



London Borough of Hammersmith & Fulham

Audit and Pensions Committee Minutes

Tuesday 29 June 2010

PRESENT

Committee members: Councillors Michael Adam (Chairman), Michael Cartwright (Vice-Chairman), Nicholas Botterill, Marcus Ginn, Robert Iggulden, and PJ Murphy

Co-opted Member: Mrs Eugenie White

Officers:

Jane West, Director of Finance and Corporate Services
Jim Mearns, Interim Deputy Director of Finance
Pat Gough, Assistant Director of Finance
Gary Hannaway, Assistant Director of Finance
Geoff Drake, Chief Internal Auditor
Jill Lecznar,
Michael Sloniowski, Principal Risk Consultant
Bob Pearce, Group Accountant (Technical)
Kelly Gooch,

1. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF 23 MARCH 2010 AND THE MEETING OF THE PENSION FUND PANEL OF 16 MARCH 2010

RESOLVED THAT

- (i) The minutes of the Audit Committee held on the 23rd March 2010 and the Pension Fund Investment Panel held on the 16th March 2010 agreed as true and accurate, and;
- (ii) The outstanding actions be noted.

2. APOLOGIES FOR ABSENCE

There were none.

3. DECLARATIONS OF INTEREST

Councillor Michael Cartwright and Councillor PJ Murphy declared an interest in respect of all relevant Items as members of the Hammersmith and Fulham Pension Fund. As the interest was personal but not prejudicial, they remained in the meeting during the debate on these items.

4. MEMBERSHIP AND TERMS OF REFERENCE

Councillor Cartwright and Councillor Murphy said that they opposed the appointment of Mrs. Eugenie White as a co-opted member. Councillor Cartwright said that the Opposition had opposed the merger of the Pension Fund Panel and Audit Committee, and did not believe that a co-opted member was appropriate to the Committee's audit functions. He said that Eugenie White had expressed opposition to the appointment of co-opted members to the Cleaner and Greener Scrutiny Committee when she had been a Councillor of the authority. He also questioned the value for money of appointing a co-opted member, given that an allowance was payable.

Councillor Murphy also expressed his concern about cost, and questioned whether further specialist advice was needed; if so, he felt that committee members should stand down in favour of those equipped to meet the demands of membership. He also expressed concerns about the way that the co-opted member had been selected, given her status as a former Councillor.

Councillor Botterill said that the authority had a tradition of appointing co-opted members to committees where it was felt that they could add value. He said that Eugenie White's contribution to the work of the Pension Fund Panel had been highly valuable, and grounds for her co-option to the new Committee.

Henry Obuvu, Unison Representative, said that he was concerned that there was no nameplate for him and no mention of him on the agenda. Owen Rees, Committee Coordinator, said that any change from previous practice at the Pension Fund Panel was unintentional and would be rectified for the Committee's next meeting.

RESOLVED

- (i) That the terms of reference be noted, and that;
- (ii) Mrs Eugenie White be co-opted as an independent non-voting member.

Resolution (ii) was the subject to a vote, the results of which are as follows

FOR 4
AGAINST 2

Councillor Cartwright moved under provision 16 (d) of the Part 4 of the Council's constitution that the vote be recorded.

FOR: Councillors Adam, Botterill, Ginn and Iggulden.
AGAINST: Councillors Cartwright and Murphy.

5. WORMWOOD SCRUBS CHARITABLE TRUST ACCOUNTS 2009/10

Gary Hannaway, Assistant Director of Residents Services, presented the report, which had been moved forward from its position on the agenda.

Councillor Iggulden asked what the mechanism for agreeing the contribution to the Linford Christie Stadium was. Councillor Botterill said that the Cabinet Member had effective sign-off on how the Trust's expenditure was apportioned.

RESOLVED

- (i) That the Wormwood Scrubs Charitable Trust's 2009/10 statement of accounts and Trustee's report be approved, subject to any changes that may emerge from the audit of the accounts, and;
- (ii) That running costs of £115, 500 the Linford Christie Stadium

6. PENSION VALUE AND INVESTMENT PERFORMANCE

Helen Smith and Simon Jones, P-Solve, introduced the report, which set out the performance of the Council's Pension Fund in the quarter between . Helen Smith explained the structure of the report, and the way in which it reflected the overall strategy for the fund, and the performance of the four different elements within it.

Councillor Botterill asked whether the element of the fund mandated to Legal and General could be considered to be underperforming. Simon Jones said that the original planned hedging strategy had not been fully implemented, as its cost had risen to be prohibitively high; what had been put in its place was largely a passive holding in long-term gilts. The position was under assessment, and a more detailed evaluation would be available by the next meeting of the Committee.

Councillor Cartwright asked to what extent the Pension Fund was exposed to the consequences of the BP leak in the Gulf of Mexico. Bob Pearce, Group Accountant (Technical), said that the Fund's exposure had been fractional, with only Majedie having a large holding. Of this, they had sold a large proportion on the day of the explosion, and were holding the remainder, in the belief that the value would eventually rise, at which point they aimed to sell.

Councillor Murphy asked whether the Fund had any potential exposure to the legal problems faced by Goldman Sachs. Simon Jones said that funds such as the Council's were held in a different organisation to those of Goldman Sachs' proprietary trading business, meaning that they were protected from the kind of exposure described.

In response to a question from Eugenie White about inflation expectations in the Matching Fund, Simon Jones said that while short-term inflation expectations might be higher, the longer term- expressed as forty to fifty years- was more stable.

Committee Members also asked what were the triggers for corrective action in rebalancing the fund into 25 percent holdings, should one element outperform or underperform the rest. Councillor Iggulden gave Royal Sun Alliance as an example

of an organisation that actively rebalanced its funds when the percentage held changed. Simon Jones said that around ten percent of the target amount allocated (or 2.5 percent of the fund) would be an appropriate trigger. He said that P-Solve and officers would discuss and report to the Committee's next meeting.

With regard to strategy for emerging market equities, Simon Jones said that there had been changes at MFS who held the mandate in that area. P-Solve were scheduled to meet with the new fund manager at MFS dealing with Global Growth Strategy, and would be able to report outcomes to the September meeting of the Committee.

Eugenie White said that the inception dates for the Barings and Ruffer's mandates needed to be corrected.

RESOLVED THAT

The report be noted.

7. EXTERNAL AUDIT PROGRESS REPORT

Julian McGowan, Audit Manager, Audit Commission, introduced the report, which set out the work undertaken by the Audit Commission as the Council's external auditors since the last meeting of the Audit Committee. He noted that, in the light of the abolition of the Comprehensive Area Assessment, the Use Of Resources assessment had not been produced.

Councillor Iggulden drew attention to the Audit Commission's recent publication on severance payments to Council Chief Executives and asked how and what severance packages the Council gave. Jane West, Director of Finance and Corporate Services, said that the terms offered to staff being made redundant or offered early retirement were subject to review by the Adjudication Panel, which she chaired under delegated powers. She said that she was not aware of any severance packages awarded recently and that the Council did not have a policy of offering additional years for pensions, offering early retirement only where the rules allowed; and agreed to report to the next Committee on what packages had been offered, with anonymity preserved where necessary.

RESOLVED

THAT

The report be noted.

8. 2010/11 EXTERNAL AUDIT FEE LETTERS

Jon Hayes, District Auditor, Audit Commission, introduced the report, which set out the fees to be levied for the 2010/11 external audit of the Council's accounts and pension fund. He said that further work was needed to ascertain the impact of the abolition of the Comprehensive Area Assessment, together with whatever was to replace it.

In response to a question from the Chairman regarding the baseline level of fee, Jon Hayes said that the Council was now producing better quality information and this was reducing the time spent on the audit. In response to a further question

regarding the pension fund fee, Jon Hayes said that when separate audits were introduced, the main accounts audit fee had been reduced to the value of the pension fund audit fee.

Councillor Murphy asked what had caused the improvement in the material supplied by the Council, and whether the reduced amount of work needed by the auditor reflected an increased amount of work and cost for the Council. Jon Hayes said that the improvement was common across London councils, with the fall in costs typical. Jane West, Director of Finance and Corporate Services, said that there had been no increase in staffing resource, but that the new finance system, introduced during the period under discussion, required considerably less human intervention to produce the information required

RESOLVED

THAT

The report be noted.

9. AUDIT COMMISSION RECOMMENDATIONS UPDATE

Councillor Iggulden asked for an update on Recommendation 10 on Payroll and Recommendation 9 on New Deals for Communities, both of which were past target dated for implementation. Geoff Drake, Chief Internal Auditor, said that he would write to the Committee, giving an update on the items.

RESOLVED THAT

The report was noted

10. LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS FOR 2009/10

Jim Mearns, Deputy Director of Finance, introduced the report, which set out the draft 2009/10 accounts for the London Borough of Hammersmith and Fulham, including the Pension Fund accounts. He said that, following the training session held with the Committee, a breakdown of Housing Revenue Account (HRA) debt had been prepared; it also showed the percentage of that debt that was owed to the Decent Homes programme.

Eugenie White asked what the implication for the treatment of debt of the sale of assets. Jim Mearns said that the Council waited for receipt of cash before showing this on the accounts.

Councillor Murphy drew attention to the explanation of the underspend in Community Services and the overspend Housing and Regeneration. Noting that these were attributed to underspent client budgets and staff vacancies, and to redundancies and dilapidations, respectively, he asked for a breakdown between the two elements.

The Chairman noted the management fee payable by the Council to H & F Homes, and, given its size, asked for a further breakdown of the fee payable.

Councillor Iggulden asked why the interest payable by the Council was increasing. Officers explained that this was a consequence of the Decent Homes debt as shown in the HRA. He asked that the debt figures be further broken down to show the debt payable directly by the Council on its non-HRA borrowings.

Councillor Iggulden asked how the figures on valuation of assets were arrived at. Jim Mearns said that a valuation was made on the 1st April of each financial year, with the valuer updating these figures at year end; he said that the fluctuation of asset values between years accounted for the losses and gains shown. With regard to the interest cost shown on page 17, Jill Lecznar, Corporate Accountancy Manager, said that this reflected the cost of the expected increase in the present value of liabilities. Councillor Iggulden also requested an update on the status of the Council's PFI projects, clarifying which were in use.

Councillor Murphy asked what the figures under Other Operating Income- Asset Disposal Receipts related to. Jill Lecznar said that these related to the sale of assets which were not on the Council's register of assets. Councillor Murphy asked for a breakdown of the Sale of fixed assets as shown on page 34 of the accounts.

Councillor Murphy asked about the bonuses awarded to the Council's senior officers as set out on page 55 of the accounts; he asked who set the bonuses and on what scale were they based. Jane West clarified that they were divided between a percentage allocated to each target set, and a discretionary element. The bonuses were moderated through the Financial Strategy Group and agreed by the Chief Executive and Leader as appropriate. With regard to the Assistant Director of Legal and Democratic Services, it was clarified that his salary had increased as a result of gaining responsibility for legal services at Kensington and Chelsea. Having noted that the Head Teacher of Phoenix High School now appeared as a Senior employee, the Committee requested that the information on page 57 be broken down to show non-teaching staff by department.

With regard to the sum set aside for improvements to Bishops Park on page 68, it was clarified that this included Heritage Lottery Fund funding, with some of the Council's match funding coming in services in kind. With regard to the sum repayable from the sale of Discounted Market Units at Imperial Wharf, it was confirmed that the Council could refuse to sell its share in properties, but that it was unlikely to be asked, and unlikely to do so.

With regard to the earmarked reserve for single status claims, Jane West said that the Council had believed it had resolved that it had resolved all claims, only to receive a further 39 9 months ago. She believed that issues and claims would continue to arise, even as historical issues were settled.

Councillor Murphy asked about the elements of the Annual Governance Statement (AGS) relating to yearly appraisal by the Leader of senior officers and Cabinet Members, and how the process was evidenced. Councillor Botterill and Jane West confirmed that meetings took place, and that the Leader would document their outcomes. Councillor Iggulden noted that the Leader was a signatory to the statement, meaning that assurance had been given. Councillor Murphy expressed concern about the audit trail, given that this appeared in the Council's AGS, the Chairman suggested that the issue should be checked with the Leader.

RESOLVED

THAT

- (i) The report be noted, and;
- (ii) The Statement Of Accounts for 2009/10 be approved.

11. ANNUAL GOVERNANCE STATEMENT AND REVIEW OF INTERNAL AUDIT

Michael Sloniowski, Principal Risk Consultant, introduced the report, which set out the Annual Governance Statement, which, as part of an annual process, assessed the appropriateness of internal operations and controls, and outlined them in the Statement itself. The process was thorough, and matters arising from it had been discussed with relevant officers.

With regards to questions regarding Business Continuity, Michael Sloniowski said that the planning and procedure elements had now been completed, but the implementation of technical solutions- better mirroring systems, for example- would take longer to implement. Jane West agreed to circulate to the Committee the detailed timetable.

RESOLVED

THAT

The contents of the statement be agreed.

12. HEAD OF INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2009/10

Geoff Drake, Chief Internal Auditor, introduced the report, which summarised all audit work undertaken in 2009/10 year, as well as providing assurances on the systems of internal control, corporate governance and risk management. He noted that achievement of the audit plan was the highest it had ever been.

Eugenie White asked why the Use of Consultants had both nil and substantial assurance. Geoff Drake said that the corporate process had received substantial assurance, while departmental employment of consultants had received nil assurance.

Eugenie White also asked about progress towards retendering, with reference to a potential joint arrangement with the PCT. Jane West, Director of Finance and Corporate Services, said that the PCT was facing a considerable reduction in its budget and change in role as a result of changes in Government policy, and that plans for integration would need to be reviewed in light of this.

Councillor Cartwright asked what was the cause of problems in relation to Core Financials- Parking (PCN's) as he had understood the new system to be designed to resolve past issues. Jane West said that the issues lay with reconciliation to the general fund.

Councillor Murphy asked about the Performance Management audit, noting the issues with data quality identified. Geoff Drake said that the audit had primarily addressed the documentation of appraisals, but had not found that the Council's appraisal process was ineffective.

Councillor Murphy also asked about the number of chip and pin machines in the Council. Geoff Drake said that this reflected the fact that, at the time of the audit, no central register existed. The register had now been created.

RESOLVED THAT

The report be noted

13. RISK MANAGEMENT PROGRESS REPORT

Michael Sloniowski, Principal Risk Consultant, introduced the report, which set out progress made on Risk Management since the last meeting of the Audit Committee. The principal focus during that time had been compiling and verifying the Annual Governance Statement. The report also contained the latest iteration of the Corporate Risk Register, and also drew attention to the recent data outage and its consequences, which highlighted the need for increased data resilience.

Work had been concentrated on improving the quality of risk management, concentrating on reaching appropriate levels of control, with a value for money focus.

Councillor Murphy expressed concern at the poor quality of supporting documentation identified in the audit of Directors' annual assurance statements. Michael Sloniowski said that he had discussed the issue with the Director of Finance and the Chief Internal Auditor and that the issue would also be discussed by the Executive Management Team. Jane West said that ease of access to documentation for the auditors was the chief issue, and noted that there had been less intervention to ensure easy access than in previous years. As such, the most appropriate way for Directors to supply their supporting documentation needed to be agreed.

Councillor Murphy also asked about progress towards meeting Health and Safety Executive Standard HSG65 Management, and what were the risks of non-compliance. Michael Sloniowski said that HSG65 set standards above those demanded as a minimum by the law, and its implementation was seen as a move towards a rigorous standard. There was no risk associated with non-compliance, as the risk was of an accident taking place.

RESOLVED THAT

The report, and the latest iteration of the Corporate Risk Register, be approved.

Councillor Murphy raised concerns regarding the Directors' annual assurance statements, supporting evidence for which had not been available for audit. Micheal Sloniowski was He said that there had been some concerns about the quality of the data provided, and he had discussed these with the Director of Finance and Corporate Service and the Chief Internal Auditor. Jane West, Director of Finance and Corporate Services, said that the diminished quality of response from officers had come at the same time as a reduction in intervention from those carrying out the review. As such, there was work to do to assess what was the appropriate level of input to expect from officers in terms of the provision of documentation, against which they could be held to account.

RESOLVED THAT

Report noted

14. CORPORATE ANTI FRAUD SERVICE ANNUAL FRAUD REPORT 2009-10

Geoff Drake, Chief Internal Auditor, introduced the Annual Report of the Corporate Anti-Fraud Service (CAFS) for the 2009-10 financial year. He said that the Service had had a very successful year, both in terms of the quantity of outcomes and the value of those outcomes. He cited examples of successful prosecutions, including the “ghost employees” case, and noted new methods of recovery identified, such as recovery via the London Pension Fund Authority.

Councillor Botterill asked whether CAFS had any involvement in the Blue Badge fraud prevention project. Geoff Drake said that it did not.

The Chairman noted that the Service was not self-financing, and asked whether the split between closing cases and cash recoverable had been considered.

Geoff Drake said that there was no expectation of the service being self-financing, and a significant element of it- the team checking for fraud within the Council- did not have many opportunities to recover monies. A view was taken on the proportionality of investigation, with CAFS unable to investigate all complaints referred to it. In addition, work was ongoing to fully model the full cost of recovering monies recoverable; once what monies were recovered was better understood, the Service could examine how its targets might relate more directly to the monies recovered.

Eugenie White asked whether any research had been undertaken into whether the success of a service translated into increased referrals meaning more fraud was detected, or into reduced levels of fraud. Geoff Drake said that there had been no study on the question to his knowledge. He noted that, when Councils did benchmarking exercises, discussions often turned to volumes of referrals and cases.

Councillor Ginn noted that there was both a deterrent effect and justice element to CAFS’ work which added value. Geoff Drake agreed, noting that it was hard to put a precise monetary value on work like CAFS’ tenancy review, which had removed 50,000 people from the Housing Register, with properties likely to have been turned into illegal sublet. The Chairman noted that the bounty payable on Housing Benefit fraud was not fully reflected as income generated by CAFS officers.

Committee to receive update on work on modelling the cost and recovery structure of the service at its next meeting

Officers to schedule presentation for all Councillors (incl. non-Cttee members) on the work of CAFS

RESOLVED

Report noted

15. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JANUARY TO 31 MARCH 2010

Geoff Drake, Chief Internal Auditor introduced the report, which summarised internal audit activity for the quarter to 31 March 2010. He said that there were 2 outstanding reports, and 7 outstanding recommendations. The report also contained the Limited Assurance report issued on the Use of Consultants by the Council; all recommendations were expected to be fully implemented in early July.

With regard to the audit's findings. Geoff Drake said that the chief concerns were about audit trails documenting appointment, rather than the appointments themselves. He added that the checks would be made on implementation, with enforced process changes likely if the problems were not resolved. A further update would be available at the Committee's next meeting.

RESOLVED THAT

The report be noted.

16. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED THAT

That, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following item of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraphs 1 and 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

17. MINUTES OF THE PENSION FUND PANEL OF 16 MARCH 2010- EXEMPT ASPECTS

RESOLVED THAT

The Exempt Minutes of the meeting of the Pension Fund Panel held on 16th March 2010 be agreed as true and accurate.

18. DATE OF NEXT MEETING

22 September 2010

Meeting started: 7.00 pm
Meeting ended: 9.53 pm

Chairman

Contact officer:
Committee Co-ordinator

Councillors Services



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E-mail: