



**BROMSGROVE DISTRICT COUNCIL**

**MEETING OF THE AUDIT BOARD**

**MONDAY, 15TH OCTOBER, 2007 AT 6.00 PM**

**CONFERENCE ROOM, THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE**

**MEMBERS:** Councillors C. J. K. Wilson (Chairman), S. R. Colella (Vice-Chairman), Mrs. H. J. Jones, D. McGrath, C. R. Scurrall, Mrs. C. J. Spencer and E. C. Tibby

**AGENDA**

1. To receive apologies for absence
2. Declarations of Interest
3. To confirm the accuracy of the minutes of the meeting of the Audit Board held on 17th September 2007 (Pages 1 - 4)
4. Annual Audit and Inspection Plan (Pages 5 - 34)
5. Ethical / Social Policy (Pages 35 - 42)
6. To consider any other business, details of which have been notified to the Head of Legal, Equalities and Democratic Services prior to the commencement of the meeting and which the Chairman, by reason of special circumstances, considers to be of so urgent a nature that it cannot wait until the next meeting

**K. DICKS**  
**Chief Executive**

The Council House  
Burcot Lane  
BROMSGROVE  
Worcestershire  
B60 1AA  
3rd October 2007

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## BROMSGROVE DISTRICT COUNCIL

### MEETING OF THE AUDIT BOARD

MONDAY, 17TH SEPTEMBER 2007 AT 6.00 PM

PRESENT: Councillors C. J. K. Wilson (Chairman), S. R. Colella (Vice-Chairman), Mrs. H. J. Jones, D. McGrath, Mrs. C. J. Spencer and E. C. Tibby

Officers: Ms. J. Pickering, Mr. N. Shovell and Ms. D. Parker-Jones

13/07 **APOLOGIES FOR ABSENCE**

An apology for absence was received from Councillor C. R. Scurrall.

14/07 **DECLARATIONS OF INTEREST**

No declarations of interest were received.

15/07 **MINUTES**

The minutes of the meeting of the Audit Board held on 25th June 2007 were submitted.

**RESOLVED** that the minutes be approved as a correct record.

16/07 **EXTERNAL AUDIT REPORT TO THOSE CHARGED WITH GOVERNANCE - STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2007**

In view of the urgent need for Members to have sight of the report from KPMG LLP (UK), the Council's external auditor, which was necessary in order for an opinion to be issued on the Council's accounts, the Chairman agreed that consideration be given to the draft report which was tabled at the meeting.

The report, which summarised the auditors findings and conclusions on the Council's Accounts and Statement on Internal Control, together with its Use of Resources, and which also contained the draft Management Representation Letter, for the year ended 31st March 2007, was required in order to comply with the requirements of International Standard on Auditing (UK and Ireland) 260 ("ISA260") - *Communication of Audit Matters to Those Charged with Governance* and the Audit Commission's *Code of Audit Practice*.

The Chairman introduced Mr John Gorrie and Mr Tim Pearce, Director and Audit Manager respectively at KPMG LLP (UK). Mr Gorrie introduced the report and Mr Pearce spoke on the report contents. It was noted that the auditors proposed to issue an unqualified audit opinion on 24th September 2007 and that the Head of Financial Services would be speaking with the auditors regarding certain aspects of the report's supporting commentary.

**RESOLVED** that the "External audit: Report to those charged with Governance", including the draft Management Representation Letter at Appendix 6 to the Report, be noted.

17/07 **INTERNAL AUDIT PERFORMANCE AND WORKLOAD**

Members considered a report which gave a summary of the current performance and workload of the Internal Audit Section for the first five months of the year.

The Audit Services Manager advised the Board of staffing issues within the Internal Audit Section, which it was noted had had an affect on some of the planned audits. A meeting had taken place with the Audit Commission in this regard and a revised approach agreed, which it was noted would meet the minimum requirements as laid down by the Commission.

**RESOLVED:**

- (a) that the current status and work completed on the 2007/08 Audit Plan be noted and approved;
- (b) that the work completed by the Internal Audit Section during the first five months on 2007/08 be noted;
- (c) that the work regarding ongoing investigations be noted; and
- (d) that the current Performance Indicator statistics be noted.

18/07 **RECOMMENDATION TRACKER**

Consideration was given to a report which provided a summary of audit report "priority one" recommendations. The Committee was asked to review the recommendations, to highlight those that it felt required following up and to agree any necessary action and reporting process.

The Audit Services Manager advised that the Recommendation Tracker would be a rolling programme, with those recommendations which were subsequently implemented by Heads of Service and Managers being removed from this and new priorities added. Members noted that within the Audit Board's Procedure Rules the Board could require any senior officer to appear before it to provide an explanation on a matter within their remit, which might ultimately prove necessary where an officer had delayed implementation of a recommendation which the Board felt would improve control within any systems and processes.

**RESOLVED** that the "priority one" recommendations detailed at Appendix A to the report be noted and that an update report detailing the current positions in relation to all of the recommendations be provided at the next meeting of the Board.

19/07 **CORPORATE RISK REGISTER**

Members were presented with the Corporate Risk Register which had been drawn up following the Cabinet's approval, on 7th March 2007, of the Council's

Risk Management Strategy. The Register, which detailed all of the Council's key objectives, was being presented to the Board as part of the Board's Terms of Reference for risk management of the Authority.

The Head of Financial Services advised that, in future, only an exceptions report would be referred to the Board.

**RECOMMENDED** that the Cabinet approve the Corporate Risk Register.

20/07 **USE OF RESOURCES FEEDBACK 2006 AND SELF ASSESSMENT 2007**

A report which provided feedback from KPMG LLP (UK), the Council's external auditors, in relation to the Use of Resources formal judgement for 2006, and which also presented the updated self assessment submitted to KPMG in July 2007 was considered.

**RESOLVED:**

- (a) that the 2006 Use of Resources feedback and recommendations received from KPMG, as detailed at Appendix 1 to the report, be noted;
- (b) that the 2007 Use of Resources Self Assessment Exceptions Report submitted to KPMG for a formal judgement to be made, as detailed at Appendix 2 to the report, be noted; and
- (c) that the Use of Resources Self Assessment for Value for Money, as detailed at Appendix 3 to the report, be noted.

21/07 **ADDITIONAL MEETING OF THE AUDIT BOARD**

It was agreed that an additional meeting of the Audit Board would take place at 6.00 pm on Monday, 15th October 2007. The agenda for the meeting would consist of a presentation from Ms Liz Cave of the Audit Commission on the Audit and Inspection Plan and a report on the Council's Ethical and Social Policy - Banking.

The meeting closed at 7.39 pm

Chairman

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## BROMSGROVE DISTRICT COUNCIL

### AUDIT BOARD

15TH OCTOBER 2007

#### ANNUAL AUDIT AND INSPECTION PLAN

Responsible Portfolio Holder	Councillor Geoff Denaro
Responsible Head of Service	Head of Financial Services

#### 1. SUMMARY

- 1.1. The Audit Commission has issued the draft 2007/08 Audit and Inspection Plan. A copy of this document is attached to this report as Appendix A.

#### 2. RECOMMENDATION

- 2.1 Members are asked to note and agree the draft 2007/08 Audit and Inspection Plan.

#### 3. BACKGROUND

- 3.1 Attached at Appendix A is the draft 2007/08 Audit and Inspection Plan. The Plan sets out the audit and inspection work that the Audit Commission propose to undertake in 2007/08.

- 3.2 The main elements of note are:

- An assessment of councillor capacity to improve the Council's improvement priorities.
- An inspection of Strategic Housing.
- A Direction of Travel assessment.
- Use of Resources and Data Quality assessments.

#### 4. FINANCIAL IMPLICATIONS

- 4.1 Audit fees quoted within the audit plan are within 2008/09 revenue budget provisions.

#### 5. LEGAL IMPLICATIONS

- 5.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2006 to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

**6. COUNCIL OBJECTIVES**

6.1 Council Objective 02: Improvement.

**7. RISK MANAGEMENT**

7.1 The main risks associated with the details included in this report are:

- Ineffective financial management.
- Inaccurate Council data.
- Ineffective Business and Performance Management.

7.2 These risks are being managed as follows:

- Ineffective financial management:

Risk Register: Corporate  
Key Objective Ref No: 1  
Key Objective: Effective financial management

- Inaccurate Council data:

Risk Register: Corporate  
Key Objective Ref No: 15  
Key Objective: All Council data is accurate and of high quality

- Ineffective Business and Performance Management:

Risk Register: Corporate  
Key Objective Ref No: 19  
Key Objective: Effective Business and Performance Management

7.3 Service specific improvements and actions are also monitored as part of each individual service risk register.

**8. CUSTOMER IMPLICATIONS**

8.1 No customer implications.

**9. EQUALITIES AND DIVERSITY IMPLICATIONS**

9.1 No equalities and diversity issues.

**10. OTHER IMPLICATIONS**

Procurement Issues: None
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Personnel Implications: None
Governance/Performance Management: Effective governance process.
Community Safety including Section 17 of Crime and Disorder Act 1998: None
Policy: None
Environmental: None

## 11. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	No
Chief Executive	Yes
Corporate Director (Services)	No
Assistant Chief Executive	No
Head of Service	Yes
Head of Financial Services	Yes
Head of Legal, Equalities & Democratic Services	No
Head of Organisational Development & HR	No
Corporate Procurement Team	No

## 12. APPENDICES

12.1 Appendix A: Draft 2007/08 Audit and Inspection Plan

## 13. BACKGROUND PAPERS

None.

## CONTACT OFFICER

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# **Audit and Inspection Plan**

**Bromsgrove District Council**

**Audit 2007/08**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

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. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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# Contents

<b>Introduction</b>	<b>4</b>
Responsibilities	4
<b>CPA and inspection</b>	<b>6</b>
<b>Work under the Code of Audit Practice</b>	<b>9</b>
Financial statements	9
Use of resources	9
Data quality	10
Best value performance plan	11
<b>Assessing risks</b>	<b>12</b>
<b>Work specified by the Audit Commission</b>	<b>13</b>
Whole of government accounts (WGA)	13
National Fraud Initiative	13
<b>Voluntary improvement work</b>	<b>14</b>
<b>Certification of grant claims and returns</b>	<b>15</b>
<b>The audit and inspection fee</b>	<b>16</b>
<b>Other information</b>	<b>17</b>
The audit and inspection team	17
Independence and objectivity	17
Quality of service	18
Planned outputs	18
<b>Appendix 1 – Initial risk assessment – use of resources</b>	<b>19</b>
<b>Appendix 2 – Audit and inspection fee</b>	<b>22</b>
Specific audit risk factors	23
Assumptions	23
Specific actions Bromsgrove District Council could take to reduce its audit and inspection fees	24
Process for agreeing any changes in audit fees	24
<b>Appendix 3 – Independence and objectivity</b>	<b>25</b>

## Introduction

- 1 This plan has been developed by the Relationship Manager and the appointed auditor. It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
  - audit and inspection work specified by the Audit Commission for 2007/08;
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.
- 2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.
- 3 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.
- 4 Your appointed auditor for 2007/08 has changed. Your former appointed auditor from KPMG is however, best placed to complete a range of work with the Council. This work will include the audit opinion for 2006/07, the 2007 use of resources assessment and the assessment of the arrangements for Data Quality.

## Responsibilities

- 5 We comply with the statutory requirements governing our audit and inspection work, in particular:
  - the Audit Commission Act 1998;
  - the Local Government Act 1999 (best value inspection and audit); and
  - the Code of Audit Practice.
- 6 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
  - the financial statements (including the statement on internal control (SIC)); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

- 7 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 8 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

## CPA and inspection

- 9 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 10 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. The Council's first full CPA was conducted in 2007. The CPA assessment was on site in February 2007 and was published in June 2007 and this resulted in a categorisation of 'poor'. The key strengths in the Council's performance included the following.
  - Council leadership has a clear idea about what it wants to achieve and is self aware about the scale of the task required if the Council is to achieve minimum standards.
  - Some recent positive progress in addressing area of poor performance.
  - Significant improvement in financial management.
- 11 At the time of the inspection, there were some important areas for improvement in the Council's performance and there was too much complacency about the changes required to achieve the required improvements in performance. These included the following.
  - Overall performance remains below acceptable standards - service performance is poor and recent improvements in some areas have yet to be experienced by the public.
  - There is not yet an adequate vision for the area in place and stakeholders (partners, councillors, partners and the wider public) are not clear about the Council's aims.
  - The relationship with the County Council is not effective.
  - Priorities are not sufficiently specific and limited progress in using these to allocate resources.
  - Many councillors have a poor understanding of their role, a lack of trust between some councillors and staff and this has had a destabilising effect and has damaged the Council's reputation.
  - Over reliance on key senior individuals to provide leadership resulting in significant risks to the sustainability of capacity.
  - Performance management is not yet embedded and there are no processes in place for managing partnerships. The quality of management information is poor and the processes for ensuring value for money are not robust.

- 12 However, since the publication of the report there has been steady progress and a number of changes. These include the following.
- The improvement plan is being implemented successfully, the Performance Management Board noted that for the 159 actions highlighted for July within the plan, 95.6 per cent of the Improvement Plan is on target.
  - A senior management restructure to increase capacity at a senior level and the Council has set up an extensive training programme for members which would have a big impact.
  - Early draft performance indicators for 2006/07 show that Bromsgrove is improving faster than other councils, though from a low base line position. In 2007/08 to date 61 per cent of the BVPI's reported are projected to be above the median.
  - Inter authority working is moving forward, with for instance currently a Bromsgrove council officer is undertaking procurement for Redditch, Wychavon and an Oxfordshire authority.
  - The 2006/07 accounts have been closed on time with an unqualified opinion but VFM will have a qualified opinion.
- 13 Given the Council's CPA category and the risks associated with many of the projects in the improvement plan, our audit and inspection activity will focus on these risks with particular attention to the sustainability of improvements made. On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

**Table 1 Summary of inspection activity**

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT statement will be reported in the annual audit and inspection letter. The DoT assessment summary will be published on the Commission's website.

Inspection activity	Reason/impact
Inspection of Culture Service	The plan for 2006/07 included an inspection of culture services. This inspection was not completed because of the Council's request for a CPA. In the light of the issues identified by the CPA we no longer propose to carry out this inspection. We will instead use this resource to undertake an assessment at a senior level of the council's capacity and governance to support the Council's improvement priorities. The direction of travel assessment will include some extra focus on this.
Inspection of strategic housing	As a consequence of the 0 star inspection on housing in 2006 we will undertake a further inspection in 2007/08.

## Work under the Code of Audit Practice

### Financial statements

- 14 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 15 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 16 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Council.

### Use of resources

#### Value for money conclusion

- 17 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 18 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 19 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

#### Use of resources assessment

- 20 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
- 21 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's 2006/07 value for money conclusion. Consequently in order to ensure that this work is delivered in the most efficient manner the Audit Commission has determined that the outgoing auditors KPMG will undertake this work and charge a separate fee accordingly.

- 22 KPMG will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

Theme	Description
Financial reporting	<ul style="list-style-type: none"> <li>• Preparation of financial statements.</li> <li>• External reporting.</li> </ul>
Financial management	<ul style="list-style-type: none"> <li>• Medium-term financial strategy.</li> <li>• Budget monitoring.</li> <li>• Asset management.</li> </ul>
Financial standing	<ul style="list-style-type: none"> <li>• Managing spending within available resources.</li> </ul>
Internal control	<ul style="list-style-type: none"> <li>• Risk management.</li> <li>• System of internal control.</li> <li>• Probity and propriety.</li> </ul>
Value for money	<ul style="list-style-type: none"> <li>• Achieving value for money.</li> <li>• Managing and improving value for money.</li> </ul>

- 23 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.
- 24 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

## Data quality

- 25 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- stage 1 - management arrangements;
  - stage 2 - completeness check; and
  - stage 3 - risk-based data quality spot checks of a sample of performance indicators.

- 26 As with the use of resources work the Audit Commission has determined that the 2007 judgement should be undertaken by the outgoing auditor, KPMG. The work at stage 1 will link to KPMG's review of the Council's arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission's CPA assessment.
- 27 Our fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

## **Best value performance plan**

- 28 KPMG will carry out an audit of your best value performance plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

## Assessing risks

- 29 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 30 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with Council officers;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.

We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after the 2006/07 audit has been completed by KPMG. We will issue a separate opinion audit plan for our audit of the financial statements in November 2007.

- 31 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.
- 32 Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

## **Work specified by the Audit Commission**

### **Whole of government accounts (WGA)**

- 33 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk.

### **National Fraud Initiative**

- 34 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

## Voluntary improvement work

- 35 We are not proposing to do any voluntary improvement work at Bromsgrove District council during 2007/08.

## Certification of grant claims and returns

36 We will continue to certify the Council's claims and returns on the following basis:

- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

## The audit and inspection fee

- 37 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 38 The indicative fee for audit and inspection work included to be conducted by the Audit Commission in this audit and inspection plan for 2007/08 is £111,250 which compares with the actual fee of £112,951 paid for 2006/07.
- 39 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions Bromsgrove District Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 40 In addition we estimate that we will charge approximately £12,000 for the certification of claims and returns.
- 41 As indicated in paragraphs 2 and 31, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 39 above. Any changes to the fee will be agreed with you.

## Other information

### The audit and inspection team

- 42 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

**Table 2**

Name	Contact details	Responsibilities
Gary Stevens Relationship Manager	G-stevens@audit-commission.gov.uk 0844 798 3954	The primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Liz Cave District Auditor	l-cave@ audit-commission .gov.uk 07818 015965	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and [audit] committee.
David Evans Audit Manager	d-evans@audit-commission.gov.uk 07980 013390	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Finance.

### Independence and objectivity

- 43 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 44 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

## Quality of service

- 45 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Relationship Manager or District Auditor in the first instance. Alternatively you may wish to contact the West Midlands Head of Operations, Phil Jones.
- 46 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

## Planned outputs

- 47 Our reports will be discussed and agreed with the appropriate officers before being issued to the [audit] committee.

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**Table 3**

Planned output	Indicative date
Opinion audit plan	November 2007
Data quality report	TBC
Interim audit memorandum	June 2008
Annual governance report	September 2008
Opinion on the financial statements and value for money conclusion	September 2008
Final accounts memorandum (to the Director of Finance)	October 2007
Use of resources report	December 2008
Housing re-inspection	May 2008
Annual audit and inspection letter	TBC
BVPP report	December 2008

## Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p><b>Voluntary engagement.</b> Risk of continuing in engagement.</p>	Development and monitoring of the council improvement plan.	Yes	We will review progress against the improvement plan.	Use of resources value for money assessment.
<p><b>Town centre redevelopment.</b> Risk that project is not cost effective or in line stakeholder expectations.</p>	This is a priority (CP1) within the overall improvement plan	Yes	<p>We will review progress/costs against action plans.</p> <p>We will monitor the risks facing the project and discuss any further involvement as required.</p>	Use of resources and VfM conclusion.
<p><b>Financial pressures.</b> Significant future savings are required. Risk of not achieving balanced budget and efficiency targets without reducing services.</p>	This is included (as priorities FP1/FP2) within the overall improvement plan.	Yes	We will monitor budgetary control procedures and results during the year.	Use of resources financial management and financial standing assessments.

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p><b>Longbridge redevelopment.</b></p>	<p>This is a priority (CP2) within the overall improvement plan.</p>	<p>Yes</p>	<p>We will review progress against the improvement plan.</p> <p>We will monitor the risks facing the project and discuss any further involvement as required.</p>	<p>Use of resources and VfM conclusion</p>
<p><b>Spatial project.</b> Risk that project does not deliver expecting service improvements or cost savings.</p>	<p>This is a priority (PR3) within the overall improvement plan.</p>	<p>Yes</p>	<p>We will review progress against the improvement plan</p> <p>We will monitor the risks facing the project and discuss any further involvement as required.</p>	<p>Use of resources and VfM conclusion</p>
<p><b>Job evaluation</b> Risk of unplanned, high cost increases in costs. Danger of poor staff morale from the project.</p>		<p>Yes</p>	<p>We will review the progress/costs of the JE exercise.</p>	<p>Use of resources financial management and VFM.</p>

<b>Significant risks identified</b>	<b>Mitigating action by audited body</b>	<b>Residual audit risk</b>	<b>Action in response to residual audit risk</b>	<b>Link to auditor’s responsibilities</b>
<p><b>Benchmarking.</b> UoR feedback suggests the council needs to tackle areas of high cost and low performance service areas.</p>	<p>This is a priority (FP1) within the overall improvement plan. Audit Commission data will be used for comparison purposes.</p>	<p>Yes</p>	<p>We will liaise with the council to facilitate the use of Audit Commission data.</p>	<p>Use of resources VFM assessment</p>
<p><b>Leisure centre.</b> Possible transfer of management to independent management company. Risk that cost savings are not realised or service quality is not maintained/improved.</p>		<p>Yes</p>	<p>We will review the council's procedures for assessing VFM and governance arrangements.</p>	<p>Use of resources VFM and internal control.</p>

## Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the [planned/actual] fee for 2006/07.

**Table 4**

<b>Audit area</b>	<b>Planned fee 2007/08 £</b>	<b>Actual fee 2006/07 £</b>
<b>Audit</b>		
Financial statements	61950	48,000
Use of resources (including BVPP)	21200	42,000
Data quality	6700	-
Whole of government accounts	1800	-
National Fraud Initiative	600	-
Total audit fee	92,250	90,000
<b>Inspection</b>		
Relationship management	2,950	2,870
Direction of Travel	2,950	
Service inspection	7,200	5,957
Recovery Support	5,900	8,624
Corporate inspection		5,500
Total inspection fee	19,000	22,951
Total audit and inspection fee	111,250	112,951
Certification of claims and returns (estimated)	12,100	12,000

- 2 The Audit Commission scale fee for Bromsgrove Council is £86,370. The fee proposed for 2007/08 is +7 per cent compared to the scale fee and is within the normal level of variation specified by the Commission.

- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

## Specific audit risk factors

- 5 In setting the audit fee we have taken into account the specific risk factors set out in Appendix 1.

## Assumptions

- 6 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07 you will inform us of significant developments impacting on our audit;
  - internal audit meets the appropriate professional standards;
  - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements by [date];
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - additional work will not be required to address questions or objections raised by local government electors.
- 7 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 8 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## **Specific actions Bromsgrove District Council could take to reduce its audit and inspection fees**

- 9 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We will develop a sound working relationship with Internal Audit so that we can place as much reliance as appropriate on their work. We will also discuss our working paper requirements with officers so that they can provide as much relevant information as possible to support the accounts.

## **Process for agreeing any changes in audit fees**

- 10 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Director of Finance. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the audit.

## Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

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

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

## BROMSGROVE DISTRICT COUNCIL

### AUDIT BOARD

15TH OCTOBER 2007

#### ETHICAL / SOCIAL POLICY

Responsible Portfolio Holder	Councillor Geoff Denaro
Responsible Head of Service	Head of Financial Services

#### **1. SUMMARY**

- 1.1 To inform members of the existing social/ethical policies that are in place with the main provider of banking services to Bromsgrove District Council and to report on the options for the development of an ethical policy for the Council corporately

#### **2. RECOMMENDATION**

- 2.1 Members are asked to note the summary of the HSBC corporate responsibility policy
- 2.2 Members are asked to recommend to Cabinet that following consideration of internal policies in place and in acknowledging the development of future plans that members are satisfied that current organisational requirements are being met and there is no need for further action at this time.

#### **3. BACKGROUND**

- 3.1 Following a request at Council on 27<sup>th</sup> June 2007 officers have investigated the social/ethical policy in respect of banking services provided to Bromsgrove District Council. In addition officers have reviewed the policies in place to ensure the Council is trading with socially responsible organisations.
- 3.2 HSBC currently provides the banking arrangements for the Council. This includes all day to day transactions and an element of the investment portfolio.
- 3.3 The summary of the Corporate Responsibility policy that has been adopted by HSBC bank is attached at Appendix A. This represents HSBC policies in respect of a number of ethical issues including ; lending proposals and investments, the promotion of good environmental practice and sustainable development, and commitment to the welfare and development of each local community.
- 3.4 This policy demonstrates that the banking providers for Bromsgrove District Council have a robust corporate responsibility that is used as the framework for any transactions undertaken on behalf of the Council.

- 3.5 Over the last 18 months there has been an improvement in the procurement policies and practices undertaken by the Council. This included the development of both contract and procedure rules and procurement strategy. Both of these documents demonstrate that the officers must have the formal consideration of a number of factors including ; environmental , social and sustainability issues when procuring assets, supplies or services. In addition the Councils' procurement officer is currently developing a sustainability policy which will be presented to members shortly.
- 3.6 Whilst officers will continue to review the policies and procedures in this area to achieve higher standards in the delivery of our services it is considered that the current policies and those being developed satisfy the current needs of the organisation.

#### **4. FINANCIAL IMPLICATIONS**

- 4.1 There are no financial implications as a direct result of this report.

#### **5. LEGAL IMPLICATIONS**

- 5.1 Local Authorities are subject to requirements of specific equality and diversity duties. Failure to act can result in a claim to the High Court for judicial review.

#### **6. COUNCIL OBJECTIVES**

- 6.1 Council Objective 02: Improvement, 04: Environment, 01: Regeneration

#### **7. RISK MANAGEMENT**

- 7.1 The main risks associated with the details included in this report are:

- Failure to give sufficient emphasis to the importance of sustainability and ethical issues would result in the Council being exposed to legal challenge, financial risk and loss of reputation

- 7.2 These risks are being managed as follows:

- Emphasis of equality and diversity

Risk Register: Legal, Equalities & Democratic Services

Key Objective Ref No: 1

Key Objective: Effective Equalities Culture

- 7.3 Service specific improvements and actions are also monitored as part of each individual service risk register.

## 8. CUSTOMER IMPLICATIONS

- 8.1 By ensuring the sustainability and ethical aspects of the Councils procurement strategy the Council can demonstrate and deliver services to customers in accordance with our Equalities and Diversity agenda.

## 9. EQUALITIES AND DIVERSITY IMPLICATIONS

- 9.1. Local Authorities are subject to requirements of specific equality and diversity duties. Failure to act can result in a claim to the High Court for judicial review.

## 10. OTHER IMPLICATIONS

Procurement Issues:  As specified in the report – the procurement manager will continue to review policies for improvements to the trading activities of the Council.
Personnel Implications:  None
Governance/Performance Management:  Effective governance process.
Community Safety including Section 17 of Crime and Disorder Act 1998:  None
Policy:  None
Environmental:  None

## 11. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	No
Chief Executive	Yes
Corporate Director (Services)	No
Assistant Chief Executive	No

Head of Service	Yes
Head of Financial Services	Yes
Head of Legal, Equalities & Democratic Services	Yes
Head of Organisational Development & HR	No
Corporate Procurement Team	No

## 12. **APPENDICES**

12.1 Appendix A: HSBC Summary corporate policy

## 13. **BACKGROUND PAPERS**

None.

## **CONTACT OFFICER**

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Tel: (01527) 881207

# Our Approach to Corporate Responsibility

Since its first loan in 2005, HSBC in India has provided credit and capacity-building facilities totalling US\$7.5 million to over 25 microfinance institutions (MFIs). HSBC's facilities enable its MFI customers to provide financial services to the poor, particularly women – such as this basket weaver outside Hyderabad in Andhra Pradesh – for viable, income-generating enterprises.



### Corporate responsibility

What does it mean for a company to be responsible? This is the question any forward-thinking financial institution should be asking itself. Being a responsible company not only demonstrates a commitment to the long term, it also helps to define our identity. The companies that will be our sector's leaders in five, 10 and 50 years' time already know that a commitment to environmental and social sustainability is not a secondary issue; it is a defining strategy that will help build financially successful global companies in the future.

Our world has undergone momentous changes in the past 40 years, including a doubling of the human population. Financial institutions have funded much of that development and, today, more people around the world have access to basic essential services – electricity, running water and transport. However, the forces of globalisation have produced formidable challenges.

Today, a responsible financial institution must make investment and insurance decisions taking into account environmental and social sustainability, including tackling the consequences of climate change. It must also understand both the social and financial impact of diseases like HIV/AIDS and malaria on its customers and employees. With greater economic interdependence between regions, it must promote responsible lending and offer progressive personal financial services in all the markets it serves.

We at HSBC believe that the financial services sector has an opportunity to provide corporate leadership on many of these environmental and social issues – particularly on climate change. Commissioned by the British government and published in October 2006, the Stern Report warns of the serious economic costs posed by

climate change to the global economy and to populations in critical regions. As the world's first major carbon neutral bank, HSBC is better placed than most to understand the risks and opportunities provided by the move to a lower carbon economy.

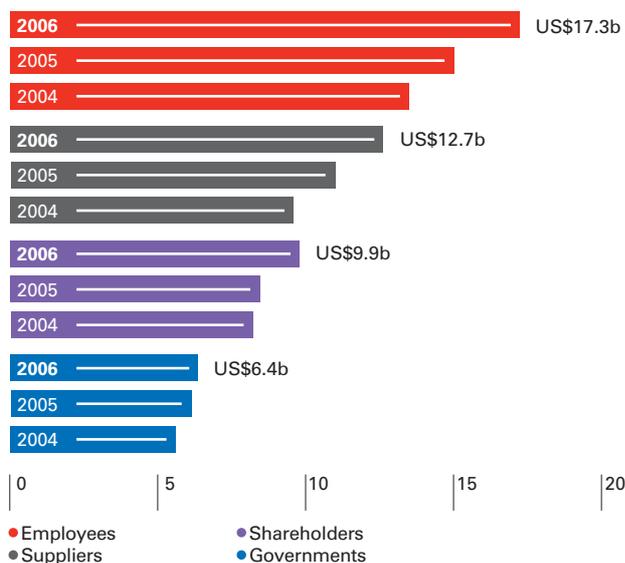
We are also aware that many of our customers have very real concerns about globalisation. For example, they want to know whether they will continue to receive a high level of customer service and whether their banking transactions will be secure. By investing in its employees and the latest technologies, HSBC is committed to making banking a consistently straightforward and secure experience for customers everywhere.

Staying true to our beliefs, translating them into policies, and implementing those policies is the best way we can prove to all our stakeholders our resolve to be a company that puts corporate responsibility on the same level as running a successful business. This is a challenge for an organisation with our global reach.

### Sustainable development: creating economic, environmental and social benefits

HSBC's definition of sustainable development is based on the principles of the 1987 Bruntland Commission – that development should meet the needs of the present without compromising the ability of future generations to meet their own needs. In practice, this means continuing to observe the highest standards of conduct in the provision of financial services to our customers and in discharging our responsibility to society as we have done throughout our 142-year history.

Distribution of economic benefits 2004-06



#### Employees

We reward employees for outstanding performance through variable pay such as short-term bonuses and long-term incentives. Employees are also encouraged to share in the ownership of the company through the Sharesave regular savings plan, which is linked to share options.

#### Suppliers

Our operations spanning 82 countries and territories make a major contribution to local economies, as well as to the global economy. In 2006, we spent US\$12.7 billion on premises and procurement around the world.

#### Shareholders

Our shares provided a compound annual growth rate of 17 per cent from 1991 to 2006, yielding a dividend of US\$0.81 per share in respect of 2006. We have around 200,000 registered shareholders in over 100 countries and territories, including pension funds, mutual funds and insurance companies, which provide millions of people with a financial interest in the success of our business.

#### Governments

We contribute to public services in the countries and territories where we operate through taxes which, in 2006, amounted to US\$6.4 billion.

## Our Approach to Corporate Responsibility (continued)

In 2006, our Group Sustainable Development team's remit was expanded to cover business development opportunities related to climate change, water, biodiversity and poverty alleviation.

The team works closely with all of our customer groups and global businesses, geographical regions, and product and support areas, including Group Corporate Real Estate, Group Purchasing and IT. The team also provides a policy framework for the Group's sustainability risks for the lending and investment businesses, including the *Sustainability Risk Standard*, environmental and social risk policies, the Equator Principles and the defence equipment financing policy. In addition, it sets the strategy and policy for managing the environmental impact of our corporate real estate portfolio.

In 2006, the team launched the *Energy Sector Policy* and Carbon Finance Strategy. The fifth sector guideline, the *Mining and Metals Sector Policy*, will be published in 2007.

For more information on our management of risk and business development opportunities, see 'Responsible lending and financing: Commercial, Corporate and Investment Banking customers' on pages 18–19.

### CR and sustainable development training

Corporate responsibility, sustainable development and risk management are integrated into HSBC's general management and specific risk management training courses, from the Group Chairman's Strategic Forum to our entry level Group Graduate Development Programme. In 2006, we also staged a roadshow in mainland China, Hong Kong SAR, India, Malaysia and Singapore to educate over 100 colleagues up to chief executive officer level on carbon finance, microfinance and business development.

### Managing our direct impacts

HSBC has a network of over 200 staff globally who project manage the implementation, monitoring and reporting of environmental initiatives to reduce direct impacts. HSBC has an Environmental Management System based on the International Standard ISO 14001. The system is used to set priorities for the roll out of training, the development of operational procedures and processes, and to review Group-wide strategies. Please see page 33 for a summary of our waste production, water and energy use, business travel, and CO<sub>2</sub> emissions, and page 24 for a discussion of our commitment to tackling climate change.

In July 2005, we announced targets for producing less waste and CO<sub>2</sub> emissions, and for reducing our water and energy consumption.

See an update on our performance against environmental targets  
[www.hsbc.com/environment](http://www.hsbc.com/environment)

### Purchasing: managing risks and opportunities

New suppliers are required to complete a supplier questionnaire that helps to pre-qualify potential vendors. We have secured agreement for the supply of Forest Stewardship Council (FSC)-certified copier and letterhead papers for use throughout the UK. We continue to work with paper merchants to increase the availability

around the world of FSC-certified paper – our preferred choice of sustainably produced paper. Our executive car fleets in the UK, France, Hong Kong and Mexico all include hybrid cars.

In the US, we aim to increase the amount of business awarded to enterprises owned by minorities and by women. In 2006, against a target of 15 per cent we achieved a placement rate of 14.5 per cent, compared with 5 per cent during 2005.

Visit

[www.hsbc.com/supplierscode](http://www.hsbc.com/supplierscode)

### Stakeholder engagement

In 2006, we developed stakeholder engagement guidelines which were tested in Brazil. Feedback from the pilot project will be analysed, and the revised guidelines will then be made available in 2007 to other HSBC businesses around the world. In the pilot, meetings were held with various stakeholder groups: regulators, academics, employees, suppliers and customers, and non-governmental organisations. The key issues identified were communication of measurable CR results, relationships with suppliers, financial education, responsible banking products, and credit policies with minimal environmental impact.

### Community investment

We believe we have a responsibility to contribute to the communities in which HSBC operates. We also take the view that investment in education and conservation of the environment is essential to the planet's long-term health and prosperity, and therefore allocate 75 per cent of our charitable donations to these two key areas. The remaining 25 per cent of our donations are disbursed by community investment teams at the country and territory level. We also support local communities through payroll-giving, matched donations, and time-off for employees to do voluntary work.

### Education

Our support for education is primarily managed by the HSBC Global Education Trust. Its work focuses on: primary and secondary education; financial education; disadvantaged children; projects promoting international understanding; and the teaching of languages, particularly Asian languages where they are not indigenous in English-speaking countries.

Launched in 2006, 'Future First' is a US\$10 million, five-year global programme dedicated to helping street children, orphans and children in care. The HSBC Global Education Trust is collaborating with international charity SOS Children's Villages and other charities around the world on a programme to provide education and life skills to children so that they can become productive members of society.

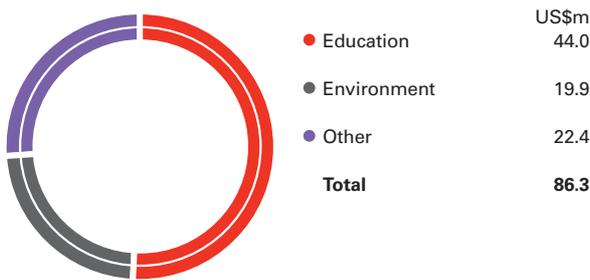
Now in its second year of a three-year programme, Students in Free Enterprise (SIFE) focuses on developing the financial skills of young people aged 16 to 25, and female entrepreneurs in local communities. Since the programme began, more than 6,000 SIFE students have been involved in financial literacy projects for more than 350,000 people in 28 countries.

SOS Children's Villages



Students at the SOS Children's Villages Secondary School in Bhimtal, India, one of many such schools supported by HSBC through 'Future First'.

**Community donations by category 2006**



Since 2004, HSBC has been supporting iNet (International Network for Educational Transformation). iNet is developing an international leadership qualification, drawing on the expertise of the world's top thinkers on leadership. In October 2006, iNet organised a conference in Beijing for 100 outstanding school principals from 14 countries to discuss transformation and innovation in the world's education systems and to develop an agenda for the future of schooling.

**Environment\***

Our five-year environmental programme, 'Investing in Nature', concluded in 2006. The US\$50 million eco-partnership between HSBC and Botanic Gardens Conservation International (BGCI), Earthwatch Institute and WWF protected, managed or restored more than three million hectares of habitat, conserved or protected over 14,500 plant and animal species, and improved the livelihoods of some 140,000 people.

Through the programme, WWF has improved more than two million hectares of freshwater habitats in Brazil, China, Mexico, the UK and the US. Highlights of the programme include: influencing how China's Yangtze River is managed, lobbying the UK government to implement a new European Union Water Framework Directive, and promoting the better management of freshwater in Brazil through the 'Water for Life' campaign.

BGCI has protected 12,000 plant species, supported the development of the largest international network on plant conservation linking

\*All conservation figures provided by BGCI, Earthwatch and WWF.

over 800 botanic gardens in 120 countries and territories, and launched a database that identifies rare and threatened plants in botanic garden collections.

In total, 2,000 HSBC employees went to work with Earthwatch on 103 conservation projects worldwide. They collected data contributing to the protection of more than 972,000 hectares of land, the discovery of 42 new species, and the conservation of some 2,000 species. More than 230 scientists in Asia, Africa and South America have also been trained on the programme.

We are currently in the final stages of developing a successor programme to be announced in 2007.

**Microfinance**

With significant operations in the emerging markets and expertise in transactional solutions – and supported by our office network, services, processes, capital and customer relationships – we are well placed to serve the microfinance sector. Following our pilot projects in 2005, HSBC has engaged more closely with microfinance enablers and on-the-ground microfinance institutions (MFIs) to understand the principal issues facing the sector. The findings have informed and shaped our priorities in microfinance. HSBC is currently working with MFIs in Argentina, India, Mexico, the Philippines, Sri Lanka and Turkey. Our approach to this sector is based on commercial viability with high social benefit, and our microfinance activities are integrated into our local business operations.

The needs of MFIs and enablers include: access to fixed rate borrowing and more innovative debt solutions (including debt capital markets and securitisations) to reduce funding costs; foreign exchange hedging to manage currency mismatches between assets and liabilities; cash and liquidity management solutions; and deployment of technology to reduce costs of delivery and unbranded products including insurance services. These are all our core competencies and their provision to the microfinance sector forms the basis of HSBC's microfinance strategy, which we will announce during 2007.

HSBC also participates in industry initiatives with other global banking groups, including the UN Advisory Group on Inclusive Financial Sectors.

For an update on our current microfinance initiatives, see [www.hsbc.com/microfinance](http://www.hsbc.com/microfinance)