



London Borough of Hammersmith & Fulham

# Audit and Pensions Committee Minutes

Thursday 30 June 2011

## PRESENT

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

**In Attendance:** Simon Jones, P-Solve, Jon Hayes, District Auditor and Julian McNamara, Audit Manager, Audit Commission.

**Officers:** Jane West, Director of Finance and Corporate Services, Pat Gough, Assistant Director- Business Support, Michael Cogher, Assistant Director, Legal and Democratic Services, Hitesh Jolapara, Deputy Director of Finance, Geoff Drake, Chief Internal Auditor, Dave McNamara, Assistant Director of Finance and Resources, Children's and Environmental Services, Michael Sloniowski, Principal Consultant- Risk Management, Owen Rees, Assistant Committee Coordinator.

## 1. MINUTES OF THE PREVIOUS MEETING

Councillor Iggulden asked for clarification of the 6% and 6.5% return over the 3 years April 2007 to 31st March 2010, given in different items. Pat Gough, Assistant Director Of Finance- Business Support, undertook to provide this.

RESOLVED THAT

The minutes of the meeting held on 17<sup>th</sup> February 2011 be agreed as a true and correct record.

## 2. APOLOGIES FOR ABSENCE

There were none.

## 3. DECLARATIONS OF INTEREST

Councillor Cartwright and Councillor Murphy declared in a personal interest in items 6, 7, 8, 9, 10, 11, and 21 as members of the London Borough of Hammersmith and Fulham Pension Fund. Councillor Cartwright declared in a

personal interest in items 13 and 16 as a Governor of Sacred Heart and Larmenier & Sacred Heart schools.

#### **4. MEMBERSHIP AND TERMS OF REFERENCE**

RESOLVED THAT

- (i) The membership and terms of reference be noted
- (ii) Councillor Michael Cartwright be appointed as Vice-Chairman of the Committee.

#### **5. APPOINTMENT OF COOPTED MEMBER**

Councillor Cartwright raised concerns regarding the recruitment process for the Committee's co-opted member, with respect to the equalities impact of the appointment, and what work had been done to quantify this, in light of the Equalities Act 2010. Jane West, Director of Financial and Corporate Services, said that she would investigate whether an assessment was necessary, and report back on the issue.

Councillor Murphy also raised concerns that the appointment had not been widely advertised, and that it would have been best practice to advertise the appointment, with the aim of drawing on a wider group of potential members.

The Chairman said that the appointment of Ms White was a pragmatic one, and based on her exceptional knowledge and experience, which had been further demonstrated in her previous year of membership. He said that the time, cost and officer resource required to run a recruitment process as suggested would be disproportionate. He suggested that matter be put to the vote, and the Committee agreed the appointment by 4 votes to 2.

RESOLVED THAT

Eugenie White be appointed as an independent non-voting member of the Committee.

#### **6. PENSION VALUE AND INVESTMENT PERFORMANCE**

Simon Jones, P-Solve, introduced the report, which set out the performance of the Pension Fund in the period to 31 March 2011. He said that the period, together with the 12 month period, had seen turbulent market conditions, and this was reflected in performance, though performance against the 3 year benchmark remained strong. With regards to individual mandates, he said that the performance of Majedie and MFS had been below the benchmark for the quarter, while both dynamic asset allocation mandates had also underperformed the benchmark. Within the Matching Fund, performance was as expected, though legal opinion had been received in support of the proposed alteration of the Legal and General Mandate, which would be implemented in the third quarter of the year, subject to negotiation including on the fee structure. The fund value had risen to

604 million by the end of the following period, which ended on the day of the meeting.

The Chairman asked if the underperformance was a blip or part of a trend. Simon Jones said that he believed the effect was temporary, but that some rebalancing from equities might need to be done.

In response to questions from Councillors regarding the benchmark, he said that the benchmark was set above a level of market performance, and most fund managers would not reach or exceed the benchmark. In terms of changing managers, he said that 2 years of quarter-on-quarter underperformance would cause him concern, as investment was best made on a long-term basis, particularly given the time and cost it took to tender a mandate.

Eugenie White said that the benchmark should not be amended because the fund manager holding a mandate failed to reach it, if the Committee was confident that the benchmark had been set correctly, given that it was the basis on which the tender had been awarded, and for which the investment manager was being paid a contract fee. She also said that the fund managers holding the mandates had performed well over a cycle, though did require monitoring. Councillor Iggulden added that the performance of any fund manager should also be measured against their peers.

Sheela Selvajothy, Trade Union Representative, asked what the impact on the fund would be if, following the introduction of increased contributions, there was an increased number of employees leaving the fund. Simon Jones said that quantifying the impact of the changes would be the role of the actuary. Jane West, Director of Financial and Corporate Services, said that public sector pension reform was proposed but still the subject of negotiation, and that an assessment would be made by the actuary of the impact of any changes agreed, and reported to the Committee.

In response to questions from Councillor Ginn and Councillor Murphy, he agreed to supply the Committee with a breakdown of Majedie's holdings, and with a breakdown of how the fund's holdings divided by sector. Councillor Murphy also asked if the overall summary could give the 6 month figure, in addition to those already given.

RESOLVED THAT

The report be noted.

## **7. PENSIONS ADMINISTRATION CONTRACT**

Pat Gough, Assistant Director of Finance- Business Support, introduced the report, which set out the results of the retendering of the pensions administration contract. It was noted that the new contract framework produced a significant saving, with the potential for further savings as more Councils joined the framework.

RESOLVED THAT

The report be noted.

**8. ANNUAL REVIEW OF EARLY RETIREMENTS 2010 TO 2011**

Pat Gough, Assistant Director of Finance- Business Support, introduced the report which set out retirements and redundancies in the 2010/11 financial year. In response to a question on the contribution rate, she said that the figure given took into account anticipated reductions in staffing numbers, and the return of H & F Homes staff.

Jane West, Director Of Finance And Corporate Services, said that the figure was misleading, as it did not differentiate the Council's contribution to its past service deficit from the contribution rate for current employees; the division of past service deficit by employee was thus potentially misleading, and the Council would consider whether it could express past service deficit contributions in cash terms instead.

Councillor Iggulden asked about the tables on page 51 and 52 of the agenda. Jane West said that officers would respond to the Committee separately with a response.

RESOLVED THAT

The report be noted.

**9. EXTERNAL AUDIT PROGRESS REPORT**

Jon Hayes, District Auditor, Audit Commission, said that the external auditor had received the 2010/2011 Pension Fund accounts, and would receive the 2010/11 Council accounts on the day following the Committee. He said that work had also been undertaken on the value for money audit of the Council's Tri-Borough proposals.

RESOLVED THAT

The report be noted.

**10. 2011/12 EXTERNAL AUDIT FEE LETTERS - COUNCIL AND PENSION FUND**

Jon Hayes, District Auditor, Audit Commission, introduced the fee letters, stating that they showed a further cut in expenditure.

RESOLVED THAT

The annual audit fee letters for 2011/12 be noted.

## **11. AUDIT COMMISSION RECOMMENDATIONS UPDATES & ANNUAL GOVERNANCE STATEMENT 2010 ACTION PLAN**

Geoff Drake, Chief Internal Auditor, introduced the report, which set out progress on recommendations made by the Audit Commission, and on actions identified in the Annual Governance Statement. He said that all Audit Commission recommendations were now complete, but that 2 of the 4 entries on the Annual Governance Statement Action plan were not complete, and would need to be rolled into the following year's statement. He noted that Business Continuity for IT, which had been in progress for some time, would shortly be completed.

Councillor Murphy expressed concern regarding the completion of work to deadlines, noting that the issue with reconciliations had resulted in increased work for the External Auditor and increased cost to the Council. He asked whether this was reflective of poor performance.

Hitesh Jolapara, Deputy Director of Finance, said that the organisation took seriously its duty to meet deadlines, and adhered to strict deadlines for its internal monitoring deadlines. The roll out of World Class Financial Management would address the issues cited on reconciliations.

Councillor Cartwright expressed concerns with the performance of the Housing Benefit service, which was the cause of a large proportion of Councillors' caseloads. Jane West said that the recommendation closed related specifically to the subsidy claim, an area that the Council had improved substantially by the introduction of a dedicated team. She said that the performance of the service as a whole had been impacted on a 50% increase in caseload, with no additional staffing resource. She said that, as a result, there had been some diminution in performance. In order to address this, work was being undertaken by Ernst & Young to improve systems in the service, with particular focus on the customer experience. The work would also ensure that staff had the necessary skills to continue the work following the end of Ernst & Young's work. Jane West agreed to update the Committee on the work undertaken at its September meeting. She also noted that the introduction of universal credit might result in the transfer of the function, and staff, to the Department of Work and Pensions.

RESOLVED THAT

The report be noted.

## **12. TRI BOROUGH RISK MANAGEMENT**

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report, which set out the risk management measures taken with regards to the Tri-Borough programme. He said that the preferred approach was that of the London Programme Management Approach. He said that work had been undertaken on identifying and capturing the risks associated with the programme and that these were being entered in the Council's risk register. Work was also being undertaken

with the officers responsible for risk management at RBKC and Westminster to consolidate issues and reporting standards.

Councillor Cartwright said that there had been insufficient opportunity for member scrutiny of the proposals, and the governance structure of the programme did not give sufficient opportunity for member input, and seemed to be officer-led. He considered that this formed a risk to the programme's future.

Jane West, Director of Finance and Corporate Services, said that there had been opportunities for the Council's Scrutiny Committees to examine the proposals, and that all proposals had been agreed by the Council's Cabinet.

Councillor Nicholas Botterill said that the programme was politically driven, with considerable input from members into the design and shape of the programme. He said that the process had been an emerging one, and there would be further opportunity for scrutiny as the detailed design was put in place.

Councillor Iggulden asked what arrangements were in place for dispute resolution and what mechanisms there were for strategic direction. Jane West said that the Council had had dispute resolution mechanisms in place during its merger with the PCT, and arrangements would be similar. The arrangements for strategic direction were set out in the sovereignty guarantee.

Councillor Murphy asked how officers had drawn on external experience of mergers in assessing the risks related to the project. Michael Sloniowski said that all three boroughs worked to a common externally agreed standard for risk management.

Councillor Murphy asked about the legal position with regards to appointments and equalities law, asking if the proposed appointment of Derek Myers as Chief Executive of two boroughs could be discriminatory. Jane West said that the issue had been examined, and was considered to be of low risk, particularly in the case cited. Appointments would also be subject to the normal approval procedure.

Councillor Murphy asked about the structure of the programme, which appeared to show the same officers acting as Sponsor and Owner of the programme. Jane West clarified that different officers sat on the Sponsoring Group and the Central Policy Board, which was not shown, with the Members' Group sitting above them.

Geoff Drake, Chief Internal Auditor, said that there was an audit of Tri-Borough governance arrangements scheduled.

RESOLVED THAT

The report be noted.

### **13. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT**

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report, which set out work undertaken on risk management in the period since the last

meeting. This included work on risks associated with the 2012 Olympics and work on service resilience.

Councillor Iggulden asked about the issue of gas safety certificates. Geoff Drake, Chief Internal Auditor, said that the issue would be reported to the Committee's next meeting.

RESOLVED THAT

The report be noted.

#### **14. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2010/11 YEAR**

Geoff Drake, Chief Internal Auditor, introduced the report, which gave the annual internal assurance report. The report was a requirement, and was created in support of the Annual Governance Statement. It set out overall levels of assurance, and identified any significant control weaknesses.

Councillor Iggulden asked about the failure of controls identified in 2.11.4, and the failure to secure a reduction in the external audit fee as a result. Geoff Drake said that he would be raising the issue at the Council's internal Financial Strategy Board.

Eugenie White asked about the Council's performance with regards to Freedom of Information Requests. Jane West said that work was underway to improve responsiveness, but that the decrease in performance was also reflective of a 100% increase in the volume of requests over the last 5 years.

RESOLVED THAT

The contents of the report be agreed.

#### **15. ST MARY'S PRIMARY SCHOOL**

Dave McNamara, Assistant Director of Finance and Resources- Environment and Children Services, introduced the report, which set out measures taken with regards to the nil assurance audit received by St Mary's Primary School reviewed by the Committee at its last meeting. He said that, following the substantial assurance gained at its previous audit in 2007, and that the Schools Finance team had assumed that the issues they had observed were a result of the instability that came with the changes in Headteachers at the school. He said that considerable work had been done by the school to ensure that the audit's recommendations were implemented, but that investigations into the circumstances behind the audit had not yet completed.

The report also set out new measures to be introduced following the report's findings- firstly, that where a school changed head, an audit would be carried out to give assurance (where the school had not been audited in the previous 12

months), and secondly, that Children's Services would hold quarterly meetings with the Audit service to identify which schools were of most concern.

In response to a question from Councillor Iggulden as to why the issues had not been detected and what steps would be taken to prevent a similar problem in the future, Dave McNamara said that the Schools Finance team had regular contact with schools, and had an overview of returns and reconciliations where they related to Council funds. However, where transactions related to school holdings (as in the case of money raised by voluntary aided schools), and were not entered into the financial system as recommended by the Council, irregularities in those accounts would be difficult to detect.

In response to Councillor Botterill and Cartwright, who suggested that this was a cause of vulnerability, Dave McNamara agreed that this was an area of vulnerability for voluntary aided schools,

The Chairman asked if the Council issued a code of best practice on schools finance. Geoff Drake, Chief Internal Auditor, said that the school presented a complex case, and the investigation of that case would identify further lessons to be learnt, which would be shared with schools and Governing Bodies. There was also Department of Education guidance on the matter.

Councillor Murphy asked whether the Council should not be more proactive in encouraging best practice in its schools. Jane West said that, where accounts were not connected to funds for which the Council was responsible, the Diocese should be taking a large degree of responsibility.

In response to a question from Sheela Selvajothy regarding responsibility for school accounts, Dave McNamara said that all schools were discouraged from giving their Governors signing authority, given the limited sanctions against them.

Eugenie White expressed concerns that schools governors were generally ill-equipped to make judgements on school finances, particularly given the quality of comparative management information. She suggested that this was an area that the Schools Finance Service could aim to provide more training and information on.

The Chairman said that the Committee would like further assurance in this area, and suggested that officers report back to it later in the year on the progress of the investigation at St Mary's, the detailed implementation of the measures proposed and information on disseminating best practice to schools and governors.

**RESOLVED THAT**

- (i) The report be noted, and;
- (ii) That officers be requested to submit a further report to a future meeting of the Committee, as detailed above.

**16. SCHOOLS 2010/11 YEAR END SUMMARY INTERNAL AUDIT REPORT**



Geoff Drake, Chief Internal Auditor, introduced the report, which set out a summary of findings in school audits in 2010/11. He said that with the exception of St Mary's Primary School, which was covered by another report on the agenda, all schools audits had returned substantial or full assurance. He said that the report would be discussed with the Children's Services Departmental Management Team following the conclusion of the Ofsted inspection.

RESOLVED THAT

The report be noted

#### **17. CORPORATE ANTI FRAUD SERVICE ANNUAL FRAUD REPORT 2010/11**

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the performance of the Corporate Anti-Fraud Service during the 2010/11 financial year.

In response to a question from Councillor Iggulden, Geoff Drake said that the Council received the 40% bounty as cash through subsidy in addition to any debt it could recover from overpayments. However, the proposed introduction of universal credit would end the Council's responsibility for Housing Benefit, and mean that a significant income stream for the service would end. With this in mind, the Service was planning more financial investigation work and forging links with neighbouring boroughs.

In response to a question from Councillor Murphy regarding links to housing associations, Geoff Drake said that such links did exist, but the service would also, subject to Cabinet approval, be bidding for DCLG funding to extend its work on sublets to housing associations, and would wish to promote the service in that regard.

(Under Standing Order 24, the Chairman moved to extend the guillotine for the meeting to end at 10.30pm, which was agreed by the Committee)

RESOLVED THAT

The annual report be noted.

#### **18. INTERNAL AUDIT QUARTERLY REPORT**

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the performance of the Internal Audit Service in the quarter to 31 March 2011.

Councillor Cartwright raised concerns regarding the audit of Parking (Pay and Display). He said that the discrepancies in systems reconciliations were large, and could represent considerable income lost to the Council. He said that there had been longstanding problems with the service. Geoff Drake said that a loss of income was unlikely to be the case, drawing the Committee's attention to the

management response, which showed an overall surplus of £1.7 million over the period.

Eugenie White expressed concerns that, in the light of the Council's responsibility to base its parking arrangements based on the traffic and parking needs of a given area, that the income from individual meters did not appear to be closely monitored. Councillor Murphy expressed concerns that the contract did not appear to show the relationship between the Council and RBKC working well, given the proposed closer working arrangements.

The Chairman suggested that, in the light of the Committee's interest in the matter, officers be requested to submit a further report on Parking (Pay and Display), and the actions taken in response to the audit.

RESOLVED THAT

- (i) The report be noted, and;
- (ii) That officers be requested to submit a further report, detailing the response to the Parking (Pay and Display) audit.

**19. EXCLUSION OF THE PUBLIC AND PRESS**

RESOLVED THAT

The Committee resolved, 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 items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 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

**20. EXEMPT MINUTES OF THE MEETING ON 17 FEBRUARY 2011**

RESOLVED THAT

The exempt minutes of the meeting held on 17<sup>th</sup> February 2011 be agreed as a true and correct record.

**21. ANNUAL REVIEW OF RETIREMENTS AND REDUNDANCIES 2010-2011-EXEMPT ASPECTS**

RESOLVED THAT

The exempt aspects of the report be noted.

**22. PERSONAL SERVICES COMPANIES**

RESOLVED THAT

The report be noted.

Meeting started: 7.01 pm  
Meeting ended: 10.41 pm

Chairman .....

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