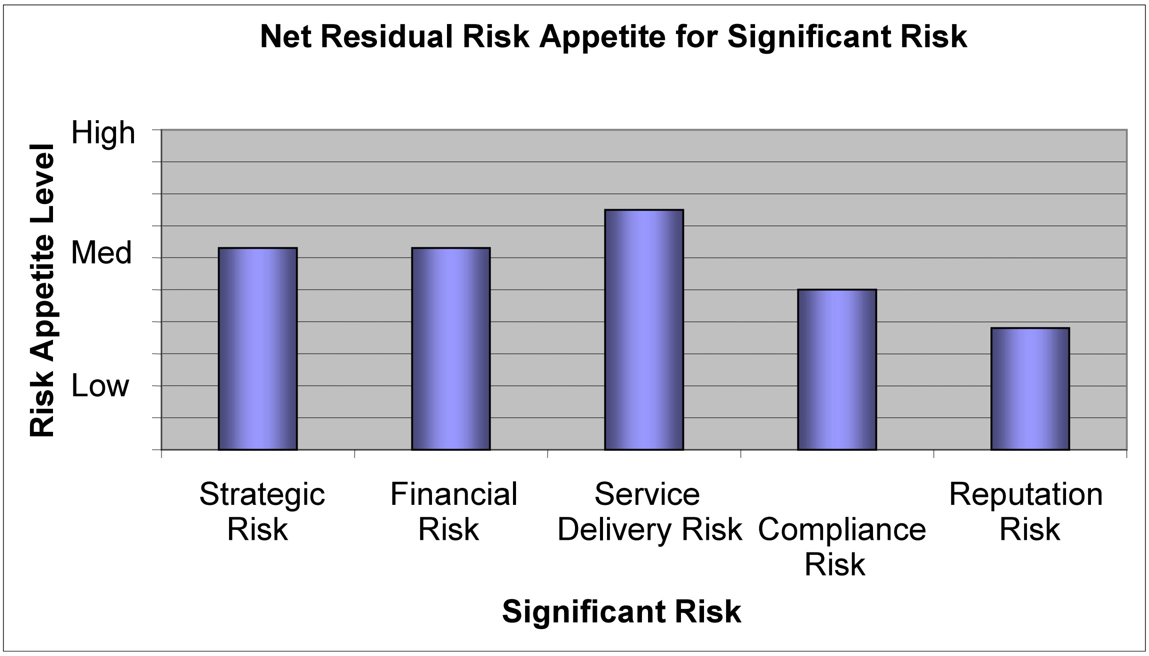
At the January GARM meeting the Committee requested further information regarding the Council's annual Statement of Risk Appetite. The Statement is a relatively new development in corporate governance (arising from a review in 2010 by the Financial Reporting Council [FRC]) of the former UK Combined Code) and is now a best professional practice requirement further to the newly-created UK Corporate Governance Code (which replaces the Combined Code).

Further to Section C; Accountability of the new Code, the Executive [the Cabinet] is responsible on an annual basis for "determining the nature and the extent of the significant risks it is willing to take in achieving its strategic objectives". The statement of risk appetite is recognised as fulfilling this requirement which applies in best practice terms to both private and public sector organisations in the UK.

The statement is significant in corporate governance terms and has largely been introduced in response to the 2010 financial crisis. It seeks to ensure that organisations are fully aware, of the level and quantity of risk exposure being carried by the organisation in pursuing its strategic objectives, and for this risk exposure to be fully communicated to stakeholders, eg by attachment to the corporate plan and the annual governance statement.

The key messages of the Statement are that during 2012-13 the Council will have in the main an overall and informed cautious appetite for taking significant risks (these as outlined below) to achieve the corporate plan and for delivering council services in support of this. Where significant risks arises the Council and its officers will take effective control action to mitigate these risks to minimal and safe levels of net residual risk exposure for stakeholders.

The Council's appetite for these risks on a residual risk basis can be shown graphically in overall summary terms as follows:-



It is to be noted however that whilst the Council will maintain its overall informed cautious approach, it will have areas within this where a higher level of risk will be taken such as in, for example, in supporting innovation in service delivery. These will be offset by areas where it maintains a lower than cautious appetite, for example, in matters of compliance with law and public confidence in the Council, so leading to its overall and informed cautious position on risk.

The full detailed Statement is attached at Appendix 3 and this will be submitted for approval by the Cabinet on the 4th April 2012.

Financial Implications

No financial implications are associated with this report.

Risk Management Implications

Should the recommendations not be accepted, there is a risk that the Council will not continue to align with best professional practice in risk management and will not clearly define for Members and officers respectively the Council's framework and requirements for the management of its key and significant risks.

Corporate Priorities

The Corporate Risk Register, High Level Summary Risk Report and Risk Appetite Statement is strongly aligned with and supports the achievement and delivery of all of the Council's corporate priorities

Section 3 - Statutory Officer Clearance

		on behalf of the
Name: Steve Tingle	x	Chief Financial Officer
Date: 13 March 2012		

Section 4 - Contact Details and Background Papers

Contact: Neale Burns, Interim Risk Manager, Extension 8391

Background Papers:

Appendix 1: Q3 Corporate Risk Register
Appendix 2: Q3 High Level Risk Summary Report
Appendix 3: Statement of Risk Appetite (2012-13)

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HARROW COUNCIL CORPORATE RISK REGISTER

Version:Q3 Final
Last Reviewed by CRSG: November 2011
Last Reviewed by CSB: November 2011
CRSG Review Date:February 2012
CSB Review Date: February 2012

THREAT RISKS

1 Failure to deliver on a balanced budget in 2011/12 (JA)
2 Pressures on the MTFS (JA) - NEW RISK
3 Failure to deliver long term economic development in the Borough (AT) NEW RISK
4 Successful legal challenge of a council decision (HP)
5 Deteriorating Industrial Relations (CSB & Cabinet)
6 Failure to achieve a culture that supports the Council's vision and priorities (TW)
7 The Council fails to deliver required/target procurement savings (£2M) in 2010/11 (JA)
8 Ineffective partnership working in local health re-organisation impacts on Vision (TW)
9 Impact of changing demographics not anticipated (PN)
10 The Council inadequately prepares for welfare reform (JA)
11 High-profile service failure in relation to a vulnerable client or person (All)
12 Business continuity/disaster recovery not resilient (TW)
13 Inadequate emergency planning in place to deal with major incidents (TW)
14 Insufficient school places (primary, secondary and special) for projected numbers (CD)
15 Damage to Council reputation & failure to engage with the community/service users (HP)
16 Transformation is not successfully delivered (TW)
17 Inadequate OH&S Management System (TW)
18 Ineffective Political Interface (HP)
19 Lack of commitment to climate change and to reducing carbon emissions (BH)

OPPORTUNITY RISKS

20 Schools' Income Opportunities [potentially £1-2M income stream] (JA & CD)
21 Attracting Inward Investment [Major Developments] (AT) - NEW OPPORTUNITY
22 Supply of services to the CCG [up to £2-4M income stream] (PN) - NEW OPPORTUNITY

Corporate Priorities 2011/12 – 2014/15
1. Keeping neighbourhoods clean, green and safe
2. United and involved communities; a council that listens and leads
3. Supporting and protecting people who are most in need
4. Supporting our town centre, local shopping centres and businesses

Line of Risk Appetite

LIKELIHOOD				
A Very High (>80%)			2,5	
B High (51-80%)			4,8	
C Significant (25-50%)		20	3,6,7,11, 14,15 16,19	17
D Low (10-24%)		22	1, 9,18	10,12,13 21
E Very Low (3-9%)				
F Almost Impossible (0-2%)				
IMPACT	**4** Negligible Impact / Benefit	**3** Marginal Impact / Minor Benefit	**2** Critical Impact / Major Benefit	**1** Catastrophic Impact / Exceptional Benefit

No.	Corporate Priority	Risk Description	Key Controls (In Place and Effective)	Risk Rating This Quarter *(after controls)*	Risk Rating Last Quarter	Key Controls (Underway or Planned) (Incl. Implementation Date)	Control Progress %	Target Risk Rating	Target Risk Date	Risk Owner	Q3 Update & Commentary
1	All	*Risk (Event)* **Failure to deliver on budget in 2011/12 (JA)** *Cause(s)* Low level of reserves Govt funding reductions in 15/16 and 16/17 Oganisational culture Difficult politicial decisions IT Infrastructure HRA/welfare reform. Competition for funding *Consequence(s)* Delivery of Medium Term Financial Strategy weakened Reputation damage. Government intervention. Cut in / unable to deliver services. Organisational change in response to budget cuts.	Structured and disciplined budgetary process Regular financial performance monitoring and reporting quarterly to Cabinet and monthly to CSB, DMTs and at service level and taking action on identified problems. Regular capital monitoring through above process and monthly at the Capital Forum. Medium Term Financial Strategy. Budget Risk Register. Comprehensive budget plan in place to close gaps. Debt Management Policy Realistic analysis of financial pressures Close portfolio holder involvement	**D2**	**B2**	*Further Actions* On-Going Actions Commissiong Panels Transformation Programme Member participation Early actions to prevent projected/forecast overspends. Close watching brief on savings Training on financial compliance 2011/12 IA Reviews eg Capital Programme, SAP Accounts Payable & Receivable *Contingencies* Escalate to CSB to implement additional cost cutting initiatives / budget reallocation. Recourse to statutory powers (Sect.151)	90%	**D2**	**31.03.12**	**Julie Alderson**	As at Q3 the risk of not delivering on the 11/12 budget or setting a 12/13 budget is relatively small. From 01.04.12 onwards this risk will become failure to deliver on the 2012/13 budget .

No.	Corporate Priority	Risk Description	Key Controls (In Place and Effective)	Risk Rating This Quarter *(after controls)*	Risk Rating Last Quarter	Key Controls (Underway or Planned) (Incl. Implementation Date)	Control Progress %	Target Risk Rating	Target Risk Date	Risk Owner	Q3 Update & Commentary
2	All	*Risk (Event)* **Pressures on the Medium Term Financial Strategy [this is to set and then deliver a balanced budget in 2012/13 and then building on this deliver further required budget reductions over the medium term] (JA)** *Cause(s)* Low level of reserves Govt funding reductions in 15/16 and 16/17 Oganisational culture Difficult political decisions IT Infrastructure HRA/welfare reform. Competition for funding *Consequence(s)* Delivery of Medium Term Financial Strategy weakened Reputation damage. Government intervention. Cut in / unable to deliver services. Organisational change in response to budget cuts.	Structured and disciplined budgetary process Regular financial performance monitoring and reporting quarterly to Cabinet and monthly to CSB, DMTs and at service level and taking action on identified problems. Regular capital monitoring through above process and monthly at the Capital Forum. Medium Term Financial Strategy. Budget Risk Register. Comprehensive budget plan in place to close gaps. Debt Management Policy Realistic analysis of financial pressures Close portfolio holder involvement	**A2**	**N/A New Risk**	*Further Actions* New Actions in this area - Member-led group to develop MT financial plan and sustainable savings Project to review potential for increasing fees/charges & greater commercialism support IT Upgrade Programme Procurement project *Contingencies* Escalate to CSB to implement additional cost cutting initiatives / budget reallocation. Recourse to statutory powers (Sect.151)	TBC	**D2**	**31.03.13**	**Julie Alderson**	This is the significant and emergent financial risk (including its reputational dimensions) facing the Council going into 2012/13 and is not only the need to deliver on a balanced budget in 12/13 but to subsequently deliver fully in future years on further required budget cuts over the medium term . The risk is rising because of the nature of having to make very difficult choices currently being faced Members. Additionally, central govt have extended the need for deficit reduction measures/cuts into 15/16 and 16/17 increasing the scale of required cuts and pressures in the MTFS.

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3	4	*Risk (Event)*: **There is failure to achieve long term economic growth in the Borough** *Cause(s)*: Failure to attract sufficient levels of inward investment Failure to bring in commercial end-users Failure to ensure Harrow residents benefit from employment and training opportunities *Consequence(s)*: Increased call on council services (particularly A&H and Children's Services) Increased unemployment Reduced consumer spend/a poorer shopping offer in town centre Worsening health conditions Low-skill workforce Increasing levels of family and child poverty	Enterprising Harrrow Steering Group Sustainable procurement Policy s106 Planning contribution to increase local labour (apprentices) Implementation of cent. gov Welfare to Work Programme Inward Investment Opportunity Development below	**C2**	N/A New Risk	*Further Actions*: Apprentices Programme being submitted to Cabinet Work Cubs to run job fares Promotion and brokering of opportunities with local colleges Working with commercial agents to market District Shopping Centres and vacant retail premises. Development of a sustainable revenue stream to promote the Town Centre *Contingencies*:	30%	**D2**	**2013/14**	Andrew Trehern	Whilst this risk can be seen as reasonably low in likelihood terms on a local level current levels of national (incl.public sector funding and spending levels) and global economic uncertainty increase the degree of likelihood required to be attached to it under the present conditions.

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4	All	*Risk (Event)* **Successful legal challenge of a council decision.** *Cause(s)* Poor legal & technical advice Uncertainly of court outcomes/cases Potentially contentious decisions by Cabinet. EU procurement legislation. Lack of Member/staff training and awareness. Greater supplier resident awareness of available legal responses and appetite for legal action. *Consequence(s)* Legal costs/fines. Negative media and reputation damage. Delay to projects. Increased supplier incentive for legal action Fines, order shortening/cancelling contract, damages	Legal clearance of Member reports Legal input to major project groups. Corporate Equalities Group Mgm Dev.Programme. File reviews. Corporate Managers Induction includes a session on legal requirements and decision making. Monitoring Officer part of CSB & Monthly Executive briefing sessions. Training sessions for Directorate management teams on decision making (provided by Democratic Service) Ongoing work with CLG Continual update/training of legal staff & SPB established O&SC call-in of contentious decisions	**B2**	**B2**	*Further Actions* Develop Procurement Strategy (Richard Hawtin - 2011/12) Develop Contract Management Strategy (Richard Hawtin - 2011/12) Publish a voluntary transparency notice for direct awards. Ensure contractual terms clearly allocate risk in the event that remedies under UK legislation is imposed. Investigate option of pre-agreeing contractual provisions. Establish dispute resolution procedures. Investigate option of pre-agreeing. Register of contracts being developed in conjunction with the Procurement division to support decision-making *Contingencies* TBC	TBC	**D2**	**2012 - 13**	**Hugh Peart**	Risk still remains at its current exposure as at Q3

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5	All	*Risk (Event)*: **Deteriorating Industrial/employee relations** *Cause(s)*: National public sector dispute on pensions National local government pay award and conditions Local pay and conditions negotiations Council Transformation Programme Public sector cuts/reductions in the workforce *Consequences*: Industrial action, incl strikes Adverse impact on workforce well-being Adverse impact on staff morale and engagement Loss of productivity and goodwill "Survivor syndrome" in post-transformation staff	Consultation and negotiation framework in place Well-established workforce communication channels Employee support arrangements, incl. redeployment processes and procedures Focus on leadership and management development for managing change	**A2**	**N/A New Risk**	*Further Actions*: Continuing work on staff engagement strategy, incl. communications strategy on Transformation Programme (31.03.12) Communications plan to deal with industrial action(30.11.11) Continuing focus on leadership and management development for managing change (On-going) Direct consultation with staff on Terms & Conditions *Contingencies*: TBC	60%	**B3**	**Aug-12**	Cabinet/ CSB	Failure to reach agreement on Terms & Conditions with TU now requires and also offers the opportunity of direct consultation and balloting of staff on issues raised.

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6	All	*Risk (Event)*: **Failure to achieve a culture in the organisation that supports the Council's vision and priorities** *Cause(s)*: Vision and direction not clearly understood or directed Poor management of change Poor staff morale Values not aligned to direction of the organisation Lack of member of awareness Major programme of change *Consequences*: Increased absence Low staff morale Reduced council performance Programme delivery behind target	Change Management strategy Transformation Programme Create values and Create awards Improvement Boards Staff surveys CE Newsletter and staff briefings Absence management and reporting	**C2**	**C2**	*Further Actions*: Development of the Corporate Leadership Group On-going training and support for managers in the management of change Member Development Plan New Corporate Plan New communications Plan 2012/13 Direct negotiations with staff on Terms & Conditions *Contingencies*: TBC	80%	**D2**	**01.03.12**	**TW**	New corporate plan to be agreed at February cabinet which will further clarify vision, priorities and direction. New communications plan being developed for 2012/13.

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7	All	*Risk (Event)*: **The Council fails to deliver required/target procurement savings (£2M) in 2010/11** *Cause(s)*: Service areas under severe budgetary pressure and are unable and/or reluctant to surrender savings Corporate financial compliance and challenge processes are not strongly established at the Council *Consequence(s)*: Council budgetary overspend in 2010/11 Failure to achieve overall target under-spend Forced revision of the MTFS and reduced funding for future years Member criticism Reputational damage Continuing waste and inefficiency in procurement	Process agreed to identify savings and subsequently withdraw money from service budgets Procurement strategy in place for achieving and releasing medium-term procurement savings Capability and capacity to deliver savings increased via establishment of the interim procurement team	**C2**	B2	*Further Actions*: Actions as outlined by DoR email 25.10.11 on revenue budget position (95%) SAP configuration to drive greater efficiencies in procurement (10%) - project delayed in 11/12 but will be delivered in 12/13. *Contingencies*: MTFS review & revision	50%	**E4**	**31.03.12**	Julie Alderson	Risk has decreased from B2 to C2 over the last quarter. This is due to the proposal for £2M procurement savings being stronger. However issues around compliance and the corporate approach remain and delivering on the 2012/13 Procurement Action Plan will be critical. This risk in its relation to 11/12 as a stand alone risk can be considered for removal from the risk register at 31.03.12. For 12/13 procurement proposals have been in-built into directorate budgets and can embedded into the wider risk of coming in on budget in 12/13.

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8	All	*Risk (Event)* **Ineffective Partnership working in local health reorganisation impacts on Vision** *Cause(s)* Partner & Council financial pressures / reduced LAA funding Poor governance model Lack of shared vision/ conflicting priorities Legislative changes, e.g. abolishment of PCT to GP Consortium Poor communication - internal & external Reluctance to culture change - them vs. us. *Consequence(s)* High profile service failure Loss of public confidence Compromised delivery of Transformation Cost shunting and inadequate financial recovery process	Regular HCE Group meetings and updates & LAA received grant allocation and HSP reallocation of LAA funds Updated HSP Governance Handbook and Induction Handbook. HSP Management Group risk registers in place. Sustainable Community Strategy - updated every 2 years & approved by Board. Joint working with Police in organisational join up. HCE performance management cycle. Cost shunting risk assessment & Updated HSP Governance Handbook. Transformation Programme management (PMO) Health and Well Being and Clinical Commissioning Boards set-up	**B2**	**C2**	*Further Actions* Review (s) of spending cuts on Voluntary Sector Review of Grants Process Review of HSP Mgm. Groups (June 2011) Engage directly with GP Consortium(s). PCT/Council Away Day Health & Well-Being Board and Clinical Commissioning boards being developed Integration plan for public health Negotiations over PCT cost shunting *Contingencies* Escalate to HCE and Partnership Board Council financial planning	60%	**D2**	**On-Going**	**Tom Whiting**	Increasing dispute with PCT over cost shunting proposals place relationships at risk and this is a key factor in the risk rising this quarter from C2 to B2. Work on a draft integration plan for public health has started.

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9	All	*Risk (Event)*: **Impact of changing demographics not anticipated** *Cause(s)*: Welfare reforms Data quality/accuracy is poor No resource allocated to consider implications Long term planning does not meet needs Directorates do not act proactively on emerging information *Consequence(s)*: Insufficient time to plan for school places Services not catered to community diversity Community cohesion does not improve/increased segregation/isolation Service users needs not met Insufficient resources to deliver services	Joint research/analysis group established Experion Vitality profiles updated Use of GLA Population Projection Service Census 2011 & Transformation programme Sustainable Community Strategy HAP Refresh & LD Framework Community Cohesion Action Plan Corporate Equalities Group Universal user groups Local Information System (LIS)	**D2**	**C2**	*Further Actions*: JAG targeted work & Year Ahead Statement (July 2012) HSP Task & Finish Groups (incl. welfare reform) & feed into service planning On-going utilisation & development of LIS Internal study on resident numbers led by Sue Kaminska Phased/partial release of 2011 Census data *Contingencies*: Spending protocol	50%	**D3**	**2012-13**	**Tom Whiting**	The risk has decreased this quarter from C2 to D2 mainly as a result of the LIS coming on line to strengthen protocols in this area. However HB and CT reforms in impact terms still uncertain in terms of triggering population moves. Risk essentially will remain until 2011 Census data becomes available and can be used as the basis for projections which will then minimise this risk.

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10	All	*Risk (Event)*: **Council inadequately prepares for welfare reform** *Cause(s)*: Details of new scheme not given by govt. with adequate timescales Lack of clarity on what govt. requires of Council & uncertainty of timelines. Tight deadlines Inadequate capacity & resources to deliver Cutback of subsidy from govt. Competition with other Councils for the IT systems procurement & subsequent implementation from only a few suppliers of the system in the market *Consequence(s)*: £2m+ cost to Council if Default scheme has to be put in place Ultra vires if new arrangements not implemented Risk of judicial review Financial problems for residents Complaints/litigation Member criticism	Sustainable efficient HB/CT system currently in place Regular reporting to CSB Portfolio meetings on risk register CSB approved consultation feeding back to govt. Resource planning £100k funding secured through MTFS for project Clear management structure Project Team being put in place February 2012. LGF Bill 2012 issued Jan.	D1	D1	*Further Actions*: Workshops for CLG and Members in Feb-April 2012 to increase awareness Stakeholders involvement - consultation with residents starting April/May 2012 Funding has been allocated in the budget for the project to prepare for CT benefit to be re-localised. Project Team & Consultation resource planned and to be in place by February. Key staff attending external seminars to ensure their knowledge on Government developments up to date PID, Project Plan, Scheme/financial steer & Communications strategy to be developed Feb-April *Contingencies*: Bills would go out to residents gross Cash flow reduced caused by difficulties in enforcing non payment until rebates are calculated awards will be made retrospectively	10%	C1	30.10.2012 17.01.2012	Julie Alderson	As at Q3 CI predictive red risk rating is based on current uncertainty of the outcomes of consultation and of govt. funding levels and related delivery platforms. Risk remains at its Quarter 2 exposure in Quarter 3. Although £100k funding has been made available via MTFS for year 2012/13, this is insufficient. Staff Resources being removed from HB service to make up project team which brings risk to existing HB service operation & subsidy. Statutory instruments not available until late spring/early summer. Grant amount not yet disclosed.

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11	All	*Risk (Event)*: **There is a high-profile service failure in relation to a vulnerable client or person** *Cause(s)*: Efficiency / service changes Low Staff levels at front line/exceptional increase in demand Partner failure – agencies acting in isolation Maverick employee Inadequate or lack of management systems Lack of Mgm supervision and casework oversight Lack of standard commissioning and contracting Lack of training/ awareness at service level Failure to follow Policy and Procedures e.g. pan-London Safeguarding procedures *Consequence(s)*: Client suffering preventable abuse / loss of life (incl. resulting from efficiency/service changes) Sustained media attention Legal/Govt intervention or inspection Reputation damage to Harrow Council Misconduct issues	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 e.g. Serious Case Reviews. Formal QA and QA board considers lessons learnt from incidents. 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 Heath policies for staff. Recruitment process (including CRB checks), 1:1 meetings and supervision. Code of conduct and audit requirements. Vacancy rates and use of locum staff has been reduced.	**C2**	**C2**	*Further Actions*: Best Practice Forums in Adults Services - learning the lessons from QA and case reviews. Review of formal training programme following training needs analysis. *Contingencies*: Responses to OH&S and Duty of Care Incidents	TBC	**D2**	**On-Going**	**CSB**	Adults dimension of risk refreshed/updated in December 2011 with Carol Yarde & Sue Spurlock

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12		*Risk (Event)*: **Business continuity/disaster recovery not resilient (TW)** *Cause(s)*: Natural disaster. Pandemic. War/terrorism. *Consequence(s)*: Unable to deliver services. Loss of Council buildings, IT or staff.	All 34 BCPs at departmental level completed. Ongoing business continuity workshops for service managers and above (new/upon promotion). BC awareness part staff induction & BC info on the Hub. Nightly data back up arrangements. SAP disaster recovery plans. Annual review of all BCPs and testing of SAP data recovery at remote data centre by Capita. Quarterly & ongoing liaison with West London boroughs and annual forum with all London boroughs to share best practice and lessons learnt. Ongoing liaison by Emergency Team with Directorates. Table top testing of Corporate and Directorate BCP completed Feb 2011. Sunguard arrangements agreed and in place.	**D1**	**D2**	*Further Actions*: All BCP Plans to be reviewed (March- May 2012) Regular business continuity training for CSB/CLG - scheduled 23.02.12 *Contingencies*: Utilise Safeguard recovery site. Harrow IT Service BC Plan being developed by Capita in consultation with Information Governance \and the EP team (IT Disaster Recovery)	80%	**D1**	**2012/13**	**TW**	As at Q3 the Council's BC arrangements are comprehensive and will undergo their annual review following the corporate restructure, during March - May 2012, just prior to the Olympics to ensure the Council's BC plans are up to date and fit for purpose

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13	All	*Risk (Event)*: **Inadequate emergency planning in place to deal with major incidents** *Cause(s)*: Severe weather, explosions, terrorism and pandemic. *Consequence(s)*: Community disruption. Reputation damage.	Annual review of Major Incident Plans, including emergency response procedures. Emergency response officer volunteer rota/Duty Director rota in place & updated biannually.. Ongoing liaison & consultation with GLA Resilience Team, Cabinet Office. All Duty Directors up to date on EP training. Participated in Safer City exercise (London-wide March 2011). Annual hands-on testing exercise for senior managers. Members training (Dec 2011) Senior management training (February 2011) All plans in place and regularly reviewed, with regular training provided to all senior manager, including involvement in testing exercises. Multi-agency middle managers exercise on a CBR incident (18/11/2011). Council wide BC phone cascade test (23/11/2010).	D1	D2	*Further Actions*: Senior management training (CSB & CLG) scheduled for February 2012 London-wide annual exercise Ex Altius on 24-26th April 2012 Annual training for Members as per Member Development Programme *Contingencies*: Implement Major Incident Plan.	90%	D1	2012/13	TW	As at Q3 preparation for the Olympics CS Operations and Resilience Planning is well underway with the EP team participating in exercises with multi-agency partners across London and also local training for council managers and directors, eg Ex-Fortius 17.01.12.

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14	2&3	*Risk (Event)* **There are insufficient school places (primary, secondary and special schools) for projected pupil numbers**	School Place Planning strategy & School Expansion Programme Projections analysis Primary Head Teacher Working Group Standing Officer Group Revenue-funding support available Response to government consultation on schools capital strategy	**C2**	**C2**	*Further Actions* * School expansion programme wil be extended to Secondary and Special Schools to cope with increase in numbers *The outcome of the consultation on proposals to expand up to 11 primary schools will be reported to Cabinet in December 2011 *Expansion programme included in Capital Strategy for Cabinet to agree. Application made for PFI funding (Decision Dec 11) Awaiting outcome on govt. schools capital consultation and awaiting confirmation of Harrow allocations for 2012/13	TBC	**D2**	**01.10.12**	Catherine Doran	Risk will remain at its current exposure of C2 until all planned controls have been fully implemented, particularly in regard to primary schools. At this point the target risk rating of D2 will be achieved.
		Cause(s) Increasing birth-rate Popularity/demand for successful Harrow schools Migration (incl. potential effect of HB changes) Economic climate depresses the housing market reducing moves out of Harrow Opting-in of private school choice families into the state sector				Regular reporting to EdCF will enable more robust monitoring Work with schools to agree those that will be expanded Plan for bulge classes and a contingency of additional bulge classes if needed Report to Cabinet on capital implications Review all funding options eg DfE new PFI scheme Seek alliances with alternative providers, eg Free Schools and neighbouring authorities					
		Consequence(s) Breach of statutory responsibilities Negative publicity and Member criticism Family expectations not met increasing family anxiety and subsequent increased demand on council resources and time				*Contingencies* Review and seek additional funding e.g. from corporate centre Seek greater alliances with alternative providers, eg Free Schools and neighbouring authorities Proposal for MTFS contingency					

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15	All	*Risk (Event)*: **There is damage to the reputation of the Council and failure to involve and engage with the community/service users** *Cause(s)*: High profile service failure/ Incident Leak to media Sustained press attention Mishandling press Uncoordinated PR *Consequence(s)*: Poor public perception Sustained media attention Damage to council brand Lack of influence with Partners/stakeholders	Media training for key staff Whistleblowing Members Training & Code of Conduct Early involvement of Comms team in issues Corporate Customer Service Standards PRCA audit (88% score) Involvement Tracker	**C2**	**C2**	*Further Actions*: Information Work Programme 2010-12 IA Review in 2011-12 Press strategy for 12/13 budget cuts Lets Talk 3 Programme 2012/13 CT booklet Involvement Tracker 2012/13 Communications Plan Comms strategy will highlight T2 stressing innovation and financial discipline Greater stakeholder engagement (residents and interest groups) in FY 12/13 in council decision-making further to "Lets Talk" "You Said - We Did" feedback o *Contingencies*: TBC	30%	**D2**	**2012/13**	**CSB**	Risk remains at its current exposure of C2 going into the budget period. Planned actions moving into FY12/13 will focus on increased engagement of stakeholders, particularly key partners and which will give stakeholders the opportunity to see the bigger picture, particularly the financial picture, at the Council

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16	All	*Risk (Event)*	**The Transformation Programme is not successfully delivered and fails to reduce medium to long term financial pressures**	CSB Transform Board & Programme Tracker Quarterly IBs. Support/challenge of partnerships, e.g. HSP, CEG & MGs, CSB Performance Capita/BTP relationship Service planning 2011/12 - annual budget review /panels February Cabinet report Joint meetings with the Administration Co-ord. of activity with BTB	**C2**	**C2**	*Further Actions*	Dir. risk registers to include risks to resourcing Transformation Programme projects Co-ordination & consultation activity with BTB Mobile & Flexible Working Project IA Review of Transformation in 2011/12 New joint working group with Members	60%	**D2**	**On-Going**	**CSB**	As at Q3 this risk remains the same. New medium-term budget will be agreed at full council which identifies further MT savings but which does not close MT funding gap. Further work with officers and Members is therefore required.
		Cause(s)	Reduced / limited funding and in year cuts Lack of resources (capacity / capability) and multiple projects Poor programme and project governance and management										
		Consequence(s)	Critically required MTFS savings/efficiencies are not realised Reduced customer satisfaction / reputation damage Reduced / inefficient delivery of service Fail to achieve long-term cost savings.					Allocate pro-rata'd saving targets to each target. Funded backfill for business case development and implementation. Investigate alternate funding options.					

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17	1,2, 3	*Risk (Event)* **Inadequate OH&S management system to ensure appropriate asset management and meet duty of care obligations.** *Cause(s)* Lack of organisational capacity and capability for long term OH&S programme management. Ineffective asset management and maintenance. Over dependency on key contractors New OH&S legislation for Councils. *Consequence(s)* Reputation damage. HSE prosecution and civil legal proceedings, including financial penalties. Inability to achieve objectives and deliver OH&S service to required standard. Failure to comply with legislation (new and existing).	Contract with Brent Council for OH&S Service Corporate H&S Committee and Directorate H&S Groups Asbestos Management Review Insurance in place & KPIs set. Asbestos & Legionella Mgm Group in place H&S Training Plan/Programme Asset Management Plan. H& S Improvement Plan agreed Staff development (1-2-1s, induction) Monitoring of contractor/contract perf H&S budgets& action plans in place. Regular review of risk assessments Management inspections	C1	C1	Rolling programme of policy & procedure reviews - asbestos, fire, accidents, legionella, etc (2011/12). Development of internet/intranet OH&S content (2011/12) Check asbestos register against main asset register to identify all Council buildings with asbestos. (October 2010 - Report to CRSG). IA review of asbestos management within Housing Services (Nov 2010).* HSE inspection follow up in June 2011. All HSE notices now lifted. Full implementation of recommendations in Sickness Absence and Asbestos Managment (Housing Stock) IA reports Fire Mgm arrangments to be assessed/reviewed. Self-auditing software tool (June 2011)	40%	D2	2011/12	**Tom Whiting**	As at Q3 the audit tool trial has been completed and the audit tool is being rolled out across the Council. The Policy and procedure review is well underway with a number of documents approved at the Corporate Health & Safety Group. Issues have been identified with regard to statutory inspections and maintenance of work equipment. A working group has been set up to resolve these.

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18	All	*Risk (Event)*	**Ineffective political interface (including opposition) / failure to maintain good working relationship with administration and opposition.**	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. Continued engagement with Leadership Group to develop and maintain good working relationship.	**D2**	**D2**	*Further Actions*	New senior management structure will greater support Members' needs Risk will continue to be monitored on an on-going basis	40%	**D3**	**2011/12**	Hugh Peart	View of CSB on maintaining this risk on the corporate risk register to be invited as part of Q3 monitoring.
		Cause(s)	Change of leadership / political control. Lack of Member awareness of council frameworks/processes.										
		Consequence(s)	Conflicting priorities - tensions between local, regional and national agenda.				*Contingencies*	* Meet with Leader, Chief Executive, CSB and Cabinet.					

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19	All	*Risk (Event)*: **Lack of commitment to climate change and to reducing carbon emissions** *Cause(s)*: Unplanned approach to maintenance Semi-independence of schools Lack of focus on reduction in key council processes *Consequence(s)*: Increased & avoidable costs incurred due to exposure to CRC scheme (currently £250K pa and rising) Inability to mitigate rising medium-term energy costs Targets not achieved Council assets reduced in value due to lack of adaption Reputation damage Member/politcal criticism	Energy saving measures in place at Civic Centre & Depot CSB & DMT sign-off of Climate Change strategy £2M successful MTFS bid Re:Fit & GLA framework in place Submitted 10/11 baseline footprint West London boroughs liaison	**C2**	**N/A - New Risk**	*Further Actions*: Corporate carbon reduction plan Re:Fit programme Liaison with TP for recognition & backing Reduction to be a required criteria for business cases Existing maintenance resources (non-Re:Fit) to be made more efficient Affordable Warmth programme *Contingencies*: Build increases in energy and CRC costs into the MTFS	50%	**D3**	**Apr-12**	**Brendon Hills**	None

No.	Corporate Priority	Risk Description	Key Controls (In Place and Effective)	Risk Rating This Quarter (after controls)	Risk Rating Last Quarter	Key Controls (Underway or Planned) (Incl. Implementation Date)	Control Progress %	Target Risk Rating	Target Risk Date	Risk Owner	Q3 Update & Commentary
20	2	Risk (Event): **Opportunity Risk** **Increasing Income from Schools & Partnering Opportunities** Cause(s): Purchasing freedom of academies Reduction in overall Council Budget and ability to subsidise schools Consequence(s): * Enhanced commercial footing * Potential longer term profits but possible short term losses * Creation of a customer focussed strategy * Strategy for market growth & expansion of market base to include the wider public sector * Reduction of service overheads * Increased focus on value-adding activity & customer requirements	* CSB has **oversight** of the process * Good **understanding** of the cost base * Appointment of an interim **commercialisation manager** * Long **experience** of working with schools * Good and improving **relationships** with schools * **Support** form central finance * Academies **tendering options** paper being drafted * Creating **structured PID** for fees, charges & commercialation project	C3	N/A	Further Actions: * Development of a **stakeholder related strategy** * Inclusion of **stakeholder liaison** * Reviewing of services to **demonstrate Improvements** to customers * **Reviewing cost base** in a number of services * **Reviewing** fees and charges * Highlighting the need for **cultural change** * Demonstrate the **outcomes of change** Contingencies: * Scaling back of services * Likely redundancies **Additional Q3 Commentary** Fees & Charges Report for budget-setting Cabinet includes a commercial approach to markets which will generate an increase in income & started to shift cultures towards cost & income awareness * Project Governance Drafted * Project & related deliverables will report into: * Monthly CSB Transformation reporting cycle * Qrtly performance cycle * Income will feature more strongly in monthly DMTs	60%	B3	31/12/11	Julie Alderson	* Opportunity to cover all market opportunities & will become a more significant Council concern * **Progress:** * ***Academy Tender Complete*** * Prices submitted for Academy work * Lessons inlcude a calcualtion methodology **&** ABC approach * Pricing structures expose high costs of internal provision * ***SLA Pack Complete*** * 30 SLAs have been revised and published * New pricing structures for many services offering greater customer choice * Stakeholder meetings arranged for 1st Feb * ***Stakeholder Meetings*** * All Headtechers & Directors * Heads Executive * School Business Managers * SLA Pack Q&A Session) * See Additional Commentary Aside

No.	Corporate Priority	Risk Description	Key Controls (In Place and Effective)	Risk Rating This Quarter *(after controls)*	Risk Rating Last Quarter	Key Controls (Underway or Planned) (Incl. Implementation Date)	Control Progress %	Target Risk Rating	Target Risk Date	Risk Owner	Q3 Update & Commentary
21	All	*Risk (Event)* **Opportunity Risk** **Attracting Inward Investment [Major Development] - DRAFT** *Cause(s)* Lack of clear policy Public sector resource constraints Competition for Place & Funding Suppressed global economy Financial pressure on consumer disposable income *Benefit(s)* Circa. £1B investment potential Significant capital receipt from land sales/joint ventures Wealth creation and economic growth in the local economy Increase in footfall & local employment Increased home building (incl. affordable homes)	Sound core strategy/vision (LDF) New corporate structure Positive demographic profile for investment Strong reputation for Place Major Development Panel	**D1**	N/A New Risk	*Further Actions* AAP for H&W New Corporate Plan Outer London Fund (Round 2) Town Centre Capital Programme Reputationally and strategically significant sites, including planning applications and land securities (eg Kodak) *Contingencies* Appeal-led development Mayoral Development Corporation Local employment programmes Piecemeal/sub-optimal public sector land disposals Council becomes a primary development company	35%	**B1**	**1.1.13**	Andrew Trehern	None

No.	Corporate Priority	Risk Description	Key Controls (In Place and Effective)	Risk Rating This Quarter *(after controls)*	Risk Rating Last Quarter	Key Controls (Underway or Planned) (Incl. Implementation Date)	Control Progress %	Target Risk Rating	Target Risk Date	Risk Owner	Q3 Update & Commentary
22	2,3	*Risk (Event)*: Opportunity Risk Closer support service working with the emergent Clinical Commissioning Group to deliver integrated services with an additional income stream (potentially £4M) flowing to the Council *Cause(s)*: Modernisation of the NHS Health and Social bill Localism agenda (as opposed to the regional agenda) Shared history and experience of working together as partners *Consequence(s)*: More integrated, efficient and higher quality services Council's collaborative and commercial skill-sets are developed Up to £4M additional income Knowledge sharing and closer relationships with partners Council's wider Vision of itself empowered Strategic momentum maintained	Presentation to CSB (Oct 11) Presentation to GPs (Summer 11) Health Integration Group in place Health & Wellbeing Board in place Council skill-sets already in place History of shared working and collaboration with fundamental services already in place Good relationships with GPs Meetings and workshop with the Health and Wellbeing Board NW RSO Prospectus submitted Members briefed on commissioning support as part of regular scheduled	**D3**	**N/A New Risk**	*Further Actions*: Meetings and workshop with the Health & Wellbeing Board planned (Jan 2012) Application for Authorised Provider status (April 2012) Build on commercialisation work being done with schools Working with CCG and 4 other London boroughs (Jan - March 2012) to develop full business case on joint working In discussion with Brent, Ealing, Hounslow and Hillingdon on possible joint venture *Contingencies*:	**40%**	**C2**	**Nov-12**	**Paul Najsarek**	Rating and exposure remain overall unchanged as at Q3. Progress on controls underway is in progress and on-going

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APPENDIX 2

Q3 CSB High-Level Strategic Risk Report – Seizing & Exploiting Opportunities/Commercialisation

Risk No	Key Risk Opportunity	Risk Rating	Control Strategy	Risk Appetite	Key Controls	Control Progress	Control Indicator	CSB Action
21	Attracting Inward Investment [Major Developments Circa. £1B potential] (AT)		Treat/Exploit	Open - Seeking	▪ Sound core strategy/vision (LDF) ▪ AAP for Harrow & Wealdstone ▪ New corporate structure & Corporate Plan ▪ Major Development Panel ▪ Strong reputation for Place & positive demographic profile for investment to be matched to the opportunity ▪ Outer London Fund (Round 2) & town centre programme ▪ Reputationally & strategically significant sites, including planning applications and land securities (eg Kodak)	35%		
20	Schools' Income Opportunities [potentially £1-2M income stream] (JA & CD)		Treat/Exploit	Open - Seeking	▪ CSB ownership & oversight & direction ▪ Central finance support & sponsorship ▪ Interim Commercialisation Manager in place ▪ Long experience of working with schools that can be matched to the opportunity ▪ Academy tender complete & SLA pack complete ▪ Stakeholder strategy (incl. consultation) being developed ▪ Cost base review to create basis for pricing policies ▪ Structured fees & charges PID in progress	60%		
22	Supply of services to the Clinical Commissioning Group [up to £2-4M income stream] (PN)		Treat/Exploit	Open - Seeking	▪ Presentation to CSB &Presentation to GPs ▪ Good relationships with GPs ▪ Health Integration Group & Health & Wellbeing Boards in place and on-going discussions with these ▪ Council skill-sets already in place and can be matched ▪ History of shared working/culture & collaboration with fundamental services in place that can be matched ▪ Build on commercialisation work being done with schools ▪ Working with CCG and 4 other London to develop full business case on joint working ▪ In discussion with Brent, Ealing, Hounslow and Hillingdon on possible joint venture	40%		

RISK INDICATOR THIS QUARTER		CONTROL INDICATOR THIS QUARTER	
	Opportunity/Benefit Realisation/Potential Increasing	No Progress On Controls (or No Controls)	
	Opportunity/Benefit Realisation Potential No Change	Progress Made on Control Implementation	
	Opportunity/Benefit Realisation Potential Decreasing	All Controls Implemented	

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1. INTRODUCTION AND BACKGROUND

1.1 This annual statement of risk appetite is drawn up by the Council in line with best professional practice in corporate governance as reviewed by the Financial Reporting Council [FRC] further to the requirements of the UK Corporate Governance Code [2010] Section C: Accountability; wherein the Executive [the Cabinet] is responsible on an annual basis for "determining the nature and the extent of the significant risks it is willing to take in achieving its strategic objectives". It is generally recognized that a statement of risk appetite fulfils this requirement.

1.2 The best practice corporate governance requirement to produce this statement applies further to the Code to both private and public sector organisations in the UK.

1.3 It is intended that Cabinet review and approve to ensure that the risks the Council is willing to take to achieve the corporate plan are measured, consistent and compatible with the Council's capacity to bear and manage risk and do not expose the Council, or its stakeholders, to an unknown, unmanaged or unacceptable degree of risk exposure.

1.4 This statement of risk appetite is also to be read and understood in conjunction with the Council's risk management strategy which is reviewed annually and which was approved for 2012-13 by Cabinet in October 2011. The approved statement of risk appetite will be incorporated into the risk management strategy.

2. DEFINITION OF RISK APPETITE

2.1 The risk appetite of the Council can be defined as *"the amount and type of risk that an organisation [the Council] is prepared to seek, accept or tolerate"* (Source: British Standard on Risk Management BS31100 2008) or similarly, "The amount of risk that an organisation is willing to seek or accept in the pursuit of its long term objectives" (Source: Institute of Risk Management: Risk Appetite and Tolerance; Guidance Paper 2011).

2.2 Risk is defined "as a barrier to the achievement of strategic objectives" and risk management as "the process of understanding and managing the risks that an organisation is inevitably subject to in attempting to achieve its corporate objectives" (CIMA Official Terminology 2005). Risks can be seen not only as the more conventional threat or hazard type risks, they can also take the form of positive risk opportunities, or benefits to be exploited or innovated by the Council and its partners in entrepreneurial terms which can enhance, increase and accelerate the achievement of its objectives.

2.3 The Council's statement of risk appetite has two aspects to it. This is firstly to clearly and fully state and quantify, and also to disclose to its stakeholders, the nature and extent of the key risks it is taking on and is willing to embrace (or to exploit) as part of the delivery of the corporate plan. This can be seen as its inherent or "gross" risk acceptance during the year.

2.4 Secondly, it is to clearly set an organisational policy within the Council, also communicated to its stakeholders and officers, in regard to what quantifiable level of risk exposure it is prepared to retain after control and mitigation action has been taken in relation to these risks, and after which point, no further action or mitigation will be undertaken by the Council in regard to the exposure. This can be seen as its residual or "net" risk exposure during the year.

2.5 Generally organisational attitudes to risk, including public sector organisations, can be said to range across a spectrum of attitudes and appetites, ranging from **Low Risk** or risk-averse appetites at one end of the scale (here there is avoidance of any form of risk and uncertainty as a key organizational objective) through to an intermediary **Medium Risk** or cautious approach to risk (here the organisation's preference is for safe delivery options that have a low degree of inherent risk) then ranging to a **High Risk** or risk-seeking position (the organisation is innovative and chooses service delivery options offering higher customer satisfaction/quality despite greater inherent risk in these activities).

2.6 It is important to note that gross risk appetites may often vary across different types of risk at different times, and may even vary across directorates in these terms and that an organisation's overall gross risk appetite is often a composite or aggregate of these different risk appetites.

2.7 The range or spectrum of risks comprising significant risk is commonly defined as being made up of five major categories of risk - strategic, financial, service delivery/business risk, legal and finally reputation risks. These are outlined in greater detail below.

3. THE COUNCIL'S RISK APPETITE IN 2012-13

3.1 During 2012-13 the Council will have in the main an overall and informed cautious appetite for taking significant risk to achieve the corporate plan and for delivering council services in support of this. Where significant risks arises the Council and its officers will take effective control action to mitigate these risks to minimal and safe levels of net residual risk exposure for stakeholders.

3.2 However it is to be noted that whilst the Council will maintain its overall informed cautious approach, it will have areas within this where a higher level of risk will be taken such as in, for example, in supporting innovation in service delivery. These will be offset by areas where it maintains a lower than cautious appetite such as in, for example, matters of compliance with law and public confidence in the Council, so leading to its overall and informed cautious position on risk.

3.3 The Cabinet also accepts in regard to the taking of risk that there may often be early failure and set-back in the longer term process of obtaining the returns and outcomes from delivery of the corporate plan, particularly in regard to developing new and innovative processes at the Council necessary to achieve the plan.

3.4 The Cabinet will therefore be supportive to all council officers in the taking of necessary, calculated and measured risk in order that the objectives the Council has set for itself in the corporate plan can be achieved during this time of increasing financial austerity, challenge and change.

3.5 The nature and main types of significant risk as mentioned above that the Council will take on as part of its risk portfolio in 2012-13 will be as follows:-

(a). Strategic Risk
(b). Financial Risk
(c). Service Delivery/Business Risk
(d). Legal and Compliance Risk
(e). Reputation Risk

3.6 These risks can be defined as follows:-

Strategic Risk
This is the risk arising from the possible consequences of strategic decisions taken by the Council, or the risk of a failure to achieve corporate priorities, and should be identified and assessed at the Executive and senior management level of the Council.

Financial Risk
This is the risk of changes in the Council's financial condition and circumstances, such as for example, in its balance sheet assets and liabilities, its funding, income and spending levels.

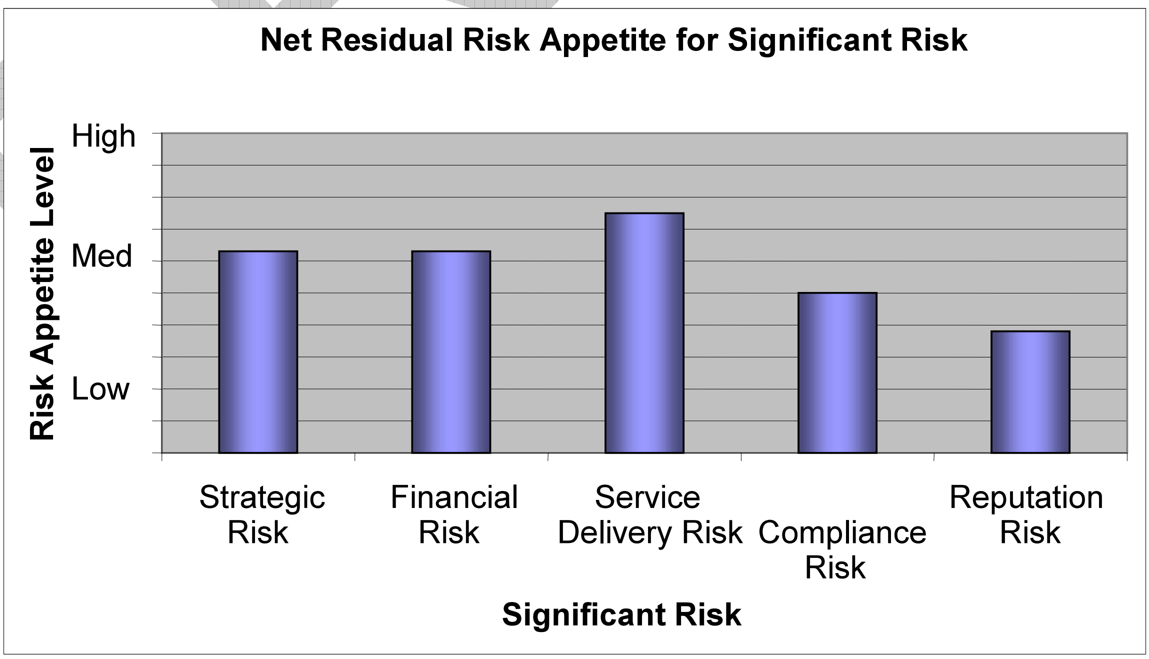
Service Delivery/Business Risk
This is the risk arising from the nature of the Council's business and operations, for example, the risk of a failure to deliver statutory or other services to residents, to fail to provide required quality in services, or to fail to provide appropriate services in the event of an emergency.

Legal and Compliance Risk
This is the risk of successful legal action being taken against the Council, or of the Council breaching law in its activities and operations, and is also the risk of losses, possibly fines, and other sanctions arising from non-compliance with laws and regulations.

Reputation Risk
This is the risk of a significantly adverse or damaging perception of the Council by the general public and Harrow residents.

3.7 The Council's appetite for these risks on a net residual risk basis can thus be shown graphically in overall summary terms as follows:-

Diagram 1: Council Net Residual Risk Appetite for Significant Risk in 2012-13



4. THE CORPORATE PLAN AND THE NATURE AND MAIN TYPES OF SIGNIFICANT RISK BEING TAKEN ON BY THE COUNCIL IN 2012-13

4.1 Harrow Council provides a wide range of services that improve the quality of life for residents, support vulnerable people and which enhance community cohesion. Over the last five years, the quality of those services has improved from in some areas being lower-quartile in terms of Councils in London to being awarded the title of best achieving Council in the UK in the Municipal Journal awards in June 2011. The Council's key risk management challenge is to maintain and advance its excellent services while at the same time managing significant reductions in its spending power. The Council's corporate priorities are:

- Keeping neighbourhoods clean, green and safe;
- United and involved communities: a Council that listens and leads;
- Supporting and protecting people who are most in need; and
- Supporting our Town Centre, our local shopping centres and businesses;

4.2 These will help the Council decide how to best allocate and manage its reducing resources. The Council will work in strong collaboration with its partners and in its communities in demonstrating its vision: Working Together; Our Harrow, Our Community. During 2012-13 and beyond the Council will continue to look for efficiency savings to meet the exacting financial targets set by Government. As well as looking at all services to seek better ways of achieving agreed outcomes, the scale of the savings required has placed additional emphasis on the need for transformational change, that is, changing completely the way in which the Council delivers its services and how it involves it partners. The landscape and range of transformational change includes:

- consideration of the Council's growing role as a commissioning organisation;
- implementing earlier interventions to improve the quality of life of, for example, vulnerable adults and children ,families with complex needs, and reducing their call on public services;
- Participating in schemes to reduce re-offending to reduce the social cost of crime;
- Developing common assessment and service signposting with partners to improve access to services and reduce the costs of multiple assessments;
- Reducing the number of public buildings used to deliver services in Harrow
- Considering a common combined access point for more if not all public services.

4.3 The appetite for significant risk as defined above, on a "gross" or inherent risk basis, and on a directorate by directorate basis (this produced further to direct engagement of corporate directors on their directorate's risk appetite) is outlined below:-

Diagram 2: Appetite for Acceptance of Strategic Risk

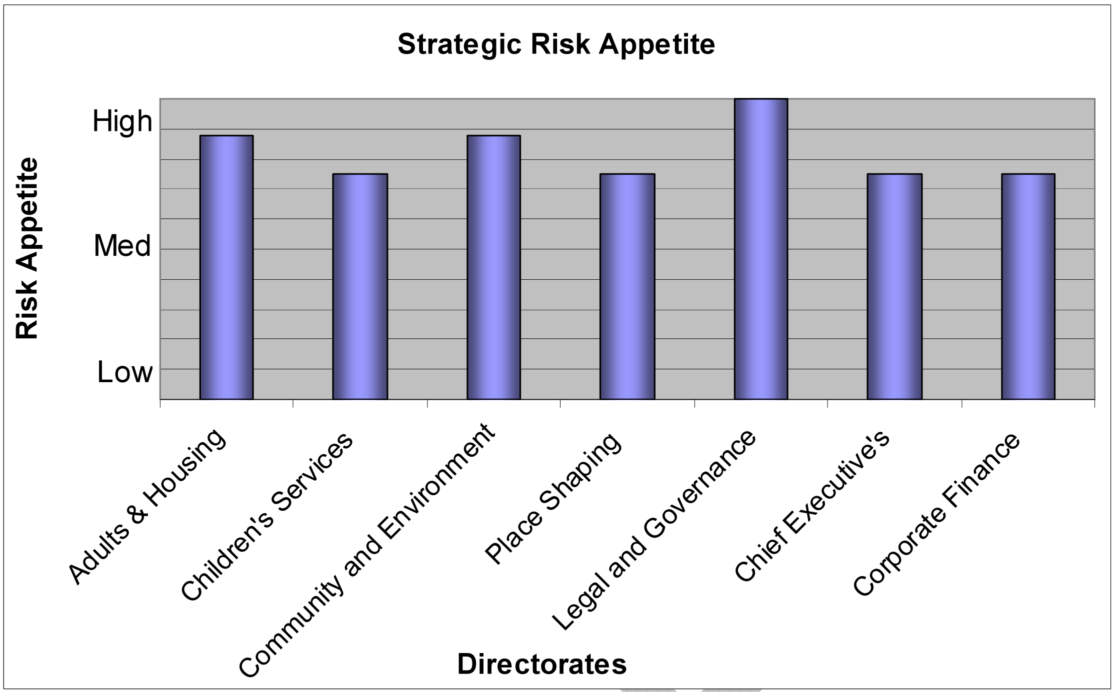


Diagram 3: Appetite for Acceptance of Financial Risk

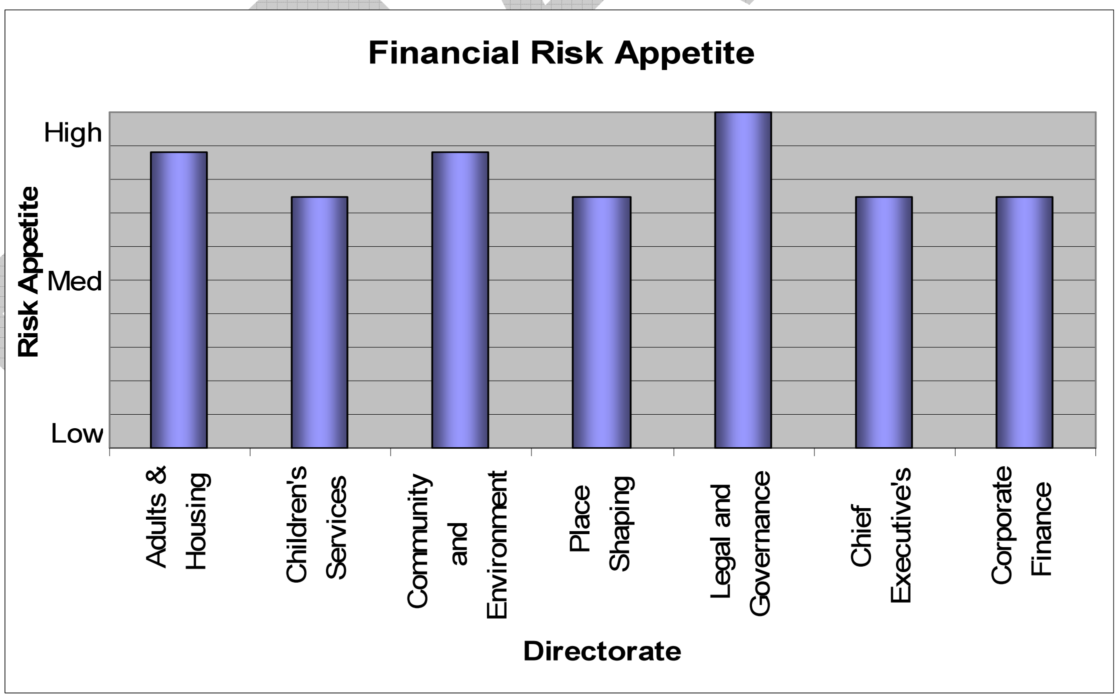


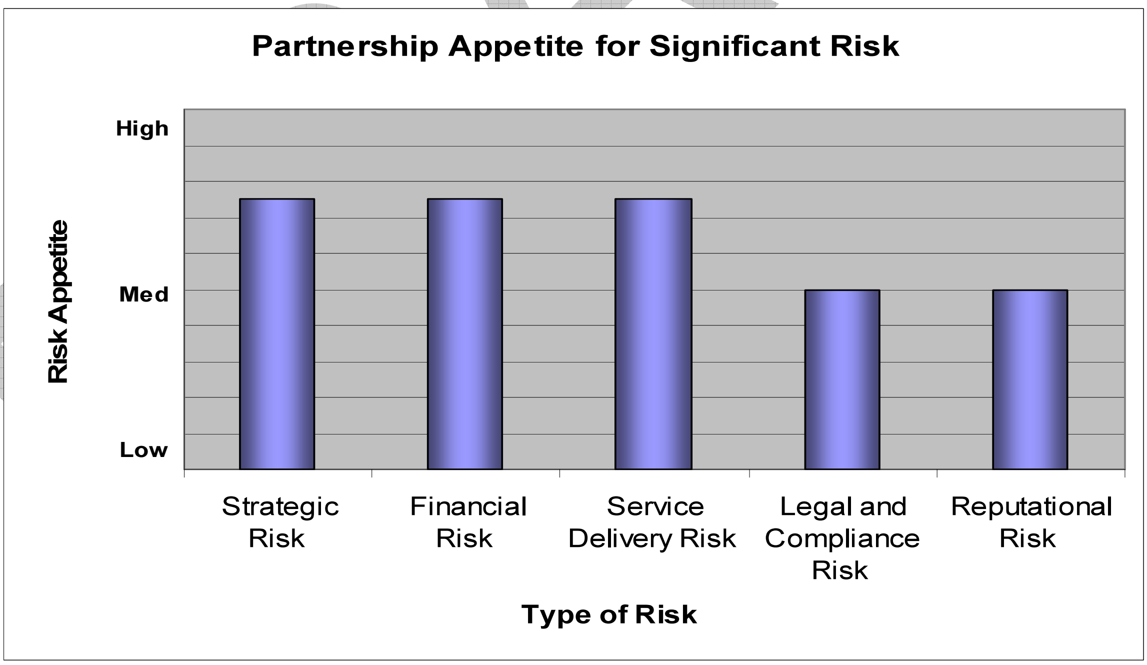
Diagram 4: Appetite for Acceptance of Service Delivery Risk

Diagram 5: Appetite for Acceptance of Legal and Compliance Risk

Diagram 6: Appetite for Acceptance of Reputation Risk

4.4 The Council's appetite for significant risk when collaborating with its partner organisations can be shown below:-

Diagram 7: Our Partnership Appetite for the Acceptance of Significant Risk



4.5 The above risks are normal and consequential for the Council in conducting its business and delivering services across its directorates. They are generated in strategic and business terms by the ambition for and the delivery of the corporate plan and organisational transformation, and exist with strong reference to the now challenging macroeconomic and microeconomic environment in the UK, including centrally the levels of government funding and required spending reductions in the public sector. These factors have increased the level of total business risk required to be taken on by the Council in order to deliver its corporate plan.

4.6 Consequently in 2012-13 the Council will be accepting and taking on additional and increased levels of inherent risk than in previous years and in this respect now has a higher gross risk acceptance appetite.

4.7 However it believes that over 2012-13 and beyond, it has the leadership, resilience, financial discipline, organisational capacity, capability and control environment in place to enable it to safely bear this higher level of risk and to manage and mitigate it downwards to appropriate and acceptable levels of net residual risk exposure consistent with a local authority.

5. NET RISK LEVELS TO BE RETAINED BY THE COUNCIL IN 2012-13

5.1 Whilst the different types of risk above will commonly have different risk appetites and the appetites may vary from directorate to directorate, it is rare for any significant risk facing the Council to be purely composed of just one type of risk above, or to relate solely in impact to just one directorate. Most significant and large scale risks will be commonly composed of several risk dimensions and often have a relationship and inter-dependency in impact and likelihood terms with other risks and directorates.

5.2 The unifying factor in the Council's key, potentially large-scale and significant risks, are that they are inter-related in this way and form part of a wider collection of risks and risk exposure to the Council.

5.3 Management of this key exposure is most effective and efficient when undertaken in common and collective terms, rather than on an individual risk by risk basis or appetite by appetite basis varying across different directorates. For this reason all of the above Council significant risk types will be subject to the same managed down net risk appetite level, which will itself be risk-based, and will be driven by the significance and scale of the risk concerned and whether that significance is high, medium or low.

5.4 As mentioned above net risk is the final level of exposure of unguarded and unprotected risk the Council is willing to take and so at this point exercise the "do-nothing" option in regard to the risk.

5.5 The Council's net risk appetite for negative threat risks (as opposed to positive opportunity risks) is shown below by the bolded risk appetite/target risk rating line in the Council's standard risk register template attached at Annex A of this Appendix :-

Diagram 8: Risk Appetite for Negative Threat Risks

Council Risk Register Template				
Risk Likelihood				
A Very High (>80%)		Risk A		
B High (51-80%)		Risk C		Risk B
C Significant (25-50%)		Risk D		
D Low (10-24%)				
E Very Low (3-9%)				Risk E
F Almost Impossible (0-2%)		Risk F		
Risk Impact	4. Negligible Impact or Benefit	3.Marginal Impact or Minor Benefit	2.Critical Impact or Major Benefit	1.Cata-strophic Impact or Exceptional Benefit

Line of Risk Appetite/Target Risk Rating

5.6 All risks which appear above the risk appetite line are deemed unacceptable to be carried by the Council in residual or target risk terms and will require management review and action by officers of the Council. Management must ensure control action taken is sufficient, balanced and comprehensive enough to achieve the target risk appetite rating. In the above example Risks A and B are unacceptable. Risks at an exposure below the line are deemed acceptable. In the above example Risks C, D, and E are deemed acceptable.

5.7 However in the area beneath the line, in which risks are acceptable, if there is any marked or significant variation or distance from the actual line of risk appetite then this could lead to the risk being disproportionately over managed to a level which is again effectively outside of the Council's risk appetite. In the above example Risk F has been over managed. This is because a marginal or relatively scale small risk should it impact has been managed in resource terms to an almost impossible level of likelihood and this is disproportionate to the risk being faced.

5.8 The Council thus recognizes that all risks should not be managed to the same extent but it should be noted further to the line of risk appetite that all significant risk (ie critical or catastrophic) will in all circumstances where possible be managed down to a low or very low net target risk exposure. Where, however, the risk is deemed to be of lesser scale than critical or catastrophic, a higher degree of residual risk exposure and lesser levels of mitigation (enabling a higher degree of measured and entrepreneurial risk-taking in business terms by officers) will be encouraged further to the pursuit of our corporate priorities.

5.9 Where a residual or target risk level is in excess of the risk appetite exposure of the Council as indicated above, the risk must further to the Council's risk management strategy be escalated to the next management level for discussion, as part of normal risk reporting, e.g. department to division, division to directorate, improvement board to directorate level (project risks to the relevant project or programme and/or directorate boards) and, ultimately, from directorate level to the Corporate Strategic Board (CSB) of the Council. The framework for the reporting and escalation of risks within the Council is based on the organisational structure and normal reporting lines. As part of the escalation process, the next management level of the Council will be alerted to the risk and will therefore review and reassess it in terms of its impact and likelihood on the achievement of objectives at that next level and will take action as appropriate. This may mean:-

- managing the risk directly in terms of its mitigation and control
- adjusting the level of risk they judge suitable for the level below to manage
- transferring the risk, if possible, appropriate, or cost effective to do so
- changing the activity giving rise to the risk or exiting the activity giving rise to the risk

5.10 The Council's risk appetite for positive opportunity risks will similarly be risk-based and shown below with reference to the standard risk register template:-

Diagram 9: Risk Appetite for Positive Opportunity Risks

Council Risk Register Template				
Likelihood				
A Very High (>80%)			OPP C	
B High (51-80%)	OPP F			OPP D
C Significant (25-50%)		OPP E	OPP A	
D Low (10-24%)				OPP B
E Very Low (3-9%)				
F Almost Impossible (0-2%)				
Impact	4. Negligible Impact or Benefit	3.Marginal Impact or Minor Benefit	2. Critical Impact or Major Benefit	1.Catastrophic Impact or Exceptional Benefit

Line of Risk Appetite/Target Risk Rating for Positive Risk Opportunities

5.11 All opportunities which appear below the risk appetite line are not being fully exploited and will require management action by officers of the Council in order to more fully exploit them and move them to a position of realization. In the above example Opportunities A and B are unacceptable for this reason. Opportunities managed to a level above line are deemed acceptable because they are being exploited in line with the Council's opportunity risk appetite. In the above example Opportunities C, D and E are deemed acceptable.

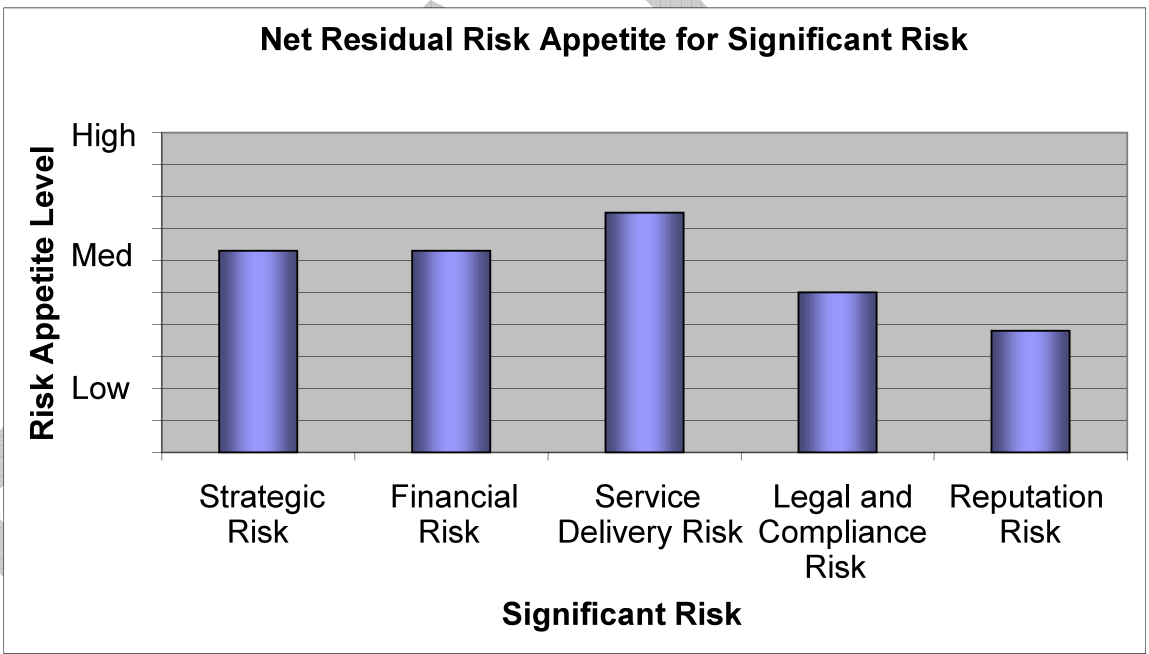
5.12 However it is to be noted, as in principle with negative threat risks, that in the areas above the line, if there is any marked or significant variation or distance from the actual line of opportunity risk appetite, then that opportunity is being over managed. Opportunity F in the example above is being over-exploited as it has been managed to high level of likelihood when it offers only a negligible benefit or reward relative to other opportunities and this is disproportionate.

5.13 In this way management should endeavour to stay above but close to the line of opportunity risk appetite and should prioritise larger scale opportunities which have a reasonable prospect of success over smaller scale opportunities which may have higher levels of likelihood.

5.14 Where a positive risk opportunity is indicated as being managed outside of the Council's risk appetite then this will be escalated as part of normal risk reporting processing to the next management level for review and action as outlined above in regard to negative threat risks.

5.15 As outlined above, overall the Council's net residual risk appetite for its key and significant risks in 2012-13 is cautious in broad risk terms as shown below:-

Diagram 10: Council Net Residual Risk Appetite for Significant Risk in 2012-13



6. DUTY OF OFFICERS

6.1 All of the Council's elected Members and its staff and officers, including when they are working in partnership with other organisations, have a general duty and responsibility as part of their actions and agencies on behalf of the Council to manage risk as an integral part of their role, which includes ensuring they comply at all times with the framework and provisions of the risk appetite of the Council as outlined in this document.

7. MONITORING OF ORGANISATIONAL COMPLIANCE

7.1 Compliance with this risk appetite statement will be regularly monitored and reported on an on-going basis to CSB by the corporate risk management function as part of normal risk reporting, supported by the Corporate Risk Steering Group (CRSG), the Council's directorate-wide risk champion's forum, acting in its monitoring and challenging role in regard to risk management arrangements.

7.2 Compliance will also be further monitored by the GARM committee of Members who monitor and challenge risk management activities and progress at the Council.

7.3 Compliance will also be audited by the Council's internal audit function and also as part the Council's arrangements for production of the Annual Governance Statement.

Standard Risk Register Template

Annex A

RISK RIGISTER

Review Date:

Next Review Date:

Risks

1.

2.

3.

105

6.

7.

8.

9.

10.

LIKELIHOOD				
A Very High (>80%)				
B High (51-80%)				
C Significant (25-50%)				
D Low (10-24%)				
(10-24%)				
E Very Low (3-9%)				
IMPACT	4 Negligible Impact / Benefit	3 Marginal Impact / Minor Benefit	2 Critical Impact / Major Benefit	1 Catastrophic Impact / Exceptional Benefit

Standard Risk Register Template

Annex A (Cont'd)

Risk No.	Objective No.	Risk Description		Controls (in place and effective)	Risk Rating This Qtr (after controls)	Risk Rating Last Qtr	Controls (underway or planned)		Control Progress %	Target Risk Rating	Target Risk Date	Risk Owner
		Risk (Event)					*Further actions*					
		Cause(s)										
		Consequence(s)					*Contingencies*					

REPORT FOR: GOVERNANCE AUDIT AND RISK MANAGEMENT COMMITTEE

Date of Meeting:	29 March 2012
Subject:	**INFORMATION REPORT** Insurance Risks
Responsible Officer:	Tom Whiting, Assistant Chief Executive
Exempt:	No, except for Appendix 2, which is exempt on the grounds that it contains "exempt information" under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
Enclosures:	Appendix 1 – Claims Analysis Appendix 2 – Actuarial Report (Exempt)

Section 1 – Summary

This report provides information on the Council's current insurance arrangements, including self-funding and fund performance, and outlines the main insurable risk exposures faced by the Council.

FOR INFORMATION

Section 2 – Report

The Insurance Service

2.1 The Insurance Service comprises a team of three officers, who strive to deliver an efficient, economic and high quality service that meets customer needs, corporate priorities and statutory requirements.

2.2 The main aims and areas of responsibility of the service are:

- To provide a commercial insurance service, including the maintenance and development of an extensive insurance programme

- To provide a comprehensive claims handling service to internal and external customers

- To provide advice and guidance to the Council on all insurance matters

- To work in partnership with all departments to manage and reduce the Council's exposure to insurable risk

2.3 The service arranges insurance for property valued in excess of £1bn; over 300 commercial vehicles; and significant liability exposures.

2.4 Over 600 claims are received each year and annual claims expenditure exceeds £1m.

Policy Cover

Property Insurance

2.5 The Council's Property insurance policy is underwritten by Zurich Municipal and is subject to a two-year long-term agreement, which expires on 31 March 2014.

2.6 There are three classifications of property under the policy, namely general properties, housing properties, and education properties.

2.7 General properties are insured to the sum of £164m; housing properties to £566m; and education properties to £349m.

2.8 Academies are not insured under the Council's central insurance arrangements, as they cannot benefit from the Council's self-insurance provision under UK insurance law.

2.9 Under the terms of the policy a £200,000 policy excess applies to each and every claim.

2.10 Subject to the policy excess, cover is provided for Fire; Explosion; Aircraft; Malicious Damage (including Riot & Civil Commotion); Earthquake; Storm or Flood; Escape of Water; Impact; Escape of Water from Automatic Sprinkler Installations; Subsidence; Theft; Accidental Damage; and Damage to Fixed Glass.

2.11 Insurance is also arranged for Business Interruption, covering increased cost of working, loss of gross revenue, or loss of rent receivable resulting from damage to premises arising from the perils specified in paragraph 2.10.

2.12 For general and housing properties, claims for Fire; Lightning; Explosion; and Aircraft below the policy excess are met from the Council's internal insurance provision, subject to a £50 excess.

2.13 All claims below the policy excess for education properties arising from any of the perils specified in paragraph 2.10 are met from the Council's internal insurance provision. A £250 excess is charged to schools in respect of each loss.

2.14 The policy is subject to an annual aggregate of £1,000,000. All claims within a policy year, irrespective of whether they are below the policy excess, count towards the annual aggregate and once this has been exceeded any further claims within the policy year will be met by insurers. This is therefore the maximum financial liability attaching to the Council for all property claims in any one policy year, thus providing financial stability to the Council.

2.15 Separate insurance is held in respect of Terrorism, which is currently arranged with Aon Ltd. All of the Council's general, housing and education properties are declared to the insurers and the limit of indemnity in respect of all claims in any one policy year is £35m.

Liability

2.16 The Council's Liability insurance policy is underwritten by Zurich Municipal and is subject to a two-year long-term agreement, which expires on 31 March 2014.

2.17 The policy covers Public Liability; Employers' Liability; Professional Errors & Omissions; Libel & Slander; and Land Charges.

2.18 Public Liability insurance covers claims for compensation made against the Council by third parties for accidental bodily injury, illness or death, and accidental loss of, or damage caused to, property. Payment of compensation under the policy is not automatic; it depends on a claimant showing that the Council has been negligent.

2.19 Employers' Liability insurance covers claims for compensation for injury or disease suffered by anyone under a contract of service or apprenticeship with the Council arising out of and in the course of their employment. It also covers costs and expenses incurred in the defence of any prosecution brought or made against the Council in respect of a breach of the Health and Safety at Work etc Act 1974 or any prosecution under the Corporate Manslaughter and Corporate Homicide Act 2007. Again, payment of compensation under the policy is not automatic; it depends on a claimant showing that the Council has been negligent.

2.20 Professional Errors & Omissions insurance covers the Council for all sums it may become legally liable to pay to a third party for financial loss arising as a result of a wrongful act committed or alleged to have been committed by a councillor or employee in or about or as a consequence of their statutory duties arising out of the business. It also provides automatic cover for services carrying out works of a professional nature, such as providing advice, design or specification, outside of their statutory duty or powers, except for Architectural; Design and Build; and Treasury Management, which are subject to a requirement to declare these services individually.

2.21 The Public and Employers' Liability and Professional Errors & Omissions insurance is subject to a £50m limit of indemnity and a £300,000 policy excess, however claims below the excess are met from the Council's internal insurance provision.

2.22 Libel & Slander insurance provides cover for all sums that the Council becomes legally liable to pay as damages awarded in libel or slander actions arising out of and in the course of the official duties of employees. It also extends to cover councillors in the course of their official duties on behalf of the Council, however this extension is subject to a co-insurance clause requiring councillors to meet the first 10% of the cost of any claim. The policy is subject to a £5m limit of indemnity and a £300,000 policy excess, however claims below the excess are met from the Council's internal insurance provision.

2.23 Land Charges insurance provides cover for claims made by third parties in respect of financial loss arising from or in consequence of any act or omission of the Council or its employees in the provision of information concerning land or buildings in respect of which the Council is required to maintain a register or other records. The limit of indemnity is £5,000,000 for any one claim or total of all claims in the policy year and the policy is subject to a £300,000 excess, however amounts of compensation awarded within this excess are paid from the Council's internal insurance provision.

2.24 The policy is subject to an annual aggregate of £2,000,000, which is the maximum financial liability attaching to the Council for all liability claims in any one policy year.

Motor

2.25 The Council's motor insurance policy is underwritten by Zurich Municipal and is subject to a two-year long-term agreement, which expires on 31 March 2013.

2.26 Cover is arranged on a comprehensive basis and is subject to a £100,000 policy excess. Claims below the excess are met from the Council's internal insurance provision.

2.27 The policy is subject to an annual aggregate of £350,000, which is the maximum financial liability attaching to the Council for all motor claims in any one policy year.

Other

2.28 The Council also arranges insurance for Computer All Risks; Works in Progress; Money; Crime; Personal Accident; and Business Travel.

Self-Funding

2.29 As outlined above, in line with most local authorities Harrow Council has a mix of external and internal insurance cover. The balance between these arrangements is constantly reviewed against claims statistics to ensure that the Council achieves best value, whilst remaining adequately protected.

2.30 The level of excess is set on a prudent basis in line with similar local authorities and recognised best practice.

2.31 Claims below the policy excesses that are met from the Council's internal insurance provision are handled subject to the same terms and conditions as the external insurance policies.

2.32 Claims for damage to third party property caused by the influence of the roots of Council trees are entirely self-funded.

Fund Performance

2.33 The Council's insurance provision is subject to an independent actuarial review, which takes place every three years.

2.34 The latest actuarial review was commissioned in late 2011 to assess the fund position at 31 March 2011.

2.35 The fund balance as at 31 March 2011 was £5.2m.

2.36 The review concluded that once all current and future claims from the policy years 1995/96 to 2010/11 have settled it is estimated that £4.6m of claims payments will have been made from the fund after 31 March 2011. The fund's position has therefore remained stable with a modest surplus, however this does not take into account 'bad years' of potential claims and the actuary's view is that contributions to the fund should increase.

2.37 In addition, the review does not examine the extent of the Council's potential liability in the event that the Municipal Mutual Insurance (MMI) scheme of arrangement is triggered; a further review will be commissioned in this regard.

2.38 A copy of the actuary's report is attached as Appendix 2 (Part II report).

Main Exposures

2.39 Tree related subsidence is one of the Council's main exposures in terms of risk. Approximately 95% of the borough's urban areas are situated on London Clay, which is a key factor in tree related subsidence claims when combined with a period of dry weather. Large areas of the UK are currently experiencing drought conditions and the South East has recently been given official drought status by the Environment Agency. These conditions are likely to give rise to an increase in the number of tree related subsidence claims made against the Council. To mitigate this risk, the Insurance Service has commenced a project to reduce the cost of these claims through improved cross-Council working.

2.40 Schools represent another major exposure to the Council. Arson is a significant risk with national statistics showing around 75% of school fires being started deliberately. The majority of arsons in schools take place in London and the South East. The Council's insurers actively seek to reduce the risk through means such as chairing the Arson Prevention Bureau's School Working Group and the introduction of an Arson Combated Together (ACT) toolkit for schools.

2.41 Highways continue to be a main exposure for the Council, accounting for the majority of Public Liability claims payments. Currently approximately three quarters of highways related claims are defended, however in the event that highway maintenance is reduced the number of claims successfully defended would decline.

2.42 Although less costly than Public Liability claims, Motor claims are another key exposure to the Council accounting for 41% of all claims received. Fraud involving staged or induced road traffic accidents is on the increase together with rising numbers of credit hire claims from third parties. The Insurance Service works closely with Fleet Managers and in conjunction with external solicitors and claims handlers to reduce the incidence and cost of these claims.

Claims Handling

2.43 A variety of procedures are in force for the handling of claims made by and against the Council, dependent on the type and cost of claim.

2.44 All injury claims are handled by external claims handling agents. In accordance with the terms of the contract the claims handling agents are required to seek the Council's authority to settle any claim.

2.45 Non-injury Liability claims, Motor claims, and Property claims are handled by the Council's in-house insurance team.

2.46 Senior staff within the Insurance Service have extensive insurance experience in both local authorities and insurance companies and hold, or are progressing towards, Chartered Insurance Institute qualifications.

2.47 In relation to those claims handled in-house, the services of loss adjusters are commissioned for the majority of claims exceeding £5,000.

2.48 All claims are handled strictly on the basis of legal liability in accordance with established insurance principles, case law and legislation.

Claims Analysis

2.49 The total number of claims against the Council peaked in the 2006/07 policy year. With the exception of 2010/11, which saw an increase resulting from the harsh winter, claim numbers have been falling steadily since the 2008/09 policy year. Chart 1 of Appendix 1 refers.

2.50 Based on claims received for incidents occurring after 1st April 2009, Public Liability claims account for 50% of all claims received; 41% of claims fall under the Motor insurance; 7% are Property claims; and 2% are Employers' Liability claims. Chart 2 of Appendix 1 refers.

2.51 In terms of financial cost to the Council, Public Liability claims account for 65% of all claim payments; Motor settlements form 18% of all payments; Employers' Liability account for 9% of claim payments; and Property for 8%. Chart 3 of Appendix 1 refers.

2.52 The top three causes, accounting for 68% of Public Liability claims for incidents from 1st April 2009 to date, are potholes (31%), paving trips (23%) and tree related subsidence (14%). Chart 4 of Appendix 1 refers.

2.53 The top causes in terms of financial cost to the Council are paving trips (35%) and tree related subsidence (30%). Chart 5 of Appendix 1 refers.

2.54 Analysis from the recent actuarial review illustrates that 2 – 3 Employers' Liability claims are received per 1,000 headcount. The average cost per claim is £10,000, equating to £25 - £30 per head. This is in line with other authorities.

2.55 Public Liability accounts for 1 – 1.5 claims per 1,000 population. The average cost per claim was £1,500 in earlier policy years, increasing to £2,500 - £3,000 in later years in view of increasing cost pressures. This equates to £2.50 per head of population, which is in line with other authorities.

2.56 78% of Public Liability claims and 52% of Employers' Liability claims submitted against the Council are successfully repudiated.

Section 3 – Further Information

There is no further information to be provided beyond section 2 of this report.

Section 4 – Financial Implications

In 2012/13 the total cost to the Council of the insurance programme, including contributions to the internal provision, is £2.1m.

Section 5 – Corporate Priorities

The Insurance Service is a corporate function, which supports all Council services and schools in delivering the corporate priorities.

Name: Jennifer Hydari	x	on behalf of the Chief Financial Officer
Date: 19 March 2012		

Section 6 - Contact Details and Background Papers

Contact: Karen Vickery, Service Manager – Insurance
Tel: 0208 424 1995 (ext. 2995)

Background Papers: None

Appendix 1

Chart 1

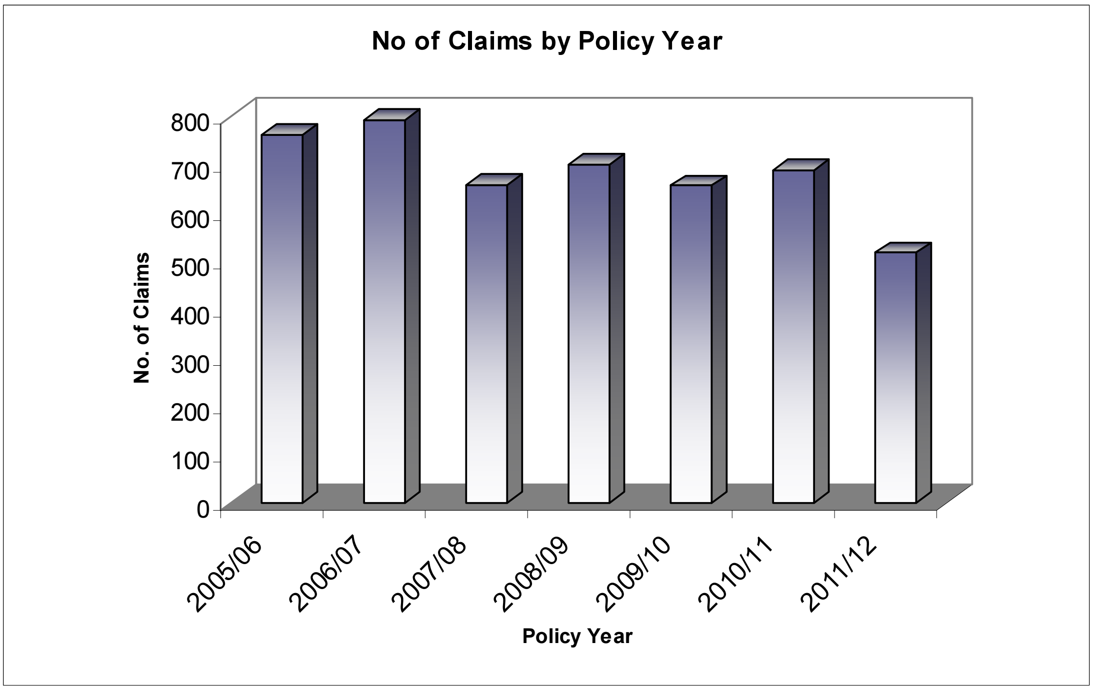


Chart 2

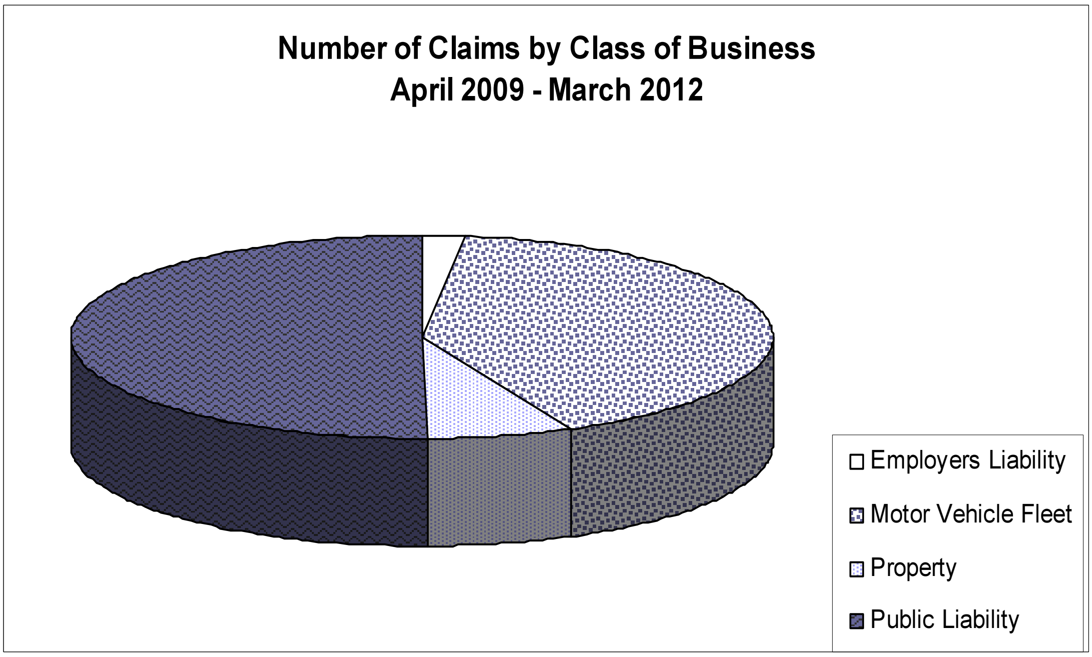


Chart 3

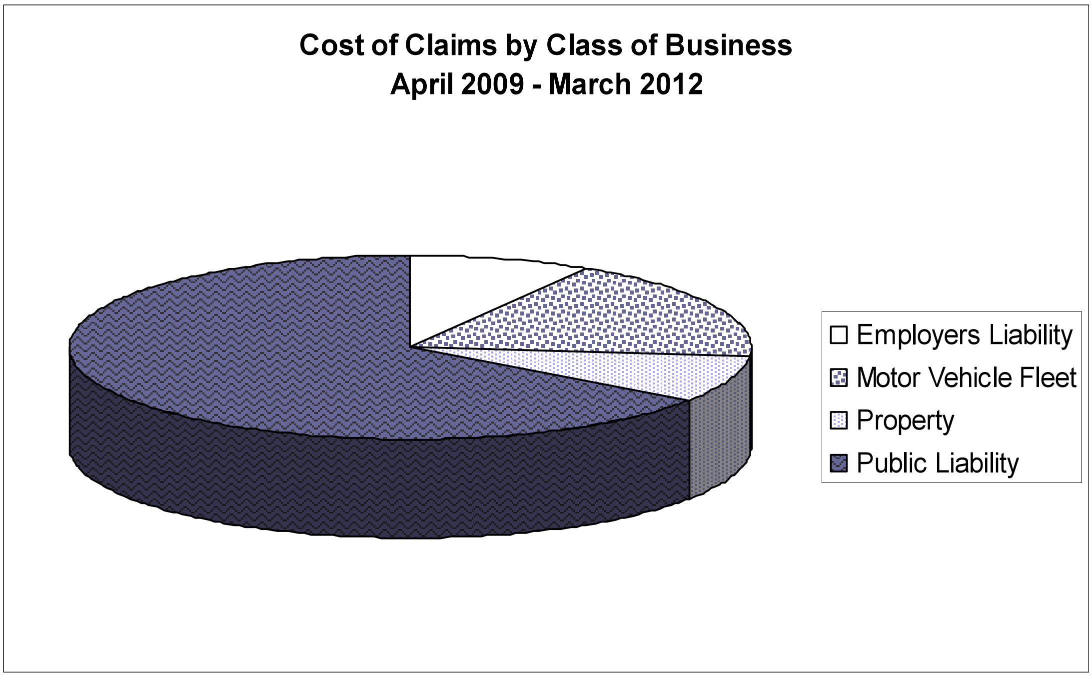


Chart 4

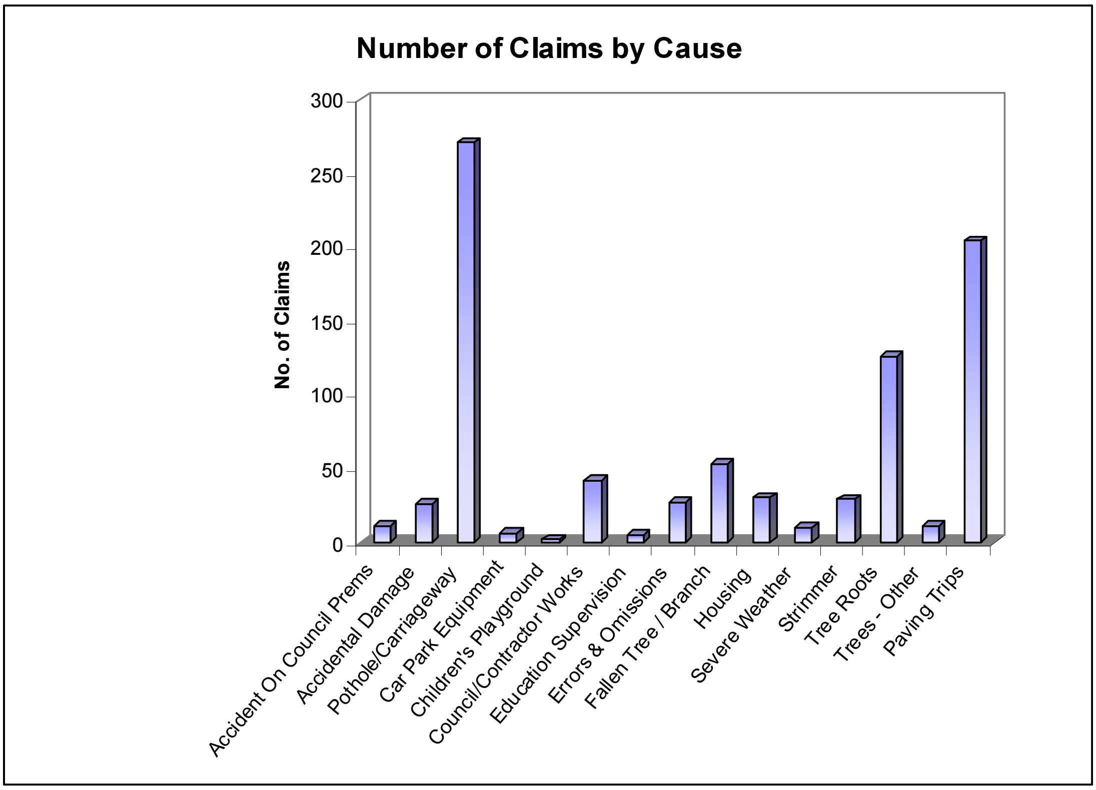
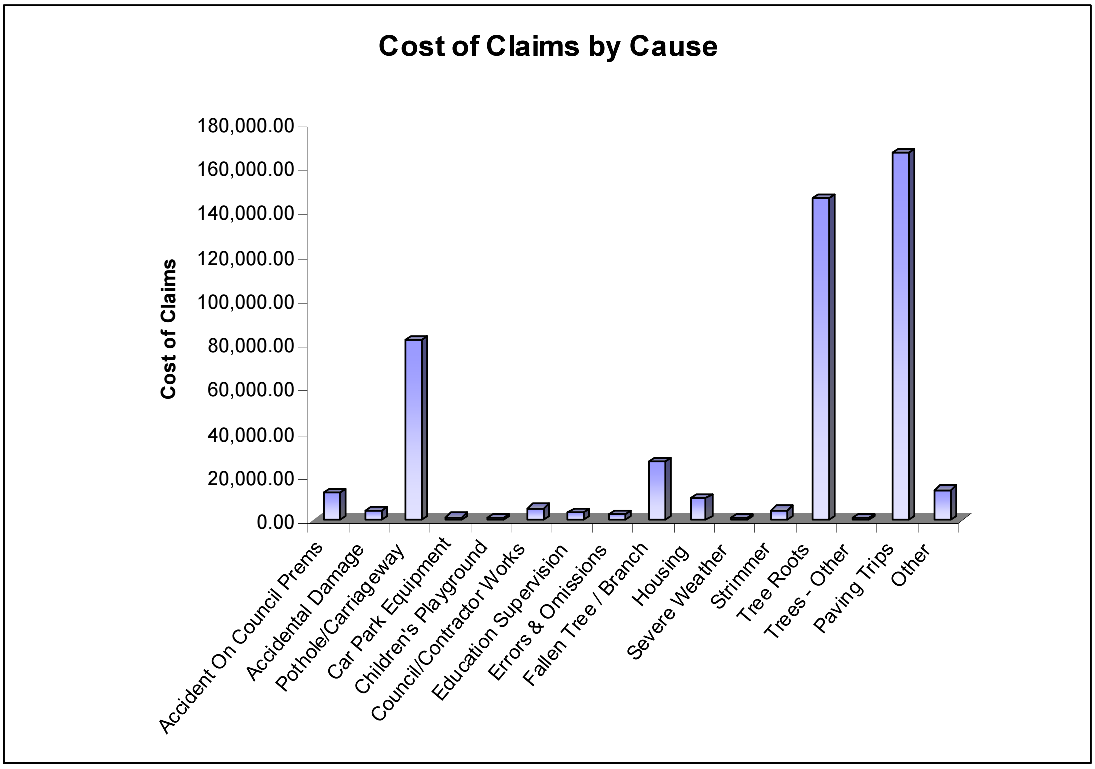


Chart 5


Cost of Claims by Cause
Cost of Claims
180,000.00
160,000.00
140,000.00
120,000.00
100,000.00
80,000.00
60,000.00
40,000.00
20,000.00
0.00
Accident On Council Prems
Accidental Damage
Pothole/Carriageway
Car Park Equipment
Children's Playground
Council/Contractor Works
Education Supervision
Errors & Omissions
Fallen Tree / Branch
Housing
Severe Weather
Strimmer
Tree Roots
Trees - Other
Paving Trips
Other

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

Date of Meeting:	29 March 2012
Subject:	Draft Internal Audit Plan 2012/13
Responsible Officer:	Tom Whiting, Assistant Chief Executive Julie Alderson, Interim Corporate Director Resources
Exempt:	No
Enclosures:	Appendix1: Draft Internal Audit Plan 2012/13

Section 1 – Summary and Recommendations

This report sets out the draft Internal Audit plan for 2012/13

Recommendations:
The Committee is requested to:

(a) Note the process employed to develop the plan.

(b) Consider and comment on the draft plan, in particular to provide the Committee's view on risk to assist with prioritising and developing the final 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.

Plan Development

1.2 This report sets out the draft Internal Audit annual plan of work for 2012/13 (Appendix 1). A top-down approach was adopted to the development of the audit plan in –line with the recommended CIPFA practice.

1.3 The first draft of the plan was developed after consideration of the risk maturity of the organisation; a review of the Council's Corporate Plan 2012/13; a review of the current Corporate Risk Register; a review of previous Internal Audit work covering the Council's internal controls; a review of previous Internal Audit coverage of key areas, the External Audit plan and after seeking the opinion of the Finance Business Partners on key areas of financial risk.

1.4 Consultation then took place with the Chief Executive; Corporate Directors, including the S151 Officer, Directorate Management Teams (senior managers) and specific middle managers, as appropriate, to seek views on which areas are considered high risk and to develop the audit approach.

1.5 Consultation will be undertaken with the External Auditors on 16th March, the Corporate Strategy Board (CSB) on 28th March, this Committee on 29th March and further consultation with the S151 Officer before the plan is finalised.

1.6 Once the consultation process is complete a risk assessment will be undertaken to rank the projects on the plan, based on materiality and risk, as high, medium or low along with an estimate of the internal audit resources required to undertake each proposed audit review, based on the suggested scope of each review. This information will be used to produce the final Internal Audit plan which will focus on high risk ranked areas.

Plan Structure

1.7 The projects set out in the plan are grouped under the following headings:

- Reliance/Assurance Reviews
- New/Developing Risk Areas
- Corporate Risk Based Reviews
- Directorate Risk Based Reviews

- Support, Advice and Follow-up

1.8 Included under the Reliance/Assurance Reviews is the work undertaken on the Council's core financial systems which the council's external auditors, Deloitte LLP, rely on to inform their risk assessment that guides the external audit approach. This grouping also covers audit work that contributes to assurance required for the organisation's annual review of governance.

1.9 Projects grouped under the heading New/Developing Risk Areas cover professional audit advice on risk and control in new and developing areas and supports the Council's priorities of modernising the Council and protecting frontline services.

1.10 Corporate Risk Based Reviews are reviews that will have impact across the Council and involve sample testing across the council with the aim of increasing transparency, consistency and compliance.

1.11 The group headed Directorate Risk Based Reviews covers suggested reviews specific to directorates, a number of which are linked to the Corporate Risk Register and corporate priorities.

1.12 And finally under the grouping Support, Advice and Follow-up a small allowance has been made for providing ad-hoc professional audit advice throughout the year, for investigating suspected irregularities and for following up the implementation of agreed audit recommendations.

1.13 Next to each risk based review on the draft plan is an indication of the main driver of the review identified in the planning process i.e. the Corporate Risk Register; the Corporate Priorities/Plan; Internal Audit (based on cumulative audit knowledge); management; Corporate Finance or a combination of these.

Financial Implications

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

Risk Management Implications

1.14 The work of Internal Audit supports the management of risks across the council and the Internal Audit Annual Plan is developed from the review of the Corporate Risk Register and the Corporate Plan and risks identified by management.

Equalities implications

1.15 None.

Corporate Priorities

1.16 The work of Internal Audit supports the corporate priorities as described above.

Section 3 - Statutory Officer Clearance

Name: Julie Alderson Date: 19 March 2012	√	Chief Financial Officer
Name: Hugh Peart Date: 19 March 2012	√	Monitoring Officer

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson – Service Manager Internal Audit ext. 2420

Background Papers: Corporate Risk Register (presented elsewhere on the agenda)

INTERNAL AUDIT PLAN 2012/13

RELIANCE/ASSURANCE REVIEWS

Core Financial Systems 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 to inform their risk assessment that guides the external audit approach. Coverage of each system is assessed annually having regard to a range of risk factors including changes to systems and key personnel. For 2011/12 the key controls in 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 Rents + reconciliation of tenants rental control account** (MJ)
- **Corporate Accounts Payable) To cover split between Shared Services &**
- **Corporate Accounts Receivable) Access Harrow**

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

- **Payroll**
- **Council Tax**
- **Treasury Management**
- **Housing Benefits + impact of decreased internal checks**
- **Business Rates**

These reviews will be undertaken in Quarter 1 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 2011/12 accounts. At the conclusion of this work on the Council's core financial systems an assurance statement will be produced for the Chief Finance Officer and inclusion in the Annual Governance Statement. Work from the 2011/12 plan on the **Capital Programme** will also be utilised for this purpose and the Capital Programme will form part of the core financial systems work from 2012/13.

Assurance Mapping
Working with Risk Management and the Corporate Governance Group to complete the assurance mapping exercise. Assurance mapping facilitates the identification of any gaps in the risk management process. It is a streamlined approach that maps the assurance coverage against the organisation's risks. Assurance mapping allows risk owners to identify if numerous different groups or individuals are repeating assurance activities. It also highlights the need for additional assurance activities for risks with inadequate coverage and provides a better understanding of the roles and scope of the work undertaken by the various assurance providers within the organisation.

Management Assurance
Review and stream-lining of the assurance areas for the 2011/12 exercise making use of alternative assurance provision; co-ordination of the 2011/12 exercise; follow - up of action

planned and the revision of the management assurance exercise for 2012/13 in light of the outcomes of the assurance mapping exercise.

Corporate Governance
Organisation of the Corporate Governance Working Group; collection of governance evidence to support the annual review of governance; co-ordination and drafting of the 2011/12 Annual Governance Statement and support for the Corporate Governance Group and the Governance, Audit and Risk Committee. The Corporate Governance Group will also be considering governance arrangements for new delivery models and advising CSB on the development of appropriate governance arrangements.

Corporate Strategic Risk Group (CSRG)
Attendance and contribution to the Strategic Risk Group, to assist the Council in embedding and enhancing the risk management process to ensure that risk is actively managed, so that the Council can achieve its objectives, take advantage of opportunities and serve Harrow's community better.

Information Governance Board
Attendance and contribution to the Information Governance Board to ensure that the Council has effective policies and management arrangements covering all aspects of Information Governance; to support the development of Information Governance standards; to ensure compliance with Information Governance requirements placed on the Council, to monitor the effectiveness of Information Governance Policies, including undertaking audits and assessments and to ensure all relevant risks are recorded in the Council's corporate risk register.

PROFESSIONAL ADVICE ON NEW AND DEVELOPING AREAS

IT Working Group (Corporate Priorities/Plan & Internal Audit)
Attendance and contribution to the IT Working Group to evaluate the impact of potential changes from the perspective of risk and control and to highlight issues to the project team for management.

Business Support Hub (Corporate Priorities/Plan & Internal Audit/Corporate Finance)
To provide professional audit advice covering risks and internal controls within processes for refunds, requisitioning, goods receipting, and cash payment systems.

Integration of Public Health (Corporate Priorities/Plan & Internal Audit)
To provide professional audit advice on the integration of Public Health into the Council covering risk; internal control and good governance.

Localisation of Council Tax Support (Corporate Risk 10 & Management)
To feed into the project providing audit support on the development of internal control processes to ensure risk is minimised.

Social Fund Project (Corporate Risk 10 & Management)
Feeding into system development, cash payments system + assess impact on cashiers

Modernising Terms and Conditions of Employment (Corporate Priorities/Plan & Management)
To receive and review project minutes and to provide Internal Audit support and professional advice on risk and control.

Access Harrow (Corporate Priorities/Plan & Internal Audit)
Professional advice on risk and internal control as processes are reviewed using lean principles and streamlined.

Shop4Support (Corporate Priorities/Plan & Management)
To provide risk and control advice on the development of a financial payment process for the Shop4Support on-line social care shopping portal.

Benefit Reform (Corporate Risk 10 & Management)
To provide professional audit advice on the systems to be developed in response to Benefit Reform.

CORPORATE RISK BASED REVIEWS

Financial Regulations (Internal Audit)
A review to ensure that the regulations are fit for purpose, robust, transparent, reflect best practice and the needs of the Council. The review will also consider ways of improving compliance across the Council.

Petty Cash/Cash Payments (Internal Audit & Management)
To ensure that processes are consistent and robust across the Council and that regulations are being complied with.

Data Quality (Internal Audit & Management)
To be covered as part of audit reviews where relevant plus a review of the policy to ensure that it reflects the Data Quality Standards and that relevant officers are aware of it.

Budget Setting (Corporate Risk 2)
To review the budget setting process to ensure that the process mitigates risk effectively. The review will cover budget ownership; use of historical data; Budget Manager engagement; the sign off process, how well budgets reflect service requirements; flexibility within the 'bottom line' and the role and accountabilities of the Budget Manager, the relevant Divisional Director/Corporate Director and the Finance Business Partner/Corporate Finance.

Budget Monitoring (Corporate Risk 2)
To review the budget monitoring process covering the role and accountabilities of the Budget Manager, the relevant Divisional Director/Corporate Director and the Finance Business Partner/Corporate Finance; the KPO6 process including timeliness; authorisation of expenditure from other budgets; journals (authorised both within and outside of Finance) and reporting.

Duplicate Payments (Internal Audit)
Weakness highlighted during a 2011/12 review caused by duplicate suppliers set up on SAP + weak control over authorisation. Testing across the Council will be undertaken to assess extent of issue.

Implementation of Efficiency Savings (including procurement) (Corporate Risk 2, 7, 16)
Mid-year check on the implementation and management of proposed efficiencies and procurement savings. Detrimental impact on MTFS if not achieved. If another process is in place to check progress then IA to review the process to ensure it is robust.

Transformation – Protocol for Managing Organisational Change (Corporate Risk 5 & 6)
Review of the protocol's 'fitness for purpose', benchmarking against recognised good practice and benchmarking with other authorities. To cover compliance with protocol across the Council and 'lessons learnt' from previous projects. Trade Union opinion also to be considered.

Project Management (Internal Audit)
Review sample of projects (both major and local) to ensure mandatory project management methodology in use and how this adds value and to assess the use of the project management tool (Verto)

Income/Debt recovery (Corporate Risk 2)
A review of the Council's debt recovery policy and processes to ensure a consistent/joined up approach is taken across the organisation. To include a sample check of income streams across the Council to ensure that the processes for recording at point of receipt, banking and recording in the SAP system are robust; that the cost of income collection is known and justified and that write-offs are appropriate.

Management of Long term Sickness (Management)
Sample check of case handling across organisation to ensure that management is robust and in-line with corporate standards and a review of reporting processes/monitoring within Directorates.

Contract Monitoring (Corporate Priorities/Plan)
A review of contract monitoring processes in place for Corporate Contracts covering the adequacy, application and effectiveness of processes in place.

DIRECTORATE RISK BASED REVIEWS

CHILDREN & FAMILIES

SCHOOLS

Financial Control & Governance Reviews (Internal Audit)
Following the demise of FMSiS and the introduction of the less robust Schools' Financial Value Standard (SFVS) Internal Audit will embark on a three year programme of school reviews covering the adequacy, application and effectiveness of financial controls and governance procedures in place. The annual SFVS self assessments undertaken by schools will be utilised as part of the annual risk assessment process to determine which schools will be reviewed by Internal Audit each year with the aim of covering each school at least once within the next three years. In conjunction with Schools Financial Services Team Internal Audit will monitor the self assessments provided by schools and provide appropriate assurance to the S151 officer to facilitate the sign off of the Dedicated Schools Grant (DSG) CFO Statement.

Business Continuity/Disaster Recovery (Corporate Risk 12)
To be picked up during the review of the annual SFVS self assessments, to obtain evidence from schools that adequate arrangements are in place.

COMMUNITY, HEALTH & WELLBEING

Client Finances (Internal Audit/Corporate Finance)
Review of the process for managing Client Finances to ensure robust financial controls are in place to mitigate the risks of loss, fraud and error.

Fairer Charging (Corporate Priorities/Plan & Management)
A review of the financial assessments for chargeable social care services carried out by the Joint Assessment Team to ensure client contributions to services are accurate; in line with Council policy and assessment is timely.

ENVIRONMENT

Property Maintenance (Strategic Risk 17)
A review of planned maintenance for Council owned buildings to ensure that the frequency and quality of cyclical maintenance is appropriate to mitigate significant risks e.g. Health & Safety, Corporate Manslaughter, reputation.

Highways Contract (Management)
A follow-up of the management of the Highways Contract to cover new ways of working being developed.

PLACE SHAPING

Commercial Rents/Asset Management (Corporate Risk 3)
Are we managing leases/assets in the most appropriate way for the current economic climate and in a way that will encourage economic growth in the borough. The review will also cover write offs.

Planning Enforcement (Internal Audit)
Review of adequacy, application and efficiency of controls in place to mitigate risk.

Long Term Economic Growth in The Borough (Corporate Risk 3) – A whole risk approach
Assess the effectiveness of the controls in place mitigating the risk that the Council fail to achieve long term economic growth in the borough. To begin with a joint review of the controls identified as mitigating this risk on the Corporate Risk Register involving Internal Audit, Risk Management and Place Shaping Management.

RESOURCES

Concessionary Travel (Management)
To review the process within Access Harrow to ensure that they are robust and to review the clarity of the accountability for the service.

Information Management /Security (c/f from 2011/12)
A review covering adequacy of and compliance with policies, mitigation of risk, communication and engagement with staff and effectiveness of controls in place.

CAPITA (Corporate Finance)
Transparency of payments and profit element – to be covered by IA reviewing evidence and providing assurance.

Pensions (Internal Audit)
Review of the pension process to ensure adequacy, application and effectiveness of controls in place to mitigate risk.

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 weaknesses 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.

REPORT FOR: GOVERNANCE, AUDIT & RISK MANAGEMENT COMMITTEE

Date of Meeting:	29 March 2012
Subject:	**INFORMATION REPORT** – Future Appointment of the External Auditors
Responsible Officer:	Tom Whiting, Assistant Chief Executive Julie Alderson, Interim Corporate Director Resources
Exempt:	No
Enclosures:	Appendix 1: Strategy for making auditor appointments for 2012/13 and future years Appendix 2: The process for audited bodies to object to a proposed auditor appointment

Section 1 – Summary

This report sets out the Audit Commission's strategy for making auditor appointments for 2012/13 and future years and the process for audited bodies to object to a proposed auditor appointment.

FOR INFORMATION

Harrow COUNCIL LONDON

Section 2 – Report

1.1 In August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and to allow local public bodies to appoint their own auditors. At the same time, he indicated his intention to transfer the Commission's in-house Audit Practice (the Audit Practice) to the private sector and, in due course, to abolish the residual element of the Commission.

1.2 At its meeting in July 2011, the Audit Commission Board agreed to undertake a procurement exercise. The objectives of the procurement exercise was to transfer successfully to the private sector the audit work currently delivered by the Audit Practice, so as to maximise value for money.

1.3 The Commission have decided, in consultation with Department for Communities and Local Government (DCLG), to award five-year contracts. The strategy (Appendix 1) sets out the basis on which the process of developing, consulting on and formally making auditor appointments for 2012/13 and future years will be carried out.

1.4 The objectives of the appointment process is to ensure that:
■ an 'interim' auditor is appointed in accordance with section 3 of the Audit Commission Act 1998 (the Act) by 1 April 2012;
■ a 'permanent' auditor is appointed to all principal bodies within the Commission's audit regime from 1 September 2012; and
■ there is a smooth and efficient transfer from the outgoing to the incoming auditor.

1.5 On the 6th March 2012 the Audit Commission issued an update on the outcome of the procurement exercise to outsource the work of the Commission's in-house audit practice and on the process for making auditor appointments for 2012/13 and subsequent years. This update confirmed that: "Where a body is currently audited by an auditor from the Commission's in-house Audit Practice, we will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate. Where a body is currently audited by a firm, we propose to extend that appointment. In all cases we will be consulting on the appointment of the firm - which in law will be the appointed auditor - not the individual engagement lead."

1.6 For Harrow this means that the Audit Commission will be proposing that Deloitte LLP be appointed as both the Council's 'interim' (1 April 2012 – 31st August 2012) and 'permanent' auditor (1st September 2012 – 31st August 2017).

1.7 In May 2012 the Director, Audit Policy and Regulation (APR) will formally consult audited bodies on the proposed auditor appointments. The process for audited bodies to object to a proposed auditor appointment is outlined in Appendix 2.

1.8 Subject to the Parliamentary timetable, local public bodies will not be able to appoint their own auditors until 2017/18 at the earliest as the Audit Commission has decided, following consultation, to award contracts for five years. Until the Audit Commission Act 1998 is replaced by new primary legislation, the current legal framework under which the Commission is responsible for making auditor appointments will remain in place.

Section 3 – Further Information

1.9 Updates will be included on future GARM Committee agendas as appropriate.

Section 4 – Financial Implications

1.10 The financial implications will be known and considered during the formal consultation.

Section 5 - Equalities implications

1.11 None.

Section 6 – Corporate Priorities

1.12 N/A

Name: Julie Alderson	√	Chief Financial Officer
Date: 19 March 2012		

Section 7 - Contact Details and Background Papers

Contact: Susan Dixson, Service Manager Internal Audit ext. 2420

Background Papers: Attached as appendices

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Strategy for making auditor appointments for 2012/13 and future years

January 2012

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Introduction

Background

1 In August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission (the Commission). At the same time, he indicated his intention to transfer the Commission's in-house Audit Practice (the Audit Practice) to the private sector and, in due course, to abolish the residual element of the Commission.

2 The Commission worked closely with the Department for Communities and Local Government (DCLG) and their external advisors on developing and evaluating the options.

3 Ministers subsequently concluded that the option for achieving such a transfer, which offered the best value for money, as well as being the quickest and, in their view, the most straightforward, was to outsource the 70 per cent of audits of principal bodies currently delivered by the Audit Practice from the 2012/13 audit year, by means of a public procurement exercise.

4 At its meeting in July 2011, the Commission Board agreed to undertake the procurement exercise.

5 The objectives of the procurement exercises are to transfer successfully to the private sector the audit work currently delivered by the Audit Practice, so as to maximise value for money, by:

- securing the provision of high quality audit services at the best prices possible; and
- minimising the costs of redundancy that may otherwise fall on DCLG, by maximising the extent to which audit staff in the Audit Practice transfer to successful bidders under Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE).

6 The procurement was also designed to allow, so far as consistent with these objectives, a range of firms to bid, to support market plurality during the period of transition to new audit arrangements.

7 The value of the work being outsourced is c£90 million per annum in ten Lots, ranging in size from £5 million to £12 million, covering all types of audited body in a defined geographical Contract Area.

8 The Commission is also procuring limited assurance audit services for all small local public bodies, to a total value of £2.8 million per annum.

9 Firms invited to tender were invited to quote prices for contracts of both three and five years' length.

10 The Commission will decide, in consultation with DCLG, whether to award three or five-year contracts.

11 Decisions about the length of the contracts to be awarded will be linked to the government's timetable for the introduction of, and transition to, new local public audit arrangements, and for the disbandment of the Commission. In this respect, DCLG has indicated that it will wish to consider the potential trade-off between value for money and the benefits of the proposed new local public audit arrangements (including local auditor appointment).

12 As a contingency, the Commission will have the right to extend the contracts, once awarded, for up to three further years.

13 The timetable for the procurements provides for contracts to be let to new providers by 1 April 2012. This will give the Commission time to manage the process of making new statutory auditor appointments for 2012/13 with effect from 1 September.

14 The Commission envisages that most Audit Practice staff in each lot area will transfer to the successful bidders under the TUPE regulations at midnight on 31 October 2012.

Purpose of this document

15 This strategy sets out the basis on which the process of developing, consulting on and formally making auditor appointments for 2012/13 and future years will be carried out.

16 It applies only to the first round of auditor appointments to principal bodies to be made following the completion of the procurement exercise. These appointments will be for either a three or five-year period.

17 There will be a separate process for developing, consulting on and formally making any changes to auditor appointments that may become necessary in future years, including the appointment of auditors to the new NHS Clinical Commissioning Groups from 2013/14.

18 There will also be a separate process for appointing auditors to small bodies, for which auditor appointments will be made on a county area basis.

Objectives of the appointment process

19 The objectives of the appointment process are to ensure that:

- an 'interim' auditor is appointed in accordance with section 3 of the Audit Commission Act 1998 (the Act) by 1 April 2012;
- a 'permanent' auditor is appointed to all principal bodies within the Commission's audit regime from 1 September 2012; and
- there is a smooth and efficient transfer from the outgoing to the incoming auditor.

Evolution of the strategy

20 This strategy has been developed in the light of the practical knowledge and experience of the Commission in running previous appointment processes.

21 The strategy was formally adopted on behalf of the Commission Board by its Appointments Panel at its meeting on 5 January 2012.

The legal background

The Audit Commission Act 1998

22 The appointment of auditors to local public bodies under section 3 of the Act is arguably the Commission's core statutory function. Under the Commission's governance framework, decisions on the appointment of auditors are reserved to the Commission Board.

23 Section 3(3) of the Act states:

> Before appointing an auditor or auditors to audit the accounts of a body other than a health service body the Commission shall consult that body.

24 In addition, the Commission has always consulted all local public bodies, including health service bodies, on the appointment of their auditor and it will continue to do so.

25 It is important to emphasise that the statutory duty to consult, and the right of local government bodies to be consulted, does not equate to audited bodies having a choice or veto over the appointment of their auditors. The final decision on the appointment of auditors must rest with the Commission. Clearly, however, in proposing auditor appointments, and in responding to representations made by audited bodies following consultation, the Commission must follow due process and act reasonably.

26 Section 3(1) of the Act enables the Commission to appoint either:

a. an officer of the Commission – ie a District Auditor or senior audit manager;
b. an individual who is not an officer of the Commission; or
c. a firm of individuals who are not officers of the Commission.

27 Following the outsourcing of the Audit Practice, the Commission proposes only to appoint firms in accordance with section 3(1)(c).

28 The statutory consultation under section 3 will therefore be on the appointment of the firm, which in law will be the appointed auditor. This is different to the process where we have appointed officers of the Commission, where it is the individual concerned who is the appointed auditor. Once a firm has been appointed, the identity of the engagement lead is a matter for discussion between the firm and the audited body. However, all of a firm's engagement leads have to be approved in advance by the Commission, as having sufficient appropriate experience and expertise.

29 In the case of strategic health authorities and NHS primary care trusts, we have agreed with the Department of Health that where the current appointed auditor (District Auditor or senior audit manager) and/or their second in command (audit manager) transfers to a firm under TUPE, the firm will be contractually obliged to nominate those individuals to continue in post until at least the completion of the 2012/13 audit unless specific circumstances prevent this.

30 The Commission's contractual arrangements with firms are such that there will always be more than one firm that could be appointed as auditor to any individual body. Where an audited body is able to put forward good reasons why the auditor proposed by the Commission should not be appointed, we will consider those representations carefully and, in the light of those representations, decide whether to propose an alternative auditor.

Future arrangements

31 In August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Commission and to allow local public bodies to appoint their own auditors. The government consulted on its proposals in March 2011.

32 In the *Government Response to the Future of Local Audit Consultation*, published by DCLG in January 2012, the government indicated that it proposes to publish a draft Bill for pre-legislative scrutiny in Spring 2012. This will allow for examination and amendments to be made, in advance of the introduction of an Audit Bill as soon as Parliamentary time allows. The government has also confirmed that it intends such future legislation to provide for local public bodies to have a statutory duty to appoint their own auditors.

33 Subject to the Parliamentary timetable, local public bodies will not be able to appoint their own auditors until 2015/16 at the earliest, or 2017/18 if the Commission decides, following consultation, it should award contracts for five years.

34 Until the Audit Commission Act 1998 is replaced by new primary legislation, the current legal framework under which the Commission is responsible for making auditor appointments will remain in place.

The process of making auditor appointments for 2012/13

Interim appointments

35 The great majority of current auditor appointments are due to expire upon completion of the audit of the accounts for the 2011/12 financial year. This is the case both where the appointed auditor is a firm and where the appointed auditor is an officer of the Commission from the Audit Practice.

36 As the contracts arising from the procurement exercise to outsource the work of the Audit Practice will not commence until 1 April 2012, the Commission will not be able to complete the process of developing proposals for, consulting on, and making auditor appointments for 2012/13 until 1 September 2012.

37 Where a body's current auditor is a firm, we do not expect to have to change the appointment from 2012/13. However, we can only confirm this when the national picture on auditor appointments has been finalised. This is because we may need to change some current firms' existing appointments, either to enable us to manage any independence issues that may be identified in the appointments process or in response to representations from audited bodies.

38 Because an auditor needs to be in place at the start of the financial year, we will need to make an interim auditor appointment to cover the period from 1 April to 31 August 2012.

39 We have proposed extending bodies' current auditor appointment to deal with any issues that may arise during that period. Over the period of the interim appointment, the current auditor will be completing the audit of the body's financial statements for 2011/12 and will therefore be monitoring issues that could impact on the 2011/12 opinion and certificate. So to extend the appointment in this way makes most practical sense and will serve to minimise disruption.

40 We do not expect the interim auditor will need to undertake any substantive audit work relating to 2012/13.Their role will be limited to keeping a watching brief. Provided this is the case, the Commission will meet any costs properly incurred by the interim auditor.

41 Any issues requiring the interim auditor to do substantive audit work will be of an exceptional nature – for example, a need to exercise their statutory reporting powers. The interim auditor will tell both the audited body and the Commission about the need to do the work. Where appropriate the Commission will determine a variation to the scale audit fee to reflect the costs of the work. The additional fee will then become payable by the audited body.

42 The process for consulting audited bodies on interim appointments will be managed in the normal way.

43 We wrote to all relevant audited bodies to consult them formally on the interim auditor appointment in December 2011.

44 The Commission Board will be asked to approve all interim auditor appointments for 2012/13 at its meeting on 22 March.

The process of consulting on permanent 2012/13 auditor appointments

45 The process of developing and consulting on permanent auditor appointments for 2012/13 will follow the four-stage process outlined below.

Stage 1

46 The Commission will begin the process of consulting audited bodies on auditor appointments for either three or five years from 2012/13 at the end of April 2012.

47 Initial proposals on auditor appointments will be made by the Commission's Director of Audit Policy and Regulation (APR).

48 Where a body is currently audited by a firm, we expect to extend the current auditor's appointment from 2012/13. However, we can only confirm this when the initial proposals on auditor appointments have been finalised.

49 This is because, under the terms of our contracts with the firms, we may need to change some firms' current appointments, to enable us to manage any independence issues that may be identified as a result of the appointment process. A firm may have a prior or current business relationship with an audited body – such as providing consultancy services directly relevant to auditors' responsibilities (for example in relation to a PFI scheme or the provision of internal audit services) – which would preclude the Commission appointing the firm, or the firm accepting appointment, as the auditor to that body. We may also need to make changes in response to representations from audited bodies. But, in practice, we envisage that any changes to firms' current appointments will be exceptional.

50 Where a body is currently audited by the Commission's Audit Practice, we will propose the winning firm in each Contract Area as the appointed auditor, unless there are good reasons that prevent this. This reflects the fact that, through the competitive process run by the Commission, the firm will have demonstrated it is the best provider in that geographical area. This process included a rigorous assessment of the ability of the firm to deliver high-quality audits, so we will be confident of their skills, competence and resources to perform the audit to our required standards. The Commission

has published the evaluation methodology it applied in evaluating firms' bids on its website.

51 However, our contract strategy ensures the Commission will have the option of appointing a different firm to an audited body should this be appropriate.

52 In developing our initial proposals for auditor appointments we will also consider whether certain types of local public body should be audited by a limited number of firms nationally, to enable those firms to develop appropriate specialisation in the audit of those bodies. Historically, the Commission has applied this policy to such single-purpose bodies as police authorities and national parks authorities.

53 We will also consult, at the same time, on the appointment of the auditor proposed for 2012/13 and future years to complete any work relating to the 2011/12 or prior years' audits that remains outstanding at 31 October 2012.

54 The incoming auditor will also be required by the Commission to complete all grant certification work that has not been completed by that date. This includes the housing benefit and council tax subsidy claim which is due to be completed by 30 November 2012.

55 To support the consultation, the Commission will provide all audited bodies in a Contract Area with the opportunity to meet the Commission and a senior partner from the firm we have proposed to appoint to bodies in that area. This will provide an opportunity for all audited bodies to meet the firm and understand how it proposes to deliver the audits. It will also allow any audited bodies that object to the proposed appointment to have a face-to-face discussion with Commission staff.

56 We will also need to make similar arrangements for those audited bodies where we are not proposing to appoint the winning firm. This will arise only in a limited number of cases as Tenderers are required to confirm they are able to audit the great majority of audited bodies in a Contract Area (90 per cent by number and 80 per cent by value).

57 It is expected that most auditor appointments held by firms under the existing (2006 and 2007) contracts will be extended, so that all appointments will end at the same time. The process for consulting those audited bodies will be managed in the normal way as far as practicable. Where it is necessary to propose not extending an appointment of a firm, we will deal with that audited body in the same way as other bodies at which we are proposing a change of auditor.

58 We expect the great majority of audited bodies will be content to accept whichever firm the Commission decides is appropriate. Nevertheless we recognise that in some instances there could be good reason why the winning firm in an area should not be appointed to an individual body or bodies.

59 Audited bodies will have the opportunity to make representations to the Commission on the proposed auditor appointments.

60 If the body does not object to the proposed appointment, the Commission's Managing Director (MD), Audit Policy will recommend the appointment to the Commission Board at its meeting on 26 July.

61 If a body's objection to a proposed appointment is upheld at any subsequent stage, Stage 1 will be repeated.

Stage 2

62 Where an audited body objects to the proposed appointment, it should set out in writing good reasons why the proposed appointment should not be made.

63 We have identified the following grounds that may amount to good reasons.

- There is an independence issue, of which the Commission and/or the firm was previously unaware, which would preclude the Commission appointing the firm – or the firm accepting appointment – as the auditor to a particular body.
- Other than for SHAs and PCTs (which will no longer exist after 31 March 2013), the audited body is involved in formal and on-going joint working arrangements (for example, joint management team or shared back office functions or joint provision of major services with neighbouring bodies), which means it would be more appropriate for those bodies to have the same auditor.
- There is another specific good reason – for example, a body can demonstrate a history of inadequate services from a particular firm.

64 The MD, Audit Policy will consider carefully all representations made and respond to audited bodies by 8 June 2012. The MD, Audit Policy will either reject the representations and confirm the original proposed auditor appointment, or ask the Director of APR to consult on an alternative proposal. Where an alternative proposal is made, Stage 2 may be repeated.

65 If the body does not continue to object to the proposed appointment, the MD, Audit Policy will recommend the appointment to the Commission Board at its meeting on 26 July.

Stage 3

66 If the audited body still objects to the proposed auditor appointment, after completion of Stages 1 and 2, it will have a further opportunity to submit its case in writing to a subcommittee of the Commission Board (the Board's Appointments Panel). The terms and reference and membership of the Panel are attached as Appendix 1

67 The Appointments Panel will consider the representations made and the MD, Audit Policy's grounds for rejecting the body's initial representations. It will then either endorse the proposed auditor appointment or ask the

Director, APR to consult on an alternative proposal. Where an alternative proposal is made, Stage 3 may be repeated.

68 Where the Panel endorses the proposed appointment it will make a formal recommendation to the Board at its meeting on 26 July.

Stage 4

69 The Board will consider the recommendations of the MD, Audit Policy and the Appointments Panel and either accept the recommendations and formally appoint the proposed auditor, or ask the Director of APR to consult on an alternative proposal. Where an alternative proposal is made, Stage 4 will be repeated.

70 The Board's decision on the appointment of auditors will be final, subject only to judicial review.

Making the appointment

71 Once the Board has appointed the auditor, the Commission will formally write to the audited body to confirm the appointment.

72 Where the firm is also to be appointed to complete any outstanding work relating to the 2011/12 or prior years' audits, we will specify the auditor's terms of appointment for this work.

73 The auditor appointment process set out above is summarised in a diagram in Appendix 2.

Timetable

74 The key milestones in the project plan are set out below:

Communication with audited bodies on the procurement process and implications for auditor appointments	Ongoing
Consultation with audited bodies on interim auditor appointments ends	17 February 2012
Commission Board approves interim auditor appointments for 2012/13	22 March
Consultation with audited bodies on permanent auditor appointments begins	w/c 23 April
Regional introductory events	30 April – 18 May
Last date for representations to MD, Audit Policy	25 May
MD, Audit Policy considers representations by audited bodies	30 May – 8 June
Further consultation with audited bodies	18 June – 6 July
Board Appointments Panel considers further representations from audited bodies	w/c 9 July
Commission Board approves appointments	26 July
Letters sent to audited bodies to confirm appointments	By 10 August
Appointments begin	From 1 September

Appendix 1: The Appointments Panel

Terms of reference

The Board Appointments Panel will:

a) determine the strategic policy framework, produced by the Project Board, for the appointment of auditors from 2012/13;

b) consider and determine significant issues arising during the project, reported by the Project Board;

c) review the project risk register;

d) consider final representations from principal audited bodies where they object to the auditor proposed by the Commission, following consideration of initial representations by the Managing Director, Audit Policy; and,

e) having considered all representations in those cases, recommend auditor appointments for approval by the Commission Board.

The Panel will meet as necessary, timed around key milestones and decision points in the draft appointments timetable. The Panel may meet ‘virtually’ with papers being circulated, and decisions made, by email.

At any meeting of the Panel the quorum shall be three voting members present. Members may attend meetings of the Board by telephone or videoconferencing facility. Members attending a meeting by these means shall be deemed to be present in person at that meeting. The responsible officer shall record the circumstances of any member attending a meeting by telephone or videoconferencing facility.

Membership

The membership of the Panel will be:

Commission Board members

- Bharat Shah (Chair);
- Jennifer Dixon;
- Councillor Steve Houghton;
- Councillor Robert Light; and
- Councillor Sir David Williams.

Independent non-voting members

- Mike More, Chief Executive, Westminster City Council; and

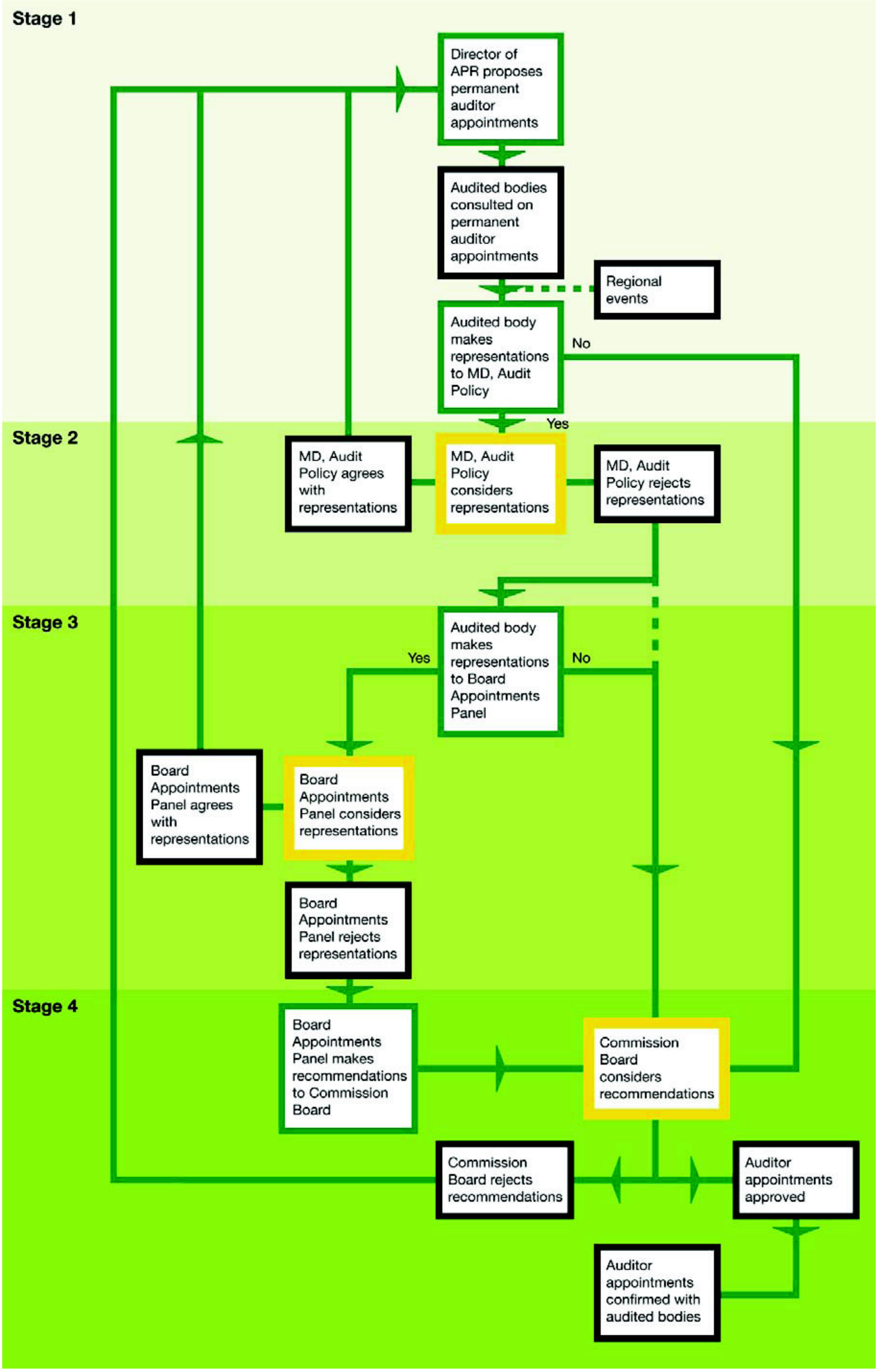
- Sean Nolan, Deputy Chief Executive and Director of Corporate Resources, East Sussex County Council.

Secretariat support to the Panel will be provided by the Commission Board Secretariat.

Reporting arrangements

The Panel will report to the Commission's Board.

Appendix 2: The auditor appointment process



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The process for audited bodies to object to a proposed auditor appointment

Stage 1 - May 2012

- Director, Audit Policy and Regulation (APR) formally consults audited bodies on proposed auditor appointments.
- To support the consultation there will be an introductory event in each contract area, involving the Commission and the proposed firm.
- Audited bodies can make written representations, if they object to the proposed appointment.
- If the body does not object to the proposed appointment, the Commission's Managing Director (MD), Audit Policy will recommend the appointment to the Commission Board (Stage 4).

↓

Stage 2 - June 2012

- MD, Audit Policy considers audited bodies' written representations
- He may either (1) accept them and ask the Director, APR to consult on an alternative proposal or (2) reject them and confirm the original proposed auditor appointment.
- Where an alternative proposal is made, Stage 2 may be repeated.
- If representations are rejected audited bodies may then make further representations.
- If the body does not continue to object to the proposed appointment, the MD, Audit Policy will recommend the appointment to the Commission Board (Stage 4).

↓

Stage 3 - July 2012

- The Board's Appointments panel will consider any further representations and will either ask the Director, APR to consult on an alternative proposal or recommend the appointment to the Commission Board.
- Where an alternative proposal is made, Stage 3 may be repeated.

↓

Stage 4 - July 2012

- The Commission Board will consider the recommendations for the MD, Audit Policy and the Appointments Panel and will either ask the Director, APR to consult on an alternative proposal or approve the auditor appointments.
- The Board's decision in all cases will be final, subject only to judicial review.

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